

OMB Circular A-133  
Reporting Package

Saginaw Valley State University

*Year ended June 30, 2004*

Saginaw Valley State University

OMB Circular A-133  
Reporting Package

Year ended June 30, 2004

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Audited Financial Statements and  
Other Financial Information

Saginaw Valley State University

*Years ended June 30, 2004 and 2003  
with Report of Independent Auditors*

Saginaw Valley State University

Audited Financial Statements  
and Other Financial Information

*Years ended June 30, 2004 and 2003*

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## SAGINAW VALLEY STATE UNIVERSITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The following provides a discussion and analysis of the fiscal year 2004 financial performance of Saginaw Valley State University (SVSU). This discussion, the financial statements and related footnotes have been prepared by and are the responsibility of management.

#### USING THE ANNUAL REPORT

The annual report consists of a series of financial statements, which have been prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. These financial statements focus on the financial condition and results of financial position of the University and its component unit, Saginaw Valley State University Foundation (Foundation), and the cash flows of the University.

The fundamental objective of the University financial statements is to provide an overview of the University's economic condition. The various statements and their primary purpose are discussed below.

- Statement of Net Assets. This statement presents information on all University assets and liabilities. It is prepared on an accrual basis – revenues and expenses are recognized when earned or incurred, respectively.
- Statement of Revenues, Expenses, and Changes in Net Assets. This statement presents a summary of revenues and expenses classified as either operating or nonoperating. The operating loss results from the classification of state appropriations as a nonoperating revenue. Also, this statement reflects a change in the University's net assets based upon revenues in excess of expenses.
- Statement of Cash Flows. This statement classifies cash inflows and outflows into the following classifications: Operating activities, noncapital financing activities, capital financing activities and investing activities. This information is useful in assessing the University's ability to meet maturing financial obligations.

#### REPORTING ENTITY

The University is considered a component unit of the State of Michigan because the Governor of the State of Michigan appoints its Board of Control. Accordingly, the University is included in the State's comprehensive annual financial report as a discretely presented component unit.

The financial statements report information about total University operations. In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14*, the Foundation is included in the financial statements of the University as a discretely presented component unit effective with the June 30, 2004 financial statements. The 2003 statements have been restated to include the Foundation information.

**SAGINAW VALLEY STATE UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED**

**FINANCIAL HIGHLIGHTS**

The University experienced sound financial performance as indicated by the following:

- Net assets increased 5.6% due to capital appropriations for the Regional Education Center and capital gifts from the SVSU Foundation's Creating the Future Campaign.
- Unrestricted net assets increased.
- Operating revenues increased as a result of increased enrollment, tuition rates, housing capacity and grant activity.

Demand/economic factors underlying this level of performance were favorable:

- Applications increased 1.1% over the prior year.
- Headcount enrollment decreased slightly from 9,189 in fall semester 2002 to 9,168 in fall semester 2003; however, credit hours increased from 208,208 in 2003 to 216,378 in 2004.

**FINANCIAL STATEMENT SUMMARIES**

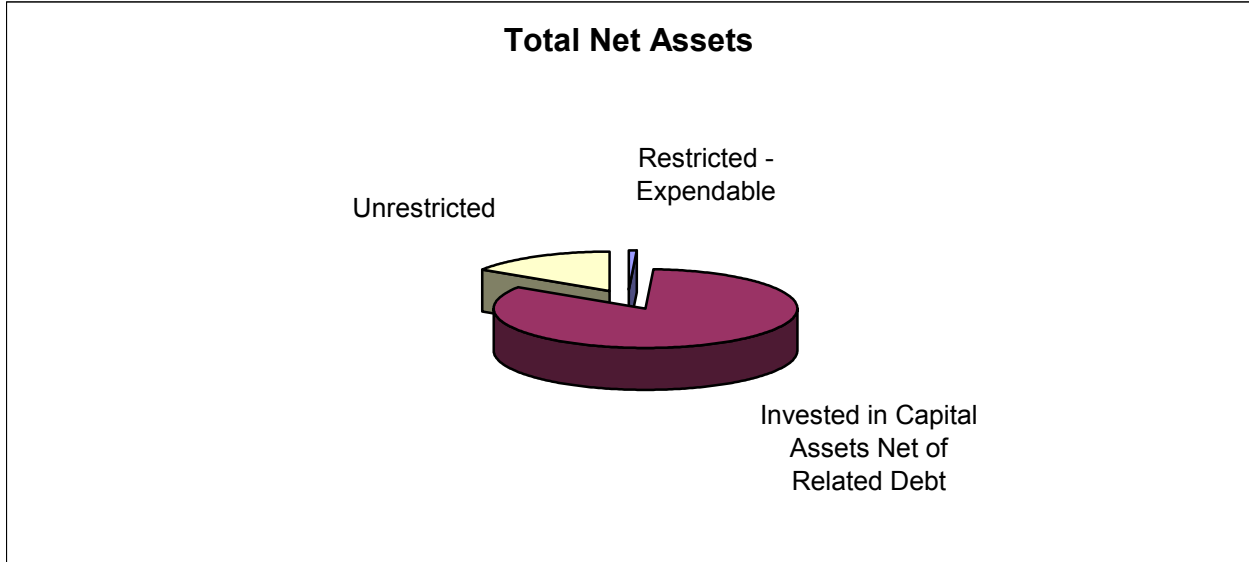
Net assets are summarized in the table below.

<b>Statements of Net Assets June 30, 2004 and 2003 (in thousands of dollars)</b>				
	<b>2004</b>	<b>2003</b>	<b>Increase (Decrease)</b>	<b>Percent Change</b>
<b>Assets</b>				
Current Assets	\$ 32,684	\$ 35,604	\$(2,920)	(8.2)
Noncurrent Assets:				
Other	3,936	3,744	192	5.1
Capital	219,007	210,009	8,998	4.3
<b>Total Assets</b>	<b>255,627</b>	<b>249,357</b>	<b>6,270</b>	<b>2.5</b>
<b>Liabilities</b>				
Current Liabilities	15,954	17,045	(1,091)	(6.4)
Noncurrent Liabilities	74,399	75,731	(1,332)	(1.8)
<b>Total Liabilities</b>	<b>90,353</b>	<b>92,776</b>	<b>(2,423)</b>	<b>(2.6)</b>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	145,654	139,113	6,541	4.7
Restricted – Expendable	854	828	26	3.1
Unrestricted	18,766	16,640	2,126	12.8
<b>Total Net Assets</b>	<b>\$165,274</b>	<b>\$156,581</b>	<b>\$ 8,693</b>	<b>5.6</b>

**SAGINAW VALLEY STATE UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED**

The University's largest asset is its investment in capital assets, including land, land improvements and infrastructure, buildings, equipment and construction in progress. Capital assets represent 85.7% of the University's total assets. Notes and bonds payable totaled \$73.9 million at June 30, 2004. This represents 81.7% of the University's total liabilities.

A graphic illustration of net assets by classification and restriction is as follows:



The University's net assets consist of capital assets net of related debt, expendable restricted net assets and unrestricted net assets. Expendable restricted net assets represent assets whose use is restricted by a party independent of the University. This includes restrictions related to gifts, grants and the Perkins loan program.

Unrestricted net assets represent net assets of the University that have not been restricted by parties independent of the University. This includes funds that the Board of Control and management have designated for specific purposes as well as amounts that have been contractually committed for goods and services that have not been received as of June 30, 2004. The following summarizes the internal designations of the unrestricted net assets:

**Unrestricted Net Assets  
June 30, 2004**

Capital projects and repair reserves	\$11,188,929
Auxiliary enterprises	1,444,479
Designated for departmental use	4,899,634
Amount obligated by contractual commitments	77,182
Undesignated	1,155,480
<b>Total unrestricted net assets</b>	<u><u>\$18,765,704</u></u>

**SAGINAW VALLEY STATE UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED**

The following table summarizes revenues, expenses, and changes in net assets:

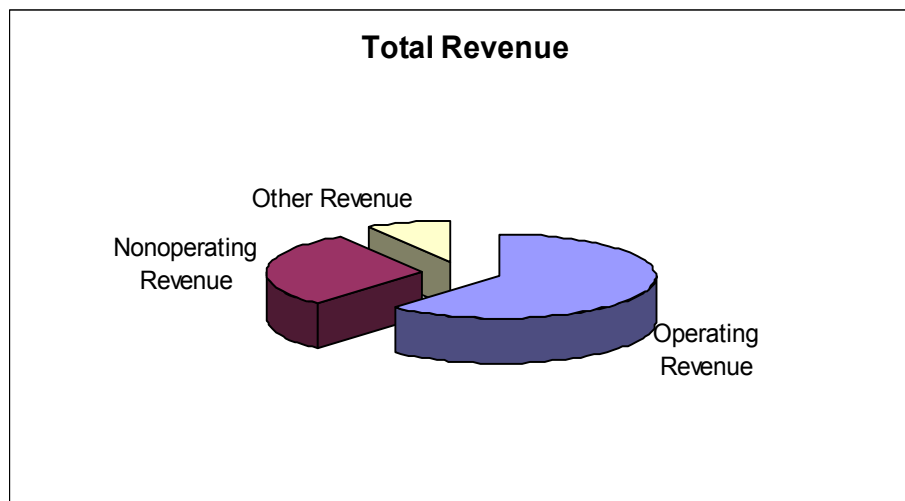
**Statements of Revenues, Expenses, and Changes in Net Assets  
For the Years Ended June 30, 2004 and 2003  
(in thousands of dollars)**

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
<b>Operating Revenues</b>				
Student Tuition and Fees	\$34,192	\$30,111	\$4,081	13.6
Federal Grants and Contracts	9,490	8,851	639	7.2
State and Local Grants and Contracts	830	1,405	(575)	(40.9)
Sales & Services of Educational Departments	2,334	1,793	541	30.2
Auxiliary Enterprises	9,553	8,373	1,180	14.1
Other Operating Revenues	1,278	1,507	(229)	(15.2)
Total Operating Revenues	<u>57,677</u>	<u>52,040</u>	<u>5,637</u>	10.8
<b>Operating Expenses</b>	<u>81,893</u>	<u>80,401</u>	<u>1,492</u>	1.9
<b>Operating Loss</b>	(24,216)	(28,361)	4,145	14.6
<b>Nonoperating Revenues (Expenses)</b>				
State Appropriations	26,140	26,435	(295)	(1.1)
Gifts	985	1,049	(64)	(6.1)
Investment Income	348	587	(239)	(40.7)
Interest on Capital Asset-Related Debt	(2,777)	(2,240)	(537)	(24.0)
Net Nonoperating Revenues	<u>24,696</u>	<u>25,831</u>	<u>(1,135)</u>	(4.4)
<b>Income (Loss) Before Other Revenues</b>	480	(2,530)	3,010	119.0
Capital Appropriations	6,370	22,680	(16,310)	(71.9)
Capital Grants and Gifts	1,843	5,529	(3,686)	(66.7)
Total Other Revenues	<u>8,213</u>	<u>28,209</u>	<u>(19,996)</u>	(70.9)
Increase in Net Assets	8,693	25,679	(16,986)	(66.1)
Net Assets at Beginning of Year	<u>156,581</u>	<u>130,902</u>	<u>25,679</u>	19.6
Net Assets at End of Year	<u>\$165,274</u>	<u>\$156,581</u>	<u>\$8,693</u>	5.6

**SAGINAW VALLEY STATE UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED**

Since 2001, SVSU as well as its sister institutions in Michigan have experienced the impact of a poor economy and deficit-ridden state budget. The annual state appropriation for fiscal 2004 was at approximately the prior year's level and then was subsequently reduced by 5% by an executive order midway through the year. The reported state appropriations include \$800,200 in anticipation of partial reinstatement of a portion of the executive order reduction.

A graphic illustration of each revenue source follows:



The following table summarizes cash flows:

**Statements of Cash Flows - Direct Method  
For the Years Ended June 30, 2004 and 2003  
(in thousands of dollars)**

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
<b>Cash provided (used) by:</b>				
Operating Activities	(\$14,448)	(\$19,480)	\$5,032	25.8
Noncapital Financing Activities	26,732	27,953	(1,221)	(4.4)
Capital Financing Activities	(11,983)	(23,383)	11,400	48.8
Investing Activities	2,216	10,427	(8,211)	(78.7)
Net Increase (Decrease)	<u>2,517</u>	<u>(4,483)</u>	<u>7,000</u>	
Cash and Cash Equivalents at Beginning of Year	<u>13,561</u>	<u>18,044</u>	<u>(4,483)</u>	(24.8)
Cash and Cash Equivalents at End of Year	<u><u>\$16,078</u></u>	<u><u>\$13,561</u></u>	<u><u>\$2,517</u></u>	<u>18.6</u>

**SAGINAW VALLEY STATE UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED**

**OPERATING EXPENSES**

The University reports expenditures on a functional basis. Operating expenses were \$81,893,079 in FY2004, an increase of 1.9% over the prior year. The following summarizes operating expenses:

**Operating Expenses  
For the Years Ended June 30, 2004 and 2003  
(in thousands of dollars)**

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Education and General				
Instruction	\$27,663	\$26,441	\$1,222	4.6
Research	501	641	(140)	(21.8)
Public Service	1,538	1,503	35	2.3
Academic Support	10,243	10,401	(158)	(1.5)
Student Services	4,120	4,374	(254)	(5.8)
Institutional Support	8,990	8,874	116	1.3
Operations and Maintenance of Plant	7,978	8,404	(426)	(5.1)
Depreciation	8,652	7,965	687	8.6
Student Aid	4,721	4,464	257	5.8
Auxiliary Enterprises	7,487	7,334	153	2.1
	<u>\$81,893</u>	<u>\$80,401</u>	<u>\$1,492</u>	<u>1.9</u>

**CAPITAL ASSETS/LONG-TERM DEBT**

***Capital Plan and Related Debt Financing***

The University Board of Control has approved a long-term capital development and related financing plan. FY2004 expenditures for capital projects approximated \$17.7 million. During fiscal 2004 the University completed the following projects:

- Regional Education Center
- Library Addition and Renovation
- Living Center II
- Student Center
- Fitness Center

**SAGINAW VALLEY STATE UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED**

These capital projects were funded by a combination of bonds issued by the Michigan State Building Authority (SBA), previously issued University general revenues bonds, capital gifts and other available University resources. The University issued \$11,825,000 of Series 2004 General Revenue bonds in July 2004 to finance construction of new student housing and renovations of various facilities and to defease a portion of the outstanding Series 1993 General Revenue Bonds. On August 23, 2004 the Board authorized the issuance of up to \$3,250,000 of general revenue bonds to finance additional student housing and other construction and renovation projects.

In fiscal 2001, the University engaged an independent consultant to perform a facilities condition assessment. As a result of this report, a deferred maintenance plan has been developed, including an ongoing commitment of financial resources.

***University Rating***

The University did not request an underlying bond rating for debt issued in July 2004. By purchase of bond insurance, the University secured the following rating: Moody's: Aaa.

**FACTORS OR CONDITIONS IMPACTING FUTURE PERIODS**

Financial and budget planning is directly related to and supportive of the University's mission and operational needs. The ability to plan effectively is influenced by an understanding of the following factors, which impact the University's finances.

- State Economy
- Inflationary Pressures
- Program Growth and Development
- New Initiatives
- Technology
- Productivity Improvements

**SAGINAW VALLEY STATE UNIVERSITY FOUNDATION**

The Foundation is an independent corporation formed for the purpose of receiving funds for the sole benefit of the University. The University provided approximately \$615,000 of administrative support to the Foundation during fiscal 2004. This support is reflected as institutional support in the University's financial statements and as gift revenue and corresponding operating expenses in the Foundation's financial statements. The Foundation transferred endowment distributions and unrestricted and restricted gifts to the University totaling \$2,827,993 in fiscal 2004 and \$6,578,196 in fiscal 2003. The net assets of the Foundation were as follows as of June 30, 2004:

Nonexpendable	\$22,793,920
Expendable restricted	4,456,621
Unrestricted	1,845,915
	<u>\$29,096,456</u>



## Report of Independent Auditors

Board of Control  
Saginaw Valley State University

We have audited the accompanying financial statements of Saginaw Valley State University, a component unit of the State of Michigan as of and for the years ended June 30, 2004 and 2003 and Saginaw Valley State University Foundation, a discretely presented component unit of the University, as of and for the year ended June 30, 2004. These financial statements are the responsibility of the University's administration. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Saginaw Valley State University Foundation, a discretely presented component unit of the University, as of and for the year ended June 30, 2003. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the 2003 amounts included for the Saginaw Valley State University Foundation, is based on the report of the other auditors.

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the administration, as well as evaluating the overall financial statement presentation. We believe that our audits and the 2003 report of other auditors provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Saginaw Valley State University and its discretely presented component unit, Saginaw Valley State University Foundation as of June 30, 2004 and 2003, and the changes in its financial position and Saginaw Valley State University's cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2004 on our consideration of Saginaw Valley State University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report when considering the results of our audits.

The Management's Discussion and Analysis (MD&A) on pages i to vii is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of Saginaw Valley State University and its discretely presented component unit, Saginaw Valley University Foundation, taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

*Andrews Hooper & Paulik P.L.C.*

Saginaw, Michigan  
August 23, 2004

**SAGINAW VALLEY STATE UNIVERSITY**

**STATEMENTS OF NET ASSETS**

	<u>June 30, 2004</u>		<u>June 30, 2003</u>	
	SVSU	Component Unit SVSU Foundation	SVSU	Component Unit SVSU Foundation
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 16,078,205	\$ 1,086,291	\$ 13,560,975	\$ 1,111,288
Short-term investments		7,664	2,036,088	5,638
Accounts receivable, net	2,915,605	2,639,003	7,697,781	2,819,873
State appropriations receivable - operations	5,316,538		4,706,660	
State appropriations receivable - charter schools	7,638,412		6,782,756	
Inventories and prepaid expenses	695,392		742,135	
Notes receivable, net	39,796		77,136	
	<hr/>	<hr/>	<hr/>	<hr/>
Total current assets	32,683,948	3,732,958	35,603,531	3,936,799
<b>Noncurrent Assets</b>				
Notes receivable, net	80,799		56,272	
Accounts receivable, net		3,444,111		4,300,981
Endowment investments		22,114,635		19,132,812
Other long-term investments	3,855,544		3,687,614	
Capital assets, net	219,006,878		210,009,176	
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Total noncurrent assets	222,943,221	25,558,746	213,753,062	23,433,793
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total assets</b>	255,627,169	29,291,704	249,356,593	27,370,592
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities	3,866,549	195,248	6,254,375	129,732
Deferred revenues	3,470,676		3,159,457	
Deposits	7,069,640		6,119,737	
Long-term liabilities - current portion	1,547,000		1,511,552	
	<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities	15,953,865	195,248	17,045,121	129,732
<b>Noncurrent Liabilities</b>				
Long-term liabilities	74,399,572		75,730,948	
	<hr/>	<hr/>	<hr/>	<hr/>
Total noncurrent liabilities	74,399,572	-	75,730,948	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total liabilities</b>	90,353,437	195,248	92,776,069	129,732
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	145,654,431		139,112,629	
<b>Nonexpendable Restricted</b>				
Scholarships		6,542,191		6,472,296
Endowed chairs		8,539,476		8,527,738
Other		7,712,253		7,152,443
<b>Expendable Restricted</b>				
Capital		57,348		4,330,960
Scholarships and fellowships	246,785	69,659	215,870	178,452
Research	83,114		170,997	
Instructional department use	115,907		41,280	
Loans	28,462		33,490	
Other	379,329	4,329,614	366,789	578,228
Unrestricted	18,765,704	1,845,915	16,639,469	743
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total net assets</b>	<u>\$ 165,273,732</u>	<u>\$ 29,096,456</u>	<u>\$ 156,580,524</u>	<u>\$ 27,240,860</u>

**SAGINAW VALLEY STATE UNIVERSITY**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS**

	For the year ended June 30, 2004		For the year ended June 30, 2003	
	SVSU	Component Unit SVSU Foundation	SVSU	Component Unit SVSU Foundation
<b>REVENUES</b>				
Operating revenues				
Student tuition and fees	\$ 39,731,351		\$ 34,913,843	
Less: Scholarship allowances	<u>(5,539,581)</u>		<u>(4,803,382)</u>	
	34,191,770		30,110,461	
Federal grants and contracts	9,489,984		8,851,418	
State and local grants and contracts	830,475		1,405,185	
Gifts		\$ 1,674,717		\$ 2,501,829
Sales and services of educational departments	2,334,049		1,793,453	
Auxiliary enterprises	10,627,916		9,284,922	
Less: Scholarship allowances	<u>(1,074,580)</u>		<u>(912,272)</u>	
	9,553,336		8,372,650	
Other operating revenues	<u>1,277,676</u>		<u>1,506,482</u>	
Total operating revenues	57,677,290	1,674,717	52,039,649	2,501,829
<b>EXPENSES</b>				
Operating expenses				
Educational and general				
Instruction	27,663,238		26,440,866	
Research	501,270		641,217	
Public service	1,537,369		1,502,728	
Academic support	10,242,812		10,400,775	
Student services	4,119,866		4,374,020	
Institutional support	8,989,983	626,164	8,873,710	547,161
Operations and maintenance of plant	7,977,989		8,404,013	
Depreciation	8,652,316		7,965,100	
Student aid	4,720,917		4,464,130	
Auxiliary enterprises	<u>7,487,319</u>		<u>7,334,231</u>	
Total operating expenses	81,893,079	626,164	80,400,790	547,161
Operating income (loss)	(24,215,789)	1,048,553	(28,361,141)	1,954,668
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	26,140,200		26,434,503	
Gifts	984,589	(984,589)	1,049,296	(1,049,296)
Investment income, net	348,137	3,100,563	586,944	(142,742)
Interest on capital asset-related debt	<u>(2,777,314)</u>		<u>(2,239,926)</u>	
Net nonoperating revenues (expenses)	<u>24,695,612</u>	<u>2,115,974</u>	<u>25,830,817</u>	<u>(1,192,038)</u>
Income (loss) before other revenues	479,823	3,164,527	(2,530,324)	762,630
Capital appropriations	6,369,981		22,679,969	
Additions to permanent endowments		534,473		252,544
Capital grants and gifts	<u>1,843,404</u>	<u>(1,843,404)</u>	<u>5,528,900</u>	<u>(5,528,900)</u>
Total other revenues (expenses)	<u>8,213,385</u>	<u>(1,308,931)</u>	<u>28,208,869</u>	<u>(5,276,356)</u>
Increase (decrease) in net assets	8,693,208	1,855,596	25,678,545	(4,513,726)
Net assets - beginning of year	156,580,524	27,240,860	130,901,979	31,754,586
Net assets - end of year	<u>\$ 165,273,732</u>	<u>\$ 29,096,456</u>	<u>\$ 156,580,524</u>	<u>\$ 27,240,860</u>

**SAGINAW VALLEY STATE UNIVERSITY**

**STATEMENTS OF CASH FLOWS**

	<b>For the years ended June 30,</b>	
	2004	2003
<b>Cash Flows from Operating Activities</b>		
Student tuition and fees	\$ 34,643,541	\$ 30,369,900
Grants and contracts	10,360,040	10,239,877
Payments to suppliers	(13,936,225)	(15,502,248)
Payments for utilities	(2,367,172)	(2,175,705)
Payments to employees	(39,330,051)	(38,999,797)
Payments for benefits	(11,754,418)	(10,721,539)
Payments for scholarships and fellowships	(4,992,897)	(4,428,186)
Federal share of Perkins loans	(30,886)	(137,960)
Collection of loans to students	12,813	114,662
Auxiliary enterprises charges	9,343,588	8,475,710
Sales and services	2,326,008	1,778,203
Other receipts	1,277,676	1,506,482
<b>Net cash used by operating activities</b>	(14,447,983)	(19,480,601)
<b>Cash Flows from Noncapital Financing Activities</b>		
State appropriations	25,530,322	26,708,443
Federal Direct Lending receipts	22,422,512	19,326,118
Federal Direct Lending disbursements	(22,422,512)	(19,326,118)
Gifts	1,201,841	1,244,730
<b>Net cash provided by noncapital financing activities</b>	26,732,163	27,953,173
<b>Cash Flows from Capital Financing Activities</b>		
Capital appropriations	11,293,808	17,113,661
Capital grants and gifts received	1,843,404	5,528,900
Principal paid on capital debt	(1,325,000)	(1,260,000)
Interest paid on capital debt and related costs	(3,265,326)	(3,027,938)
Purchase of capital assets	(20,530,131)	(41,737,262)
<b>Net cash used by capital financing activities</b>	(11,983,245)	(23,382,639)
<b>Cash Flows from Investing Activities</b>		
Purchase of investments		(6,531,400)
Interest on investments	216,295	527,391
Proceeds from sale and maturities of investments	2,000,000	16,430,898
<b>Net cash provided by investing activities</b>	2,216,295	10,426,889
<b>Net increase (decrease) in cash and cash equivalents</b>	2,517,230	(4,483,178)
Cash and cash equivalents - beginning of the year	13,560,975	18,044,153
Cash and cash equivalents - end of year	\$ 16,078,205	\$ 13,560,975

**SAGINAW VALLEY STATE UNIVERSITY**  
**STATEMENTS OF CASH FLOWS - CONTINUED**

	<b>For the years ended June 30,</b>	
	2004	2003
<b>Reconciliation of operating loss to net cash used by operating activities</b>		
<b>Operating loss</b>	\$ (24,215,789)	\$ (28,361,141)
<b>Adjustments to reconcile operating loss to net cash used by operating activities:</b>		
Depreciation	8,652,316	7,965,100
Changes in assets and liabilities:		
Accounts receivable, net	(987,559)	(796,633)
Inventories and prepaid expenses	34,755	(86,712)
Notes receivable, net	12,813	114,662
Accounts payable and accrued liabilities	765,287	521,356
Deferred revenues	311,219	146,983
Deposits	949,903	980,173
Compensated absences	59,958	173,571
Student loan - federal	(30,886)	(137,960)
<b>Net cash used by operating activities</b>	<b>\$ (14,447,983)</b>	<b>\$ (19,480,601)</b>

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements have been prepared to incorporate all fund groups utilized internally by Saginaw Valley State University (University) and include Saginaw Valley State University Foundation (Foundation), a discretely presented component unit of the University. The University financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The Foundation's financial information has been prepared on the accrual basis following accounting policies established by the Financial Accounting Standards Board (FASB).

Reporting Entity

The University's financial statements are presented discretely in the State of Michigan Comprehensive Annual Financial Report in accordance with GASB Statement No. 14. Public universities with governing boards appointed by the Governor are considered component units of the State. Transactions with the State relate primarily to appropriations for operations and capital projects and grants from various state agencies.

The Saginaw Valley State University Foundation, a component unit of the University, is a not-for-profit corporation, which provides support for the objectives and purposes of the University.

Basis of Accounting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting whereby all revenues are recorded when earned and all expenses are recorded when they have been incurred.

In accordance with GASB Statement No. 20, the University is required to follow all applicable GASB pronouncements. In addition, the University applies all applicable FASB Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

The Foundation has applied all applicable FASB pronouncements issued to date.

Revenue Recognition

Operating revenues of the University consist of tuition and fees, grants and contracts, sales and services and auxiliary enterprises revenue. These revenues represent revenue earned from exchange transactions and are reported net of discounts. The University's nonoperating revenues include State appropriations, gifts, investment income, capital appropriations, and grants. Restricted and unrestricted resources are spent and tracked at the discretion of the department.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE A – SIGNIFICANT ACCOUNTING POLICIES  
(continued)

Funds are appropriated to the University for operations by the State of Michigan covering the State's fiscal year, October 1 through September 30. The sums appropriated, however, were for the University's fiscal year ending June 30 and are paid in eleven monthly installments from October through August. Therefore, the July and August payments are recorded as part of State appropriations receivable – operations.

The Foundation recognizes a gift when the donor makes a pledge that is, in substance, unconditional. The Foundation uses the allowance method to determine uncollectible unconditional pledges receivable. The allowance is based on prior years' experience and management's analysis of specific promises.

Investments

Investments are reported at fair value. Investment income includes realized and unrealized gains and losses on investments, interest and dividends.

Inventories

Inventories are stated at lower of average cost or market.

Institutional Physical Properties

Physical properties are stated at cost or, when donated, at fair market value at date of gift. The University uses a \$500 threshold for capitalizing assets. Depreciation is computed using the straight-line method over the useful life of the property as follows:

<u>Classification</u>	<u>Life</u>
Land improvements & infrastructure	15 years
Buildings	20 – 50 years
Equipment	4 – 15 years
Library acquisitions	10 years

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts. The cost of maintenance and repairs are expensed as incurred; significant renewals and improvements are capitalized.

Reclassifications

Certain fiscal year 2003 balances have been reclassified to conform to the current year presentation.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE B – CASH AND CASH EQUIVALENTS

The University utilizes the “pooled cash” method of accounting for substantially all of its cash and cash equivalents in order to maximize investment return.

GASB Statement No. 3 requires certain disclosures regarding policies and practices with respect to deposits, investments, and the custodial credit risk associated with them.

In accordance with GASB Statement No. 3, deposits are classified into three categories of custodial credit risk as follows: Category 1: Insured or collateralized with securities held by the University or by its agent in the University’s name. Category 2: Collateralized with securities held by the pledging financial institution’s trust department or agent in the University’s name. Category 3: Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the University’s name).

Cash and cash equivalents as reflected in the accounts of the investment institutions at June 30, 2004 were \$16,255,601. Of that balance, \$178,621 was covered by federal depository insurance or by collateral held by the University’s agent in the University’s name (GASB credit risk category #1), \$-0- was covered by collateral held in the pledging institution’s trust department in the University’s name (GASB credit risk category #2), and \$16,076,980 was uninsured and uncollateralized (GASB credit risk category #3).

Cash and cash equivalents as reflected in the accounts of the investment institutions at June 30, 2003 were \$14,091,008. Of that balance, \$247,080 was covered by federal depository insurance or by collateral held by the University’s agent in the University’s name (GASB credit risk category #1), \$-0- was covered by collateral held in the pledging institution’s trust department in the University’s name (GASB credit risk category #2), and \$13,843,928 was uninsured and uncollateralized (GASB credit risk category #3).

The following table summarizes the components of the University’s cash and cash equivalents at June 30:

	2004	2003
Cash	\$ 797,617	\$ 630,677
Standard Federal Bank – Public Funds	5,016,423	2,405,189
Common Fund – Short Term Fund	10,264,165	10,523,027
William Blair – Ready Reserves		2,082
Totals	\$16,078,205	\$13,560,975

Cash and cash equivalents consist primarily of funds invested with either a bank short-term investment pool or the Common Fund Short-Term Fund. In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, these short-term investments have been classified as money market investments and accordingly are carried at cost, which approximates fair market value. The University’s Board of Control establishes investment policies. The yield on short-term investments was 1.07% for 2004 and 1.53% for 2003.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE C – INVESTMENTS

In accordance with GASB Statement No. 3, investments are classified into three categories of custodial credit risk as follows: Category 1: insured or registered, or held by the University or by its agent in the University's name. Category 2: uninsured and unregistered, with securities held by the counterparty's trust department or agent in the University's name. Category 3: uninsured and unregistered, with securities held by the counterparty's trust department or agent, but not in the University's name. Investments in mutual funds, money markets and investment management funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

The following table summarizes the categorization of the University's investments at June 30, 2004:

	<u>Not Categorized</u>	<u>Total</u>
Long-term investments:		
Mutual funds	\$3,855,544	\$3,855,544
Total	<u>\$3,855,544</u>	<u>\$3,855,544</u>

The following table summarizes the categorization of the University's investments at June 30, 2003:

	<u>Category 3</u>	<u>Not Categorized</u>	<u>Total</u>
Short-term investments:			
Corporate bonds	\$2,036,088		\$2,036,088
Long-term investments:			
Mutual funds		\$3,687,614	3,687,614
Total	<u>\$2,036,088</u>	<u>\$3,687,614</u>	<u>\$5,723,702</u>

The following table summarizes the categorization of the Foundation's investments:

	<u>June 30, 2004</u>		<u>June 30, 2003</u>	
	<u>Category 3</u>	<u>Not Categorized</u>	<u>Category 3</u>	<u>Not Categorized</u>
Short-term investments:				
Other investments	\$ 7,664		\$ 5,638	
Long-term investments:				
Money funds	979,847		1,515,130	
Equities	17,025,972		12,377,851	
Mutual funds		\$3,917,186		\$4,991,993
Alternative investments	163,610		223,329	
Other investments	28,020		24,509	
Total	<u>\$18,205,113</u>	<u>\$3,917,186</u>	<u>\$14,146,457</u>	<u>\$4,991,993</u>

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE D – ACCOUNTS RECEIVABLE AND NOTES RECEIVABLE

The University's accounts receivable relate to several transactions including State appropriations, student tuition and fee billings and auxiliary enterprise sales, such as food service and residence halls. In addition, receivables arise from grant awards, financial aid, and billings related to capital assets.

	June 30,	
	2004	2003
Tuition and fees	\$ 510,811	\$ 550,490
Auxiliary enterprises	804,225	566,335
Contracts and grants	1,246,483	1,388,887
Sales and services	439,632	392,904
State Building Authority	642,481	5,566,308
Agency accounts	54,501	42,481
Allowance for uncollectible accounts	(782,528)	(809,624)
Total accounts receivable	\$2,915,605	\$7,697,781

Notes receivable represent the remaining balance of loans issued to students under the Federal Perkins Loan Program. Notes receivable are recorded net of allowance for uncollectible accounts of \$18,000 at June 30, 2004 and \$98,000 at June 30, 2003. As of July 1, 1996, Saginaw Valley State University terminated participation in the Federal Perkins Loan Program. The University will retain and administer the loan portfolio until all outstanding loans are liquidated. Additionally, the University must return to the United States Department of Education annually the Federal share of any cash-on-hand as of June 30. Federal cash-on-hand as of June 30, 2004 was returned in July, 2004.

Based on Senate Bill 905, PA 273 of 1998, State appropriations are recorded principally on the accrual basis, when earned. As a result, the University recorded State appropriations receivable of \$5,316,538 at June 30, 2004 and \$4,706,660 at June 30, 2003. State Appropriations and the related receivable include \$800,000 in anticipation of a partial reinstatement of the December 2003 Executive Order reduction. Charter schools appropriations receivable were recorded at June 30, 2004 of \$7,638,412 and at June 30, 2003 of \$6,782,756. The University has recorded a corresponding amount due to the charter schools. The University received \$43,263,417 of State appropriations to be forwarded to eighteen (18) charter schools for fiscal 2004 and \$37,690,138 for fiscal 2003.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE D – ACCOUNTS RECEIVABLE AND NOTES RECEIVABLE  
(continued)

The detail of the Foundation's accounts receivable for June 30, 2004 and 2003 are listed below in the table:

	June 30,	
	2004	2003
Pledges receivable	\$3,447,328	\$5,405,116
Less: allowance for uncollectible pledges	267,709	366,246
Less: discount to reflect promise to give at fair value	185,133	359,352
	2,994,486	4,679,518
Interest in trusts held by others	2,858,083	2,437,709
Accrued interest	3,545	3,627
Due from SVSU	227,000	
Total Foundation accounts receivable	\$6,083,114	\$7,120,854

NOTE E – CAPITAL ASSETS

The following table presents the changes in the various capital asset categories:

Asset Classification	Balance at June 30, 2003	Additions	Retirements	Balance at June 30, 2004
Land	\$ 1,776,895			\$ 1,776,895
Land improvements and infrastructure	15,624,650	\$ 422,818		16,047,468
Buildings	174,941,741	54,783,670	\$ 6,911	229,718,500
Equipment	40,929,443	5,059,300	2,072,067	43,916,676
Library acquisitions	10,170,074	588,599		10,758,673
Construction in progress	46,240,560	(43,204,369)		3,036,191
Works of fine art	599,842			599,842
Accumulated depreciation:				
Land improvements and infrastructure	(7,365,698)	(602,240)		(7,967,938)
Buildings	(40,586,513)	(4,883,281)	(6,911)	(45,462,883)
Equipment	(24,767,543)	(2,682,826)	(2,072,067)	(25,378,302)
Library acquisitions	(7,554,275)	(483,969)		(8,038,244)
Total capital assets, net	\$210,009,176	\$ 8,997,702		\$219,006,878

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE F – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities represent amounts due at June 30 for goods and services received prior to the end of the fiscal year. Listed below is a breakdown of those liabilities:

	June 30,	
	2004	2003
Compensation	\$2,237,410	\$1,571,623
Due to SVSU Foundation	227,000	
Supplies and construction related expenditures	1,402,139	4,682,752
Total accounts payable and accrued liabilities	\$3,866,549	\$6,254,375

NOTE G – NOTES AND BONDS PAYABLE

The University issued General Revenue Bonds, Series 2001B, in the amount of \$24,400,000 on November 13, 2001 to finance various capital projects. The bonds are select auction variable rate securities (SAVRS); therefore, they pay interest at a rate, which is determined at auction every thirty-five days. The interest rate in effect at June 30, 2004 was 1.20% plus a .25% broker fee. In December 2003, the University entered in to a rate swap in connection with these bonds which effectively changed the University's variable rate to a fixed rate of 3.635% plus a 0.25% broker fee through January 1, 2014.

The swap agreement was entered into as a means to fix the variable-rate bonds and minimize long-term interest rate risk. Under the swap agreement, the University pays the counterparty a fixed payment equal to the fixed rate of 3.635% and receives a variable payment from the counterparty at the floating rate. The floating rate is calculated at 67% of USD-LIBOR-BBA if the LIBOR reference rate is equal to or greater then 3.00% and the BMA Municipal Bond Index if the LIBOR reference rate is less than 3.00%.

The counterparty has estimated the mark-to-market value of the swap to be \$508,875 as of June 30, 2004, in favor of the counterparty. As of June 30, 2004, and as long as the floating rate portion of the swap is less than the fixed rate being paid by the University, the University will be in a negative position on the swap. That is, the University will be paying more in interest expense than had it not entered into the swap agreement. However, the University believes that the variable rate will eventually exceed the 3.635% fixed rate the University pays and the University will reduce its overall interest expense in the future.

The University is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligations, whenever the swap has a positive fair value to the University. As of June 30, 2004, while the counterparty was not rated by an independent rating agency, the guarantor was rated A1 by Moody's, A by Standard & Poor's and A+ by Fitch Ratings.

The swap exposes the University to basis risk, which is the risk that arises when variable interest rates on a derivative and an associated bond or other interest-paying financial instruments are based on different indexes. As these rates change, the overall synthetic rate on the bonds will change.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE G – NOTES AND BONDS PAYABLE  
(continued)

The swap agreement uses the International Swaps and Derivatives Association, Inc. Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. In addition, the Master Agreement includes additional termination events. If the swap is terminated, the variable rate bonds would no longer carry a synthetic interest rate and the University may be required to pay an amount equal to the swap's fair value, if negative.

The University issued General Revenue Bonds, Series 2001A, in the amount of \$15,560,000 on January 15, 2001 to finance various capital projects.

The University issued General Revenue Bonds, Series 1999, in the amount of \$8,460,000 on September 14, 1999 to finance a student housing facility.

The University issued General Revenue Bonds, Series 1998, in the amount of \$24,985,000 on April 14, 1998 to finance three major capital projects. The projects include construction of a general-purpose classroom building, construction of a new on-campus student housing facility and renovation of existing student residence halls. The State of Michigan funded 75% of the cost of the general-purpose classroom building.

Bond proceeds were also used to discharge obligations under the Series 1995 Note and the Series 1997 Note. Also, a portion of the Series 1993 Bonds and Series 1996 Bonds were refunded and defeased from bond proceeds. The University deposited U. S. Government securities in an irrevocable trust with an escrow agent that will provide partial funding for debt service requirements for the Series 1993 Bonds and Series 1996 Bonds. As of June 30, 2004, \$1,340,000 of the 1996 defeased bond principal remains outstanding. The interest rates of the 1998 bonds range from 4.45% to 5.30% and mature at various dates through July 1, 2028. The bonds maturing on or after July 1, 2009, are subject to redemption in whole or in part on any date on or after July 1, 2008. The redemption price ranges from 100% to 102% of the principal to be redeemed.

The General Revenue Bonds, Series 1993, in the amount of \$8,665,000 were issued on May 15, 1993 to advance, refund and defease the outstanding Housing and Auxiliary Facilities Revenue Refunding Bond, Series 1987. Additionally, the issue provided financing to renovate and expand the Doan Center food service and student activity facility. The outstanding General Revenue Bonds bear interest rates ranging from 5.20% to 5.55% and mature at various dates through 2016. The bonds maturing on or after 2004 are subject to redemption in whole or in part on any date on or after July 1, 2003. The redemption price ranges from 100% to 102% of the principal to be redeemed.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE G – NOTES AND BONDS PAYABLE  
(continued)

Notes and bonds payable consist of the following:

	Interest Rates	Maturity	Outstanding Balance June 30,	
			2004	2003
General revenue bonds, series 2001B	SAVRS 3.635%	2017– 2032	\$24,400,000	\$24,400,000
General revenue bonds, series 2001A	4.00%– 5.50%	2004– 2030	15,000,000	15,285,000
General revenue bonds, series 1999	4.75%– 5.63%	2004– 2029	8,020,000	8,175,000
General revenue bonds, series 1998	4.45%– 5.30%	2004– 2028	22,830,000	23,545,000
General revenue bonds, series 1996	5.15%– 5.25%	2004– 2006	95,000	140,000
General revenue bonds, series 1993	5.20%– 5.55%	2004– 2016	3,515,000	3,640,000
<b>Total</b>			<b>\$73,860,000</b>	<b>\$75,185,000</b>

The principal and interest on the notes and bonds are payable only from certain general revenues. The following table summarizes debt service requirements:

Year Ended June 30	Principal	Interest	Interest Rate Swap-Net	Total
2005	\$ 1,380,000	\$ 2,982,814	\$ 594,140	\$ 4,956,954
2006	1,445,000	2,919,486	594,140	4,958,626
2007	1,520,000	2,775,229	594,140	4,889,369
2008	1,580,000	2,705,336	594,140	4,879,476
2009	1,660,000	2,631,208	594,140	4,885,348
2010–2014	8,625,000	11,907,859	2,673,630	23,206,489
2015–2019	11,205,000	9,511,873		20,716,873
2020–2024	14,700,000	6,747,848		21,447,848
2025–2029	18,845,000	3,422,081		22,267,081
2030–2032	12,900,000	468,067		13,368,067
<b>Total</b>	<b>\$73,860,000</b>	<b>\$46,071,801</b>	<b>\$5,644,330</b>	<b>\$125,576,131</b>

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE G – NOTES AND BONDS PAYABLE  
(continued)

The University has a \$3,300,000 line of credit at 80% of the bank prime rate for interim financing of cash flow deficits. No amounts were outstanding at June 30, 2004 or 2003. The University has a \$200,000 letter of credit, effective through August 31, 2005, at a per annum fee of one and one half percent. In addition, amounts drawn against the letter of credit include interest at bank prime rate plus one half percent per annum. No amounts were drawn against the letter of credit at June 30, 2004. The line of credit and letter of credit are secured by general revenues.

NOTE H – LONG-TERM LIABILITIES

The information listed below shows the components of the University's long-term liabilities:

	Balance at June 30, 2003	Additions	Reductions	Balance at June 30, 2004	Current Portion
Notes and bonds payable:					
General revenue bonds	\$75,185,000		\$1,325,000	<b>\$73,860,000</b>	\$1,380,000
Other long-term liabilities:					
Compensated absences	1,856,679	\$ 59,958		<b>1,916,637</b>	100,000
Student loan – federal	200,821	103,024	133,910	<b>169,935</b>	67,000
Total other liabilities	<u>2,057,500</u>	<u>162,982</u>	<u>133,910</u>	<b><u>2,086,572</u></b>	<u>167,000</u>
Total long-term liabilities	<b><u>\$77,242,500</u></b>	<b><u>\$162,982</u></b>	<b><u>\$1,458,910</u></b>	<b><u>\$75,946,572</u></b>	<b><u>\$1,547,000</u></b>

As of June 30, 2004 and 2003, employees had earned but not taken annual vacation leave of approximately \$1,532,000 and \$1,484,000, respectively. The University has a commitment for accumulated sick leave of approximately \$385,000 as of June 30, 2004 and \$373,000 as of June 30, 2003. These amounts are reflected above as liabilities for compensated absences.

The following summarizes the internal designations of the University's unrestricted net assets:

	June 30,	
	2004	2003
Capital projects and repair reserves	<b>\$11,188,929</b>	\$ 9,797,925
Auxiliary enterprises	<b>1,444,479</b>	1,359,583
Designated for departmental use	<b>4,899,634</b>	4,404,303
Amount obligated by contractual commitments	<b>77,182</b>	179,086
Undesignated	<b>1,155,480</b>	898,572
Total unrestricted net assets	<b><u>\$18,765,704</u></b>	<b><u>\$16,639,469</u></b>

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE J – COMMITMENTS AND CONTINGENCIES

The University issued Series 2004 General Revenue Bonds in the amount of \$11,825,000 in July 2004. The bonds bear interest at rates ranging from 3% – 5% and are payable in installments from 2005 – 2014 and term bonds in 2024 and 2034. Proceeds from the bonds will be used to finance construction of new student housing and renovations to various facilities. The bonds will also be used to refund and defease \$3,385,000 of the Series 1993 General Revenue Bonds. On August 23, 2004 the Board authorized the issuance of up to \$3,250,000 of general revenue bonds to finance additional student housing and other construction and renovation projects.

The amount of funding required to complete construction in progress will come from the Series 2004 General Revenue Bond proceeds, the remaining Series 2001B General Revenue Bond proceeds, institutional resources, gifts and capital appropriations from the State of Michigan. Costs to complete construction in progress approximate \$15,500,000.

In the normal course of its activities, the University is party to various legal actions. After taking into consideration legal counsel's evaluation of pending actions, the University is of the opinion that the outcome thereof will not have a material effect on the financial condition of the University.

The University has entered into lease agreements with the State Building Authority (SBA) and the State of Michigan during prior fiscal years for Brown Hall, Science East and West Buildings, Zahnow Library, West Complex and the Regional Education Center. The projects were financed with SBA Revenue Bonds and State Appropriations. The SBA bond issues are secured by a pledge of rentals to be received from the State of Michigan pursuant to the lease agreements between the SBA, the State of Michigan, and the University. During the lease terms, the SBA will hold title to each of the facilities; the State of Michigan will make all annual lease payments to the SBA from general fund appropriations; and the University will pay all operating and maintenance costs of the facilities. At the expiration of each lease, the SBA has agreed to sell the facilities to the University for the sum of one dollar each. The cost and accumulated depreciation for these facilities is reflected in the accompanying Statements of Net Assets.

NOTE K – SUPPORT ORGANIZATIONS

The Foundation is an independent corporation formed for the purpose of receiving funds for the sole benefit of the University. The Internal Revenue Service has ruled that the Foundation is qualified under Section 501(c)(3) of the Internal Revenue Code (Code) and is, therefore, not subject to tax under present federal income tax laws, and also is not a private foundation within the meaning of Section 509(a)(3) of the Code. Foundation Board of Director membership includes the following individuals: members of the Saginaw Valley State University Board of Control as appointed by the Board of Control, certain officers of the University as set forth in the Foundation bylaws, and other community representatives elected by the Foundation Board.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

The University provided approximately \$615,000 of administrative support to the Foundation during fiscal 2004 and \$547,000 of support during fiscal 2003. The Foundation transferred \$ 2,827,993 to the University during fiscal 2004 and \$6,578,196 during fiscal 2003. These amounts include endowment distributions and restricted and unrestricted gifts. According to the law of the State of Michigan the Foundation Board may appropriate for expenditure for the uses and purposes for which an endowment is established so much of the net appreciation, realized and unrealized, in the fair value of the assets of an endowment over the historic dollar value as is prudent under the facts and circumstances prevailing at the

time of the action or decision. Under the spending policy established by the Board, 4.00% of the moving average market value of endowment investments for the twelve quarters through September prior to the beginning of the fiscal year has been authorized for expenditure.

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14*, the Foundation is included in the financial statements of the University as a discretely presented component unit effective with the June 30, 2004 financial statements. The June 30, 2003 financial statements have been restated to include the Foundation as a discretely presented component unit.

The Saginaw Valley Research and Development Corporation (SVRDC), a not-for-profit taxable entity, exists to foster economic development. The operations and net assets of SVRDC are not significant.

NOTE L – RETIREMENT PLAN

The University has a defined contribution retirement program for all qualified employees. Qualified employees include nearly all full-time employees. University contributions are made to the Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and are based on a percentage of qualified employee payroll. Employees maintain individual annuity contracts with TIAA-CREF and are fully vested. University contributions for the years ended June 30, 2004 and 2003 approximated \$3,993,000 and \$3,842,000, respectively, with annual covered payroll for participants of the plan approximating \$34,888,000 in 2004 and \$33,731,000 in 2003. The University has no liability for past service or post-employment benefit costs.

NOTE M – LIABILITY AND PROPERTY INSURANCE

The University participates with ten other Michigan public universities in the Michigan Universities Self-Insurance Corporation (MUSIC). This corporation's purpose is to provide insurance coverage for errors and omissions liability, comprehensive general liability, and property loss. The University has a retention amount from which it would pay losses related to errors and omissions, comprehensive general liability claims, and property claims. The second layer of coverage for losses exceeding the retention level is the responsibility of MUSIC. MUSIC has purchased excess insurance coverage for comprehensive general liability and property loss claims that exceed its level of responsibility. The payments made to MUSIC and premiums to excess carriers reflect the claims experience of each university.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE N – EXPENDITURES BY NATURAL CLASSIFICATION

The table below lists expenditures by natural classification by function for the fiscal year ending June 30, 2004:

Function	Salary & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Total
Instruction	\$20,185,806	\$ 5,576,486	\$ 313,653		\$ 1,587,293		\$27,663,238
Research	308,283	74,750			118,237		501,270
Public service	612,747	167,821	528		756,273		1,537,369
Academic support	5,966,504	1,704,245	158,922		2,413,141		10,242,812
Student services	2,146,975	970,543	3,522		998,826		4,119,866
Institutional support	4,532,367	1,483,012	1,175		2,973,429		8,989,983
Operations and maintenance of plant	3,272,464	1,229,851		\$1,855,248	1,620,426		7,977,989
Depreciation						\$8,652,316	8,652,316
Student aid	347,041		4,354,968		18,908		4,720,917
Auxiliary enterprises	2,492,824	738,495	160,129	511,924	3,583,947		7,487,319
<b>Total</b>	<b>\$39,865,011</b>	<b>\$11,945,203</b>	<b>\$4,992,897</b>	<b>\$2,367,172</b>	<b>\$14,070,480</b>	<b>\$8,652,316</b>	<b>\$81,893,079</b>

The table below lists expenditures by natural classification by function for the fiscal year ending June 30, 2003:

Function	Salary & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Total
Instruction	\$19,274,086	\$ 5,322,168	\$ 182,742		\$1,661,870		\$26,440,866
Research	402,376	79,564	458		158,819		641,217
Public service	476,069	134,525	3,654		888,480		1,502,728
Academic support	6,003,319	1,561,749	80,867		2,754,840		10,400,775
Student services	2,479,330	726,413	7,939		1,160,338		4,374,020
Institutional support	4,379,875	1,375,941			3,117,894		8,873,710
Operations and maintenance of plant	3,251,929	1,143,862		\$1,700,361	2,307,861		8,404,013
Depreciation						\$7,965,100	7,965,100
Student aid	364,657		4,035,804		63,669		4,464,130
Auxiliary enterprises	2,528,329	639,187	116,722	475,344	3,574,649		7,334,231
<b>Total</b>	<b>\$39,159,970</b>	<b>\$10,983,409</b>	<b>\$4,428,186</b>	<b>\$2,175,705</b>	<b>\$15,688,420</b>	<b>\$7,965,100</b>	<b>\$80,400,790</b>

Saginaw Valley State University  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2004

Federal / Pass Through Grantor Program Title	Federal CFDA Number	Agency Or Pass-Through Grant Number	Federal Expenditures
<u>U.S. Department of Education</u>			
Title IV Student Financial Assistance (Notes 1 and 5):			
Federal Supplemental Educational Opportunity Grant Program	84.007	E-P007A022069	\$ 189,343
Federal Work-Study Program	84.033	E-P033A022069	249,201
Federal Pell Grant Program (Note 3)	84.063	E-P063P020238	4,938,847
Loans and Loan Guarantees-Federal Direct Loan Program (Note 2)	84.268	**	22,422,512
Total Student Financial Assistance			27,799,903
Direct Programs:			
Strengthening Institutions	84.031A	P031A000143	82,430
Strengthening Institutions	84.031A	P031A000143	203,607
Strengthening Institutions	84.031A	P031A000143	329,201
REC Congressional Award	84.116Z	P116Z030181	491,644
Business & International Education (BIE) Grant	84.153A	P153A020028	12,812
Business & International Education (BIE) Grant	84.153A	P153A020028	8,927
Bilingual/Bicultural Education Program	84.195A	T195A970016-01	(22)
Career Ladder	84.195E	T195E010004	72,815
Career Ladder	84.195E	T195E010004	142,790
Career Ladder	84.195E	T195E010004	25
Improving Teacher Quality	84.336B	P336B99044-02	513,721
Improving Teacher Quality	84.336B	P336B99044-03	1,095,509
PT3 Teachers Technology	84.342A	P342A000125-01	6,638
PT3 Teachers Technology	84.342A	P342A000125-02	129,747
Transition to Teaching	84.350A	S350A020089	152,410
Transition to Teaching	84.350A	S350A020089	103,066
Total Direct Programs			3,345,320
Passed Through State of Michigan-Department of Community Health:			
Talented Tenth Teen Summer Institute 2003	84.186B	20030514	54,885
Talented Tenth Teen Summer Institute 2004	84.186A	20041955	775
Total Passed Through State of Michigan-Department of Community Health			55,660
Passed Through Michigan Department of Education:			
Improving Math Teacher Quality	84.367B	030290-914	40,270
Improving Math Teacher Quality	84.367B	040290-108	38,248
Improving Science Teacher Quality	84.367B	030290-922	34,422
Improving Science Teacher Quality	84.367B	040290-215	41,832
Total Passed Through Michigan Department of Education			154,772
Passed Through University of California:			
Saginaw Valley National Writing Project	84.928A	94-MI05	32,566
<u>National Institute of Standards and Technology</u>			
Passed Through Industrial Technology Institute:			
SVMA/MMTC (Note 4)	11.611	70NANB5H0059	5,063
SVMA/MMTC (Note 4)	11.611	70NANB5H0059	137,198
SVMA/MMTC (Note 4)	11.611	70NANB5H0059	46,158
Total Passed Through Industrial Technology Institute			188,419

See Notes to Schedule of Expenditures of Federal Awards.

Saginaw Valley State University  
Schedule of Expenditures of Federal Awards  
(continued)

Federal / Pass Through Grantor Program Title	Federal CFDA Number	Agency Or Pass-Through Grant Number	Federal Expenditures
<u>U.S. Department of Justice</u>			
Passed Through Michigan Department of State Police: State Homeland Security Grant Program	16.007	SHSGP	\$ 1,998
<u>Michigan Department of Labor &amp; Economic Growth - (WIA)</u>			
Passed Through Michigan Works!:			
Michigan Works!-Danti Tool	*	67444-96773-04	10,655
Michigan Works!-Acra Cast Inc.	*	67444-96773-04	3,653
Michigan Works!-Linear Motion Systems	*	67444-96773-04	16,339
Total Passed Through Michigan Works!			<u>30,647</u>
<u>National Aeronautics and Space Administration</u>			
Passed Through University of Michigan:			
Michigan Space Grant	43.002	NGT-40007	286
Research and Development Project	43.UNKNOWN	**	6,647
S.P.A.C.E. - Summer Program Aimed at Children & Educators	43.UNKNOWN	**	(38)
U/M Seed Grant Award	43.UNKNOWN	**	718
Development of New Equipment for Surface Analysis	43.UNKNOWN	**	255
Critical Thinking Video Education Project	43.UNKNOWN	**	1,500
Prep. & Characterization of CexZr (1-x)O2 Films	43.UNKNOWN	**	2,500
Non-Destructive Evaluation for Ceramic Analysis	43.UNKNOWN	*	(191)
Total Passed Through University of Michigan			<u>11,677</u>
<u>National Endowment for the Humanities</u>			
Direct Program:			
American Civil War - Humanities Focus Grant	45.162	ED-22381-02	11,482
Passed Through Michigan Humanities Council:			
Brown vs. Board of Education	45.129	Q015-04	443
<u>The Institute of Museum and Library Services</u>			
MAPII - Collections Management	45.302	IM-02-02-0042-02	18
<u>U.S. Department of Health and Human Services - HRSA</u>			
Direct Programs:			
O.P.E.N.-Opportunities for Prof. Ed. in Nursing	93.178	5 D19 HP 40362	17,020
O.P.E.N.-Opportunities for Prof. Ed. in Nursing	93.178	5 D19 HP 40362	183,012
Advanced Education Nursing Traineeships	93.358	2 A10 HP 00097 03	32,753
Total Direct Programs			<u>232,785</u>
Passed Through Saginaw County Department of Public Health:			
Healthy Start Grant Initiative	93.926E	5 H49 MC 0058 02	7,919
Healthy Start Grant Initiative	93.926E	5 H49 MC 0058 03	16,595
Total Passed Through Saginaw County Department of Public Health			<u>24,514</u>
Total Expenditures of Federal Awards			<u><u>\$31,890,204</u></u>

\* Portions of the following CFDA's: 17.258, 17.259 and 17.260.

\*\* The agency or pass-through grant number is not available.

See Notes to Schedule of Expenditures of Federal Awards.

## Saginaw Valley State University

### Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

- Note 1:** As defined in OMB Circular A-133, Student Financial Assistance programs are considered to be clusters of programs and, accordingly, have been classified as one program for testing purposes. Student Financial Assistance is defined as a major program.
- Note 2:** Under the William D. Ford Federal Direct Loan Program, students and parents borrow funds directly from the federal government; the University is responsible for verifying student eligibility, electronically transmitting the loan records to the federal processor and distributing the loan funds directly to the student account or parent borrower. For the year ended June 30, 2004, Direct Student Loans totaled \$22,422,512 (\$10,336,016 subsidized, \$10,900,586 unsubsidized, and \$1,185,910 PLUS). These amounts were excluded from total federal expenditures when determining the dollar threshold for Type A and Type B programs.
- Note 3:** The Pell grant expenditures are the actual amounts incurred through June 30, 2004. The University will process amendments subsequent to year end to finalize the 2003-2004 award year. Amounts reported do not include an administrative cost allowance of \$10,005.
- Note 4:** The grant expenditures disclosed include both the federal portion (60%) and State of Michigan portion (40%) of the grant.
- Note 5:** As of July 1, 1996, Saginaw Valley State University terminated participation in the Federal Perkins Loan Program (CFDA Number 84.038). The University will retain and administer the loan portfolio until all outstanding loans are liquidated. There were \$138,595 in loans outstanding as of June 30, 2004. Additionally, the University must return to the United States Department of Education annually the Federal share of cash-on-hand as of June 30. Federal cash-on-hand as of June 30, 2004 was returned in July 2004.

The University utilizes the services of AMS Servicing Group to administer the repayment of Perkins loans and perform certain due diligence procedures. The most recent available report on AMS Servicing Group's compliance and internal controls was received and reviewed. No significant items of noncompliance or control weaknesses were noted.



**ANDREWS HOOPER & PAVLIK P.L.C.**  
Certified Public Accountants

Independent Auditors' Report on Compliance and on Internal Control  
over Financial Reporting Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*

Board of Control  
Saginaw Valley State University

We have audited the financial statements of Saginaw Valley State University (University) and its discretely presented component unit, Saginaw Valley University Foundation as of and for the year ended June 30, 2004, and have issued our report thereon dated August 23, 2004. We conducted our audit 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.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Control and management of Saginaw Valley State University and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Andrews Hooper & Pavlik P.L.C.*

Saginaw, Michigan  
August 23, 2004



**ANDREWS HOOPER & PAVLIK P.L.C.**  
Certified Public Accountants

Independent Auditors' Report on Compliance with Requirements  
Applicable to each of its Major Programs and Internal Control over  
Compliance in Accordance with OMB Circular A-133

Board of Control  
Saginaw Valley State University

Compliance

We have audited the compliance of Saginaw Valley State University (University) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The University's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

The University's financial statements include the operations of its discretely presented component unit, Saginaw Valley State University Foundation, which received \$-0- in federal awards. An OMB Circular A-133 audit was not required for Saginaw Valley State University Foundation.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

We did not audit the University's compliance with the requirements governing billing, recordkeeping, payment processing, reporting and due diligence functions for the University's Federal Perkins Loan Program. Those requirements govern functions performed by AMS Servicing Group. AMS Servicing Group's compliance with the requirements governing the functions it performs for the University was audited by another auditor, whose report was furnished to us. Based on our review of the other auditor's report, we have determined that all of the compliance requirements that are applicable to the University's Federal Perkins Loan Program are addressed either in our report or the report of the other auditor. Based on our review of the other auditor's report, we have determined that it does not contain any reportable findings of noncompliance pertaining to the services that AMS Servicing Group performs for the University

## Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

The internal control policies and procedures relating to billing, recordkeeping, payment processing, reporting and due diligence functions for the University's Federal Perkins Loan Program are performed at AMS Servicing Group. For these control categories, other auditors obtained an understanding of the design of relevant policies and procedures, determined whether they have been placed in operation and assessed control risk. The other auditor's report has been furnished to us; however, the scope of our work did not extend to these internal control policies and procedures established and maintained at AMS Servicing Group.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Control and management of Saginaw Valley State University and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Andrews Hooper & Paulik P.L.C.*

Saginaw, Michigan  
August 23, 2004

Saginaw Valley State University  
 Schedule of Findings and Questioned Costs  
 Year ended June 30, 2004

Section I – Summary of Auditor’s Results

**Financial Statements**

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:  
 Material weakness identified?            Yes     X     No  
 Reportable condition identified not considered to  
 be material weakness?            Yes     X     None reported

Noncompliance material to financial statements  
 noted?            Yes     X     No

**Federal Awards**

Internal control over major programs:  
 Material weakness identified?            Yes     X     No  
 Reportable condition identified not considered to  
 be material weakness?            Yes     X     None reported

Type of auditor’s report issued on compliance for  
 major programs: Unqualified

Any audit findings disclosed that are required to be  
 reported in accordance with Circular A-133,  
 Section .510(a)?            Yes     X     No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Cluster and Federal Programs</u>
84.007	Student Financial Assistance: Federal Supplemental Educational Opportunity Grant Program
84.033	Federal Work-Study Program
84.038	Federal Perkins Loan Program
84.063	Federal Pell Grant Program
84.268	Federal Direct Loan Program
84.031A	U.S. Department of Education: Strengthening Institutions
84.116Z	REC Congressional Award

Dollar threshold used to distinguish between  
 Type A and Type B programs:     \$300,000    

Auditee qualified as low-risk auditee?     X     Yes            No

Saginaw Valley State University

Schedule of Findings and Questioned Costs (continued)

Section II – Financial Statements Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

Saginaw Valley State University  
Summary Schedule of Prior Audit Findings  
Year ended June 30, 2004

No matters were reported.