

OMB Circular A-133  
Reporting Package

Saginaw Valley State University

*Year ended June 30, 2005*

Saginaw Valley State University

OMB Circular A-133  
Reporting Package

Year ended June 30, 2005

Audited Financial Statements and Other Financial Information (Schedule of Expenditures of Federal Awards).....	i
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	28
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.....	29
Schedule of Findings and Questioned Costs.....	31
Summary Schedule of Prior Audit Findings .....	33

Audited Financial Statements and  
Other Financial Information

Saginaw Valley State University

*Years ended June 30, 2005 and 2004  
with Report of Independent Auditors*

Saginaw Valley State University

Audited Financial Statements  
and Other Financial Information

*Years ended June 30, 2005 and 2004*

**Table of Contents**

Required Supplementary Information – Management’s Discussion and Analysis .....	i
Report of Independent Auditors .....	1
Financial Statements	
Statements of Net Assets .....	3
Statements of Revenues, Expenses, and Changes in Net Assets .....	4
Statements of Cash Flows .....	5
Notes to Financial Statements .....	7
Other Financial Information	
Schedule of Expenditures of Federal Awards .....	25
Notes to Schedule of Expenditures of Federal Awards .....	27

## SAGINAW VALLEY STATE UNIVERSITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The following provides a discussion and analysis of the financial performance of Saginaw Valley State University (SVSU or University). 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's 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 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.

**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 by 5.6% from June 30, 2003 to June 30, 2004 and .3% from June 30, 2004 to June 30, 2005.
- Operating revenues increased in fiscal 2004 and 2005 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 5.5% from Fall 2003 to Fall 2004, and 1.1% from Fall 2002 to Fall 2003.
- Headcount enrollment decreased slightly from 9,189 in fall semester 2002 to 9,168 in fall 2003 then increased to 9,448 in Fall 2004. Credit hours increased from 208,208 in fiscal 2003 to 216,378 in 2004 and 223,360 in 2005.

**FINANCIAL STATEMENT SUMMARIES**

Net assets are summarized in the table below.

**Statements of Net Assets  
June 30, 2005, 2004 and 2003  
(in thousands of dollars)**

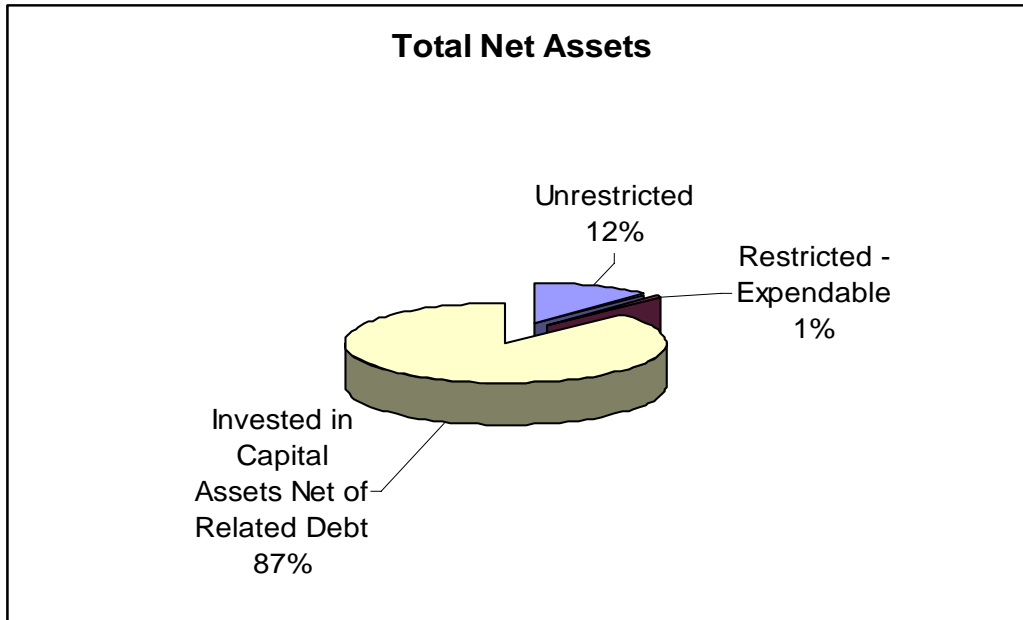
	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Assets</b>			
Current Assets	\$ 49,402	\$ 32,684	\$ 35,604
Noncurrent Assets:			
Other	4,093	3,936	3,744
Capital	225,232	219,007	210,009
Total Assets	<u>278,727</u>	<u>255,627</u>	<u>249,357</u>
<b>Liabilities</b>			
Current Liabilities	20,040	15,954	17,045
Noncurrent Liabilities	92,897	74,399	75,731
Total Liabilities	<u>112,937</u>	<u>90,353</u>	<u>92,776</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	144,936	145,654	139,113
Restricted – Expendable	880	854	828
Unrestricted	19,974	18,766	16,640
Total Net Assets	<u>\$165,790</u>	<u>\$165,274</u>	<u>\$156,581</u>

The University's largest asset is its investment in capital assets, including land, land improvements and infrastructure, buildings, equipment and construction in progress.

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

Capital assets represent in excess of 80% of the University's total assets. Notes and bonds payable totaled \$92.3 million at June 30, 2005. This represents 81.7% of the University's total liabilities. During fiscal 2005, the University issued \$43 million in General Revenue bonds to finance various capital projects and to advance refund select prior General Revenue bonds to lower debt service.

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, 2005. The following summarizes the internal designations of the unrestricted net assets:

<b>Unrestricted Net Assets</b>			
<b>June 30, 2005, 2004 and 2003</b>			
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Capital projects and repair reserves	\$11,200,751	\$11,188,929	\$ 9,797,925
Auxiliary enterprises	1,411,903	1,444,479	1,359,583
Designated for departmental use	5,990,205	4,899,634	4,404,303
Amount obligated by contractual commitments	285,748	77,182	179,086
Undesignated	<u>1,084,958</u>	<u>1,155,480</u>	<u>898,572</u>
<b>Total unrestricted net assets</b>	<u><b>\$19,973,565</b></u>	<u><b>\$18,765,704</b></u>	<u><b>\$16,639,469</b></u>

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

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

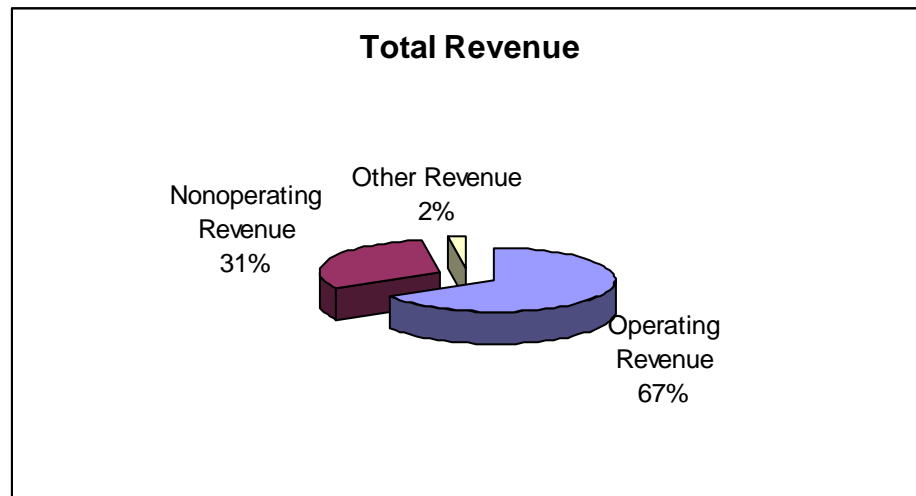
**Statements of Revenues, Expenses, and Changes in Net Assets  
For the Years Ended June 30, 2005, 2004 and 2003  
(in thousands of dollars)**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Operating Revenues</b>			
Student Tuition and Fees	\$36,850	\$34,192	\$30,111
Federal Grants and Contracts	8,142	9,490	8,851
State and Local Grants and Contracts	886	830	1,405
Sales & Services of Educational Departments	2,504	2,334	1,793
Auxiliary Enterprises	10,697	9,553	8,373
Other Operating Revenues	1,375	1,278	1,507
Total Operating Revenues	<u>60,454</u>	<u>57,677</u>	<u>52,040</u>
<b>Operating Expenses</b>	<u>86,938</u>	<u>81,893</u>	<u>80,401</u>
<b>Operating Loss</b>	(26,484)	(24,216)	(28,361)
<b>Nonoperating Revenues (Expenses)</b>			
State Appropriations	25,934	26,140	26,435
Gifts	1,363	985	1,049
Investment Income	937	348	587
Interest on Capital Asset-Related Debt	(3,454)	(2,777)	(2,240)
Net Nonoperating Revenues	<u>24,780</u>	<u>24,696</u>	<u>25,831</u>
<b>Income (Loss) Before Other Revenues</b>	(1,704)	480	(2,530)
Capital Appropriations	950	6,370	22,680
Capital Grants and Gifts	1,270	1,843	5,529
Total Other Revenues	<u>2,220</u>	<u>8,213</u>	<u>28,209</u>
Increase in Net Assets	516	8,693	25,679
Net Assets at Beginning of Year	<u>165,274</u>	<u>156,581</u>	<u>130,902</u>
Net Assets at End of Year	<u>\$165,790</u>	<u>\$165,274</u>	<u>\$156,581</u>

**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 2005 was at approximately the prior year's level and then was subsequently reduced by an executive order midway through the year. Capital Appropriations represent the State of Michigan's contribution to the Regional Education Center and Library addition and renovation. Capital Grants and Gifts relate primarily to gifts received from the Creating the Future Campaign for the Regional Education Center, Student Center and Fitness Center.

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, 2005, 2004 and 2003  
(in thousands of dollars)**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Cash provided (used) by:</b>			
Operating Activities	(\$14,955)	(\$14,448)	(\$19,480)
Noncapital Financing Activities	27,755	26,732	27,953
Capital Financing Activities	2,679	(11,983)	(23,383)
Investing Activities	752	2,216	10,427
Net Increase (Decrease)	<u>16,231</u>	<u>2,517</u>	<u>(4,483)</u>
Cash and Cash Equivalents at Beginning of Year	<u>16,078</u>	<u>13,561</u>	<u>18,044</u>
Cash and Cash Equivalents at End of Year	<u><u>\$32,309</u></u>	<u><u>\$16,078</u></u>	<u><u>\$13,561</u></u>

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

**OPERATING EXPENSES**

The University reports expenditures on a functional basis. Operating expenses were \$86,938,283 in FY2005, an increase of 6.2% over the prior year. The following summarizes operating expenses:

**Operating Expenses  
For the Years Ended June 30, 2005, 2004 and 2003  
(in thousands of dollars)**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Educational and General			
Instruction	\$29,711	\$27,663	\$26,441
Research	563	501	641
Public Service	1,617	1,538	1,503
Academic Support	9,694	10,243	10,401
Student Services	4,007	4,120	4,374
Institutional Support	9,210	8,990	8,874
Operations and Maintenance of Plant	8,564	7,978	8,404
Depreciation	10,019	8,652	7,965
Student Aid	5,130	4,721	4,464
Auxiliary Enterprises	8,423	7,487	7,334
	<u>\$86,938</u>	<u>\$81,893</u>	<u>\$80,401</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. FY2005 expenditures for capital projects approximated \$17.3 million. These capital projects were funded by a combination of bonds issued by the Michigan State Building Authority (SBA), University general revenues bonds, capital gifts and other available University resources.

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.

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

***University Rating***

The University did not request an underlying bond rating for debt issued in fiscal 2005. 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 \$677,000 of administrative support to the Foundation during fiscal 2005. 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 \$2,633,204 in fiscal 2005. The net assets of the Foundation were as follows as of June 30, 2005:

Nonexpendable	\$22,956,100
Expendable restricted	3,929,509
Unrestricted	<u>2,055,875</u>
	<u>\$28,941,484</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, 2005 and 2004 and Saginaw Valley State University Foundation, a discretely presented component unit of the University, as of and for the years ended June 30, 2005 and 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 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 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, 2005 and 2004, 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 25, 2005 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 & Pavlik P.L.C.*

Saginaw, Michigan  
August 25, 2005

**SAGINAW VALLEY STATE UNIVERSITY**

**STATEMENTS OF NET ASSETS**

	June 30, 2005		June 30, 2004	
	SVSU	Component Unit SVSU Foundation	SVSU	Component Unit SVSU Foundation
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 32,309,109	\$ 1,263,422	\$ 16,078,205	\$ 1,086,291
Short-term investments		12,568		7,664
Accounts receivable, net	2,384,626	1,523,296	2,915,605	2,639,003
State appropriations receivable - operations	4,546,262		5,316,538	
State appropriations receivable - charter schools	8,640,255		7,638,412	
Inventories and prepaid expenses	1,496,231		695,392	
Notes receivable, net	25,815		39,796	
	<hr/>	<hr/>	<hr/>	<hr/>
Total current assets	49,402,298	2,799,286	32,683,948	3,732,958
<b>Noncurrent Assets</b>				
Cash and cash equivalents, restricted		506,648		
Notes receivable, net	52,412		80,799	
Accounts receivable, net		3,244,040		3,444,111
Endowment investments		22,618,653		22,114,635
Other long-term investments	4,040,610		3,855,544	
Capital assets, net	225,232,098		219,006,878	
	<hr/>	<hr/>	<hr/>	<hr/>
Total noncurrent assets	229,325,120	26,369,341	222,943,221	25,558,746
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total assets</b>	278,727,418	29,168,627	255,627,169	29,291,704
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities	6,514,473	227,143	3,866,549	195,248
Deferred revenues	3,646,303		3,470,676	
Deposits	7,973,600		7,069,640	
Long-term liabilities - current portion	1,906,211		1,547,000	
	<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities	20,040,587	227,143	15,953,865	195,248
<b>Noncurrent Liabilities</b>				
Long-term liabilities	92,897,242		74,399,572	
	<hr/>	<hr/>	<hr/>	<hr/>
Total noncurrent liabilities	92,897,242	-	74,399,572	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total liabilities</b>	112,937,829	227,143	90,353,437	195,248
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	144,935,727		145,654,431	
Nonexpendable Restricted				
Scholarships		6,629,282		6,542,191
Endowed chairs		8,676,976		8,539,476
Other		7,649,842		7,712,253
Expendable Restricted				
Capital		19,906		57,348
Scholarships and fellowships	188,977	70,850	246,785	69,659
Research	106,303		83,114	
Instructional department use	130,227		115,907	
Loans	17,322		28,462	
Other	437,468	3,838,753	379,329	4,329,614
Unrestricted	19,973,565	2,055,875	18,765,704	1,845,915
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total net assets</b>	\$ 165,789,589	\$ 28,941,484	\$ 165,273,732	\$ 29,096,456

See notes to financial statements.

**SAGINAW VALLEY STATE UNIVERSITY**

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

	For the year ended June 30, 2005		For the year ended June 30, 2004	
	SVSU	Component Unit SVSU Foundation	SVSU	Component Unit SVSU Foundation
<b>REVENUES</b>				
Operating revenues				
Student tuition and fees	\$ 43,013,426		\$ 39,731,351	
Less: Scholarship allowances	(6,163,310)		(5,539,581)	
	<u>36,850,116</u>		<u>34,191,770</u>	
Federal grants and contracts	8,141,545		9,489,984	
State and local grants and contracts	886,035		830,475	
Gifts		\$ 1,288,734		\$ 1,674,717
Sales and services of educational departments	2,503,847		2,334,049	
Auxiliary enterprises	11,940,650		10,627,916	
Less: Scholarship allowances	(1,243,280)		(1,074,580)	
	<u>10,697,370</u>		<u>9,553,336</u>	
Other operating revenues	1,375,393		1,277,676	
	<u>60,454,306</u>	<u>1,288,734</u>	<u>57,677,290</u>	<u>1,674,717</u>
Total operating revenues				
<b>EXPENSES</b>				
Operating expenses				
Educational and general				
Instruction	29,711,014		27,663,238	
Research	562,510		501,270	
Public service	1,617,487		1,537,369	
Academic support	9,693,755		10,242,812	
Student services	4,007,272		4,119,866	
Institutional support	9,209,735	677,179	8,989,983	626,164
Operations and maintenance of plant	8,564,166		7,977,989	
Depreciation	10,018,513		8,652,316	
Student aid	5,130,472		4,720,917	
Auxiliary enterprises	8,423,359		7,487,319	
	<u>86,938,283</u>	<u>677,179</u>	<u>81,893,079</u>	<u>626,164</u>
Total operating expenses				
Operating income (loss)	(26,483,977)	611,555	(24,215,789)	1,048,553
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	25,933,700		26,140,200	
Gifts	1,362,867	(1,362,867)	984,589	(984,589)
Investment income, net	936,702	1,597,526	348,137	3,100,563
Interest on capital asset-related debt	(3,453,822)		(2,777,314)	
Net nonoperating revenues (expenses)	<u>24,779,447</u>	<u>234,659</u>	<u>24,695,612</u>	<u>2,115,974</u>
Income (loss) before other revenues	(1,704,530)	846,214	479,823	3,164,527
Capital appropriations	950,050		6,369,981	
Additions to permanent endowments		269,151		534,473
Capital grants and gifts	1,270,337	(1,270,337)	1,843,404	(1,843,404)
Total other revenues (expenses)	<u>2,220,387</u>	<u>(1,001,186)</u>	<u>8,213,385</u>	<u>(1,308,931)</u>
Increase (decrease) in net assets	515,857	(154,972)	8,693,208	1,855,596
Net assets - beginning of year	165,273,732	29,096,456	156,580,524	27,240,860
Net assets - end of year	<u>\$ 165,789,589</u>	<u>\$ 28,941,484</u>	<u>\$ 165,273,732</u>	<u>\$ 29,096,456</u>

See notes to financial statements.

**SAGINAW VALLEY STATE UNIVERSITY**

**STATEMENTS OF CASH FLOWS**

	<b>For the years ended June 30,</b>	
	<u>2005</u>	<u>2004</u>
<b>Cash Flows from Operating Activities</b>		
Student tuition and fees	\$ 37,096,558	\$ 34,643,541
Grants and contracts	9,660,042	10,360,040
Payments to suppliers	(15,089,280)	(13,936,225)
Payments for utilities	(2,388,974)	(2,367,172)
Payments to employees	(40,513,295)	(39,330,051)
Payments for benefits	(12,234,185)	(11,754,418)
Payments for scholarships and fellowships	(5,758,255)	(4,992,897)
Federal share of Perkins loans	(68,431)	(30,886)
Collection of loans to students	42,368	12,813
Auxiliary enterprises charges	10,598,507	9,343,588
Sales and services	2,324,773	2,326,008
Other receipts	1,375,393	1,277,676
<b>Net cash used by operating activities</b>	<u>(14,954,779)</u>	<u>(14,447,983)</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
State appropriations	26,703,976	25,530,322
Federal Direct Lending receipts	26,330,186	22,422,512
Federal Direct Lending disbursements	(26,330,186)	(22,422,512)
Gifts	1,051,191	1,201,841
<b>Net cash provided by noncapital financing activities</b>	<u>27,755,167</u>	<u>26,732,163</u>
<b>Cash Flows from Capital Financing Activities</b>		
Capital appropriations	1,042,482	11,293,808
Capital grants and gifts received	1,270,337	1,843,404
Principal paid on capital debt	(23,155,000)	(1,325,000)
Proceeds from capital debt	43,000,000	
Interest paid on capital debt and related costs	(5,837,237)	(3,265,326)
Purchase of capital assets	(13,641,702)	(20,530,131)
<b>Net cash provided (used) by capital financing activities</b>	<u>2,678,880</u>	<u>(11,983,245)</u>
<b>Cash Flows from Investing Activities</b>		
Interest on investments	751,636	216,295
Proceeds from sale and maturities of investments		2,000,000
<b>Net cash provided by investing activities</b>	<u>751,636</u>	<u>2,216,295</u>
<b>Net increase in cash and cash equivalents</b>	16,230,904	2,517,230
Cash and cash equivalents - beginning of the year	16,078,205	13,560,975
Cash and cash equivalents - end of year	<u>\$ 32,309,109</u>	<u>\$ 16,078,205</u>

See notes to financial statements.

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

	<b>For the years ended June 30,</b>	
	2005	2004
<b>Reconciliation of operating loss to net cash used by operating activities</b>		
<b>Operating loss</b>	\$ (26,483,977)	\$ (24,215,789)
<b>Adjustments to reconcile operating loss to net cash used by operating activities:</b>		
Depreciation	10,018,513	8,652,316
Changes in assets and liabilities:		
Accounts receivable, net	(478,620)	(987,559)
Inventories and prepaid expenses	(30,763)	34,755
Notes receivable, net	42,368	12,813
Accounts payable and accrued liabilities	472,893	765,287
Deferred revenues	175,627	311,219
Deposits	903,960	949,903
Compensated absences	493,651	59,958
Student loan - federal	(68,431)	(30,886)
<b>Net cash used by operating activities</b>	<b>\$ (14,954,779)</b>	<b>\$ (14,447,983)</b>

*See notes to financial statements.*

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

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's 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 2004 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 AND INVESTMENTS–UNIVERSITY

The University utilizes the “pooled cash” method of accounting for substantially all of its cash and cash equivalents in order to maximize investment return. The investment policy for pooled cash, approved by the Board of Control, divides cash for purposes of investment into three asset groups: short-term pool, intermediate-term pool and long-term pool. The University did not have funds in the Intermediate-term pool as of June 30, 2005 or 2004.

Credit Risk

The University’s investment policy requires that investments shall be in marketable securities of the following types and with the noted credit ratings:

1. Debt securities which are rated Aaa, Aa, A or Baa by Moody's Investors Service, Inc. or AAA, AA, A or BBB by Standard & Poor's Corporation.
2. Obligations of, or guaranteed by, the United States of America, its agencies or instrumentalities.
3. Obligations of, or guaranteed by, national or state banks or bank holding companies, which obligations, although not rated as a matter of policy by either Moody's Investors Service, Inc., or Standard & Poor's Corporation are rated AAA, AA or A by Fitch Investors Service, Inc.
4. Commercial paper rated Prime-1, Prime-2 or Prime-3 by Moody's Investors Service, Inc.
5. Bankers' acceptances or negotiable certificates of deposit issued by banks and rated AAA, AA or A by Fitch Investors Service, Inc.
6. Repurchase agreements secured by securities qualifying under clauses (1) through (5) above.
7. Commingled funds may be used if they are in compliance with the above guidelines.

Investments in short-term investment pool funds are restricted to U.S. Treasury and government agency securities and high quality corporate securities and commercial and bank paper.

Investments in intermediate-term investment pool funds are restricted to securities which are rated A or better at the time of purchase. At least two-thirds of the holdings of a fund will be in U.S. Government obligations, government agency securities and corporate securities rated AAA.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE B – CASH AND CASH EQUIVALENTS AND INVESTMENTS—UNIVERSITY  
(continued)

Interest Rate Risk

As a means of managing its exposure to fair value losses arising from increasing interest rates, the University's investment policy limits the average weighted maturity for a short-term portfolio to between one day and one year and the average weighted maturity for the intermediate-term portfolio to between one year and three years. Permanent core cash may be invested in the Commonfund's Absolute Return Fund or a similar fund offered by other financial institutions.

The following table summarizes the components of the University's cash and cash equivalents and investments at June 30, 2005 and 2004:

Investment Type	Rating	Fair Market Value	
		2005	2004
<b>Deposits:</b>			
Standard Federal Bank – Public Funds	Moody's Aaa Standard & Poor's AAA	\$ 3,042,636	\$ 5,016,423
Commonfund–Short Term Fund	Average Quality of investments: AAA	27,975,816	10,264,165
<b>Investments:</b>			
Mutual Funds – Commonfund Absolute Return Fund		4,040,610	3,855,544
		<u>35,059,062</u>	<u>19,136,132</u>
Less Investments Reported as “Cash and Cash Equivalents” on Statement of Net Assets		<u>(31,018,452)</u>	<u>(15,280,588)</u>
<b>Total Investments</b>		<u><b>\$ 4,040,610</b></u>	<u><b>\$ 3,855,544</b></u>
<b>As reported on the Statement of Net Assets</b>			
Noncurrent Investments		<u>\$ 4,040,610</u>	<u>\$ 3,855,544</u>
<b>Total Investments</b>		<u><b>\$ 4,040,610</b></u>	<u><b>\$ 3,855,544</b></u>
Investments Reported as Cash and Cash Equivalents		<u>\$ 31,018,452</u>	<u>\$ 15,280,588</u>
Cash		<u>1,290,657</u>	<u>797,617</u>
<b>Total Cash and Cash Equivalents</b>		<u><b>\$ 32,309,109</b></u>	<u><b>\$ 16,078,205</b></u>

The effective duration of investments in the Commonfund Short Term Fund is 2.58 years.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE B – CASH AND CASH EQUIVALENTS AND INVESTMENTS–UNIVERSITY

(continued)

Concentration of Credit Risk

The University's investment policy does not specifically address concentrations of credit risk. Cash and cash equivalents consist primarily of funds invested with either a bank short-term investment pool or the Commonfund Short Term Fund. The yield was 2.28% for 2005 and 1.07% for 2004. The University's noncurrent investments consisted of investment in the Commonfund Absolute Return Fund.

Foreign Currency Risk

The University did not have holdings in foreign investments as of June 30, 2005 or 2004.

Custodial Credit Risk

For deposits custodial credit risk is present if the deposits are not covered by depository insurance and 1) uncollateralized; 2) collateralized with securities held by the pledging financial institution; or 3) collateralized with securities held by the pledging financial institution's trust department or agent in the University's name. Cash and cash equivalents as reflected in the accounts of the investment institutions at June 30, 2005 were \$32,266,876. Of that balance \$32,126,295 was uninsured and uncollateralized. Cash and cash equivalents as reflected in the accounts of the investment institutions at June 30, 2004 were \$16,255,601. Of that balance \$16,076,980 was uninsured and uncollateralized.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The University has no custodial credit risk in its investments as of June 30, 2005 or 2004.

NOTE C – INVESTMENTS–SVSU FOUNDATION

The primary objective of the Foundation's investment policy, approved by the Foundation Board, is to increase the purchasing power of the Foundation's assets after inflation while maintaining a distribution policy as established by the Foundation Board. The secondary objective is to consistently earn a high, long-term, total rate of return without undue risk exposure or volatility.

Credit Risk

The Foundation's investment policy does not specifically address credit risk.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE C – INVESTMENTS–SVSU FOUNDATION  
(continued)

Interest Rate Risk

The Foundation’s investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The following table summarizes the components of the Foundation’s investments at June 30, 2005 and 2004:

Investment Type	Rating	Fair Market Value	
		2005	2004
Investments:			
Commonfund Short Term Fund	Average Quality of Investments: AAA	\$ 639,288	\$ 979,847
Commonfund Intermediate Term Fund	Average Quality of Investments: AA+	4,035,130	3,917,186
		<u>4,674,418</u>	<u>4,897,033</u>
Equities	N/A	16,015,639	15,638,951
Mutual fund – equities	N/A	333,375	110,661
Mutual fund – International equities	N/A	1,464,036	1,312,044
Partnerships	N/A	143,753	163,610
Cash and cash equivalents	N/A	506,648	
		<u>23,137,869</u>	<u>22,122,299</u>
Less Investments Reported as “cash and cash equivalents, restricted” on Statement of Net Assets		(506,648)	
Total investments		<u>\$22,631,221</u>	<u>\$22,122,299</u>
<b>As reported on the Statement of Net Assets</b>			
Short-term investments		\$ 12,568	\$ 7,664
Endowment investments		22,618,653	22,114,635
		<u>\$22,631,221</u>	<u>\$22,122,299</u>

The effective duration of investments in the Commonfund Short Term Fund is 2.58 years. The weighted average life of investments in the Commonfund Intermediate Term Fund is 2.8 years and the effective duration is 1.2 years.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE C – INVESTMENTS–SVSU FOUNDATION

(continued)

Concentration of Credit Risk

The Foundation recognizes that, over the long term, equity investments provide the best opportunity to achieve the objectives and goals of the Endowment Fund. However, a degree of diversification in other forms of investments is prudent. To accomplish the endowment investment objectives, investment managers are authorized to utilize portfolios of equity securities, fixed-income securities, and short-term investments (cash).

The Finance & Investment Committee shall maintain the total portfolio within the following ranges:

	<u>Minimum</u>	<u>Maximum</u>
Equities	50%	85%
Bonds	10%	35%
Alternative investments		10%
Cash/Short-term Investments		15%

Non-liquid investments are permissible with specific Board approval. Hedging and other investment techniques are allowable only upon prior authorization of the Finance & Investment Committee. The assets shall be rebalanced within these ranges at a minimum of once per year or as deemed necessary by the Finance & Investment Committee.

Foreign Currency Risk

The Foundation investment policy states that foreign denominated investments should not exceed 25% of the portfolio. The Foundation's holdings in foreign investments were made in mutual funds as noted above. In addition, the Foundation had \$341,646 in foreign equities at June 30, 2004.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

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,	
	2005	2004
Tuition and fees	\$ 594,103	\$ 702,625
Auxiliary enterprises	777,122	804,225
Contracts and grants	704,470	1,246,483
Sales and services	457,101	247,818
State Building Authority	550,049	642,481
Agency accounts	91,083	54,501
Allowance for uncollectible accounts	(789,302)	(782,528)
Total accounts receivable	\$2,384,626	\$2,915,605

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, 2005 and 2004. 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, 2005 was returned in July, 2005.

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 \$4,546,262 at June 30, 2005 and \$5,316,538 at June 30, 2004. Charter schools appropriations receivable were recorded at June 30, 2005 of \$8,640,255 and at June 30, 2004 of \$7,638,412. The University has recorded a corresponding amount due to the charter schools. The University received \$47,953,225 of State appropriations to be forwarded to eighteen (18) charter schools for fiscal 2005 and \$43,263,417 for fiscal 2004.

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, 2005 and 2004 are listed below in the table:

	June 30,	
	2005	2004
Pledges receivable	\$2,178,723	\$3,447,328
Less: allowance for uncollectible pledges	162,641	267,709
Less: discount to reflect promise to give at fair value	106,839	185,133
	1,909,243	2,994,486
Interest in trusts held by others	2,851,059	2,858,083
Accrued interest	7,034	3,545
Due from SVSU		227,000
Total Foundation accounts receivable	\$4,767,336	\$6,083,114

NOTE E – CAPITAL ASSETS

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

Asset Classification	Balance at June 30, 2004	Additions	Retirements	Balance at June 30, 2005
Land	\$ 1,776,895	\$ 137,143		\$ 1,914,038
Land improvements and infrastructure	16,047,468	2,445,082		18,492,550
Buildings	229,718,500	2,205,004	\$ (13,456)	231,910,048
Equipment	43,916,676	2,147,627	(262,530)	45,801,773
Library acquisitions	10,758,673	649,165	(1,968,832)	9,439,006
Construction in progress	3,036,191	9,685,175	(1,018,512)	11,702,854
Works of fine art	599,842			599,842
Accumulated depreciation:				
Land improvements and infrastructure	(7,967,938)	(697,837)		(8,665,775)
Buildings	(45,462,883)	(5,569,510)	6,505	(51,025,888)
Equipment	(25,378,302)	(3,244,806)	262,530	(28,360,578)
Library acquisitions	(8,038,244)	(506,360)	1,968,832	(6,575,772)
Total capital assets, net	\$219,006,878	\$ 7,250,683	\$(1,025,463)	\$225,232,098

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,	
	2005	2004
Compensation	\$2,608,162	\$2,237,410
Due to SVSU Foundation		227,000
Supplies and construction related expenditures	3,906,311	1,402,139
Total accounts payable and accrued liabilities	\$6,514,473	\$3,866,549

NOTE G – NOTES AND BONDS PAYABLE

The University issued General Revenue Bonds, Series 2005, in the amount of \$28,010,000 in April 2005 to fund various capital projects and to advance refund and defease a portion of the outstanding General Revenue Bonds, Series 1998, 1999 and 2001A. The University deposited noncallable, U.S. Government securities in an irrevocable trust with an escrow agent to advance refund and defease the bonds. The refunded bonds will be called for redemption on their respective first call date (July 1, 2008 for the 1998 bonds, July 1, 2009 for the 1999 bonds, and July 1, 2010 for the 2001A bonds). The refunded bonds were refunded in order to reduce the University's debt service.

The deferred amount on refunding is the difference between the reacquisition price (funds required to be deposited in escrow to refund the old bonds) and the net carrying amount of the old debt, calculated as follows:

Reacquisition price	\$19,832,228
Net carrying amount of old bonds	18,360,000
Deferred amount on refunding	\$ 1,472,228

The deferred amount on refunding will be amortized over the remaining life of the old bonds and represents a reduction to long-term debt.

The difference in the cash flow requirements of the portion of the Series 2005 General Revenue Bonds used to advance refund the old bonds and the advance refunded old bonds is a gain on refundings of \$880,569 (\$30,553,381 debt service of the new bonds versus \$31,433,950 the debt service requirements of the old bonds). The present value of the gain at 4.313%, the effective rate of the new bonds, is \$709,618.

The University issued General Revenue Bonds, Series 2004B, in the amount of \$3,165,000 in October 2004 to fund various capital projects.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE G – NOTES AND BONDS PAYABLE  
(continued)

The University issued General Revenue Bonds, Series 2004A, in the amount of \$11,825,000 in July 2004 to fund various capital projects and to refund and defease \$3,385,000 of the General Revenue Bonds, Series 1993. The refunded bonds were called for redemption on August 17, 2004. The refunded bonds were refunded to reduce the University's debt service.

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, 2005 was 2.85% plus a .25% broker fee. In December 2003, the University entered into 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 than 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 \$1,322,864 as of June 30, 2005, in favor of the counterparty. As of June 30, 2005, 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, 2005, 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.

The swap agreement uses the International Swaps and Derivatives Association, Inc. (ISDA) 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.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE G – NOTES AND BONDS PAYABLE  
(continued)

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, 2005, \$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 bonds were paid in full during fiscal 2005.

On June 10, 2005, the University entered into two interest rate swap agreements in connection with forward refunding of select General Revenue Bonds. The first swap agreement, in the total notional amount of \$13,800,000, relates to Series 2008 General Revenue Refunding Bonds. The second, in the total notional amount of \$8,300,000, relates to Series 2010 General Revenue Refunding Bonds. It is the University's intent to issue the 2008 bonds for current refunding of the then remaining outstanding General Revenue Bonds, Series 1998 and to issue the 2010 bonds for current refunding of the then remaining outstanding General Revenue Bonds, Series 2001A. The bonds will also cover issuance costs.

The swap agreements were entered into to take advantage of the favorable rate market. Under the swap agreements, the University would pay the counterparty a fixed payment equal to the fixed rate of 3.57% for the 2008 bonds and 3.655% for the 2010 bonds. The University would receive a variable payment from the counterparty at the floating rate. The floating rate would be calculated at 73% of USD-LIBOR-BBA. These swap agreements are subject to the ISDA Master Agreement between the University and the Counterparty.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE G – NOTES AND BONDS PAYABLE  
(continued)

The counterparty has estimated the mark-to-market value of the swaps to be \$237,171 and \$150,722, respectively, as of June 30, 2005, in favor of the counterparty.

Notes and bonds payable consist of the following:

	Interest Rates	Maturity	Outstanding Balance June 30,	
			2005	2004
General revenue bonds, series 2005	3.00%–4.50%	2006–2035	\$28,010,000	
General revenue bonds, series 2004B	3.50%–4.625%	2014–2034	3,165,000	
General revenue bonds, series 2004A	3.00%–5.00%	2005–2034	11,795,000	
General revenue bonds, series 2001B	SAVRS 3.635%	2017–2032	24,400,000	\$24,400,000
General revenue bonds, series 2001A	4.50%–5.50%	2005–2030	9,765,000	15,000,000
General revenue bonds, series 1999	4.75%–5.63%	2005–2029	730,000	8,020,000
General revenue bonds, series 1998	4.35%–5.30%	2005–2028	15,790,000	22,830,000
General revenue bonds, series 1996	5.05%–5.25%	2005–2006	50,000	95,000
General revenue bonds, series 1993	5.05%–5.55%	2005		3,515,000
<b>Total</b>			<b>\$93,705,000</b>	<b>\$73,860,000</b>

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE G – NOTES AND BONDS PAYABLE  
(continued)

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
2006	\$ 1,830,000	\$ 3,937,975	\$ 191,540	\$ 5,959,515
2007	2,070,000	3,862,275	191,540	6,123,815
2008	2,150,000	3,779,085	191,540	6,120,625
2009	2,235,000	3,688,843	191,540	6,115,383
2010	2,335,000	3,593,905	191,540	6,120,445
2011–2015	11,925,000	16,560,708	670,390	29,156,098
2016–2020	15,930,000	13,733,145		29,663,145
2021–2025	19,820,000	9,953,705		29,773,705
2026–2030	25,570,000	5,075,281		30,645,281
2031–2035	9,840,000	801,119		10,641,119
	<u>\$93,705,000</u>	<u>\$64,986,041</u>	<u>\$1,628,090</u>	<u>\$160,319,131</u>
Less: Deferred amount on refunding, net	(1,413,339)			
Total	<u>\$92,291,661</u>			

The University has a \$3,500,000 line of credit at 80% of the bank prime rate for interim financing of cash flow deficits. No amounts were outstanding at June 30, 2005 or 2004. The University has a \$200,000 letter of credit, effective through August 31, 2006, 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, 2005. The line of credit and letter of credit are secured by general revenues.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE H – LONG-TERM LIABILITIES

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

	Balance at June 30, 2004	Additions	Reductions	Balance at June 30, 2005	Current Portion
Notes and bonds payable:					
General revenue bonds	\$73,860,000	\$43,000,000	\$23,155,000	<b>\$93,705,000</b>	\$1,830,000
Deferred amount on refunding		(1,472,228)	(58,889)	<b>(1,413,339)</b>	(58,889)
Other long-term liabilities:					
Compensated absences	1,916,637	493,651		<b>2,410,288</b>	100,000
Student loan – federal	169,935	12,828	81,259	<b>101,504</b>	35,100
Total other liabilities	<u>2,086,572</u>	<u>506,479</u>	<u>81,259</u>	<b><u>2,511,792</u></b>	<u>135,100</u>
Total long-term liabilities	<u><b>\$75,946,572</b></u>	<u><b>\$42,034,251</b></u>	<u><b>\$23,177,370</b></u>	<b><u>\$94,803,453</u></b>	<u><b>\$1,906,211</b></u>

As of June 30, 2005 and 2004, employees had earned but not taken annual vacation leave of approximately \$1,944,000 and \$1,532,000, respectively. The University has a commitment for accumulated sick leave of approximately \$466,000 as of June 30, 2005 and \$385,000 as of June 30, 2004. These amounts are reflected above as liabilities for compensated absences.

NOTE I – UNRESTRICTED NET ASSETS

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

	June 30,	
	2005	2004
Capital projects and repair reserves	<b>\$11,200,751</b>	\$11,188,929
Auxiliary enterprises	<b>1,411,903</b>	1,444,479
Designated for departmental use	<b>5,990,205</b>	4,899,634
Amount obligated by contractual commitments	<b>285,748</b>	77,182
Undesignated	<b>1,084,958</b>	1,155,480
Total unrestricted net assets	<u><b>\$19,973,565</b></u>	<u><b>\$18,765,704</b></u>

NOTE J – COMMITMENTS AND CONTINGENCIES

The amount of funding required to complete construction in progress will come from the General Revenue Bond proceeds, institutional resources, gifts and capital appropriations from the State of Michigan. Costs to complete construction in progress approximate \$25,200,000.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE J – COMMITMENTS AND CONTINGENCIES  
(continued)

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 Science East and West Buildings, Zahn Library, West Complex, the Regional Education Center and Pioneer Hall renovations. 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.

The University provided approximately \$677,000 of administrative support to the Foundation during fiscal 2005 and \$615,000 of support during fiscal 2004. The Foundation transferred \$ 2,633,204 to the University during fiscal 2005 and \$2,827,993 during fiscal 2004. 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.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE K – SUPPORT ORGANIZATIONS  
(continued)

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.

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, 2005 and 2004 approximated \$4,230,000 and \$3,993,000, respectively, with annual covered payroll for participants of the plan approximating \$35,200,000 in 2005 and \$34,888,000 in 2004. 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, 2005:

Function	Salary & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Total
Instruction	\$20,842,001	\$ 6,665,561	\$ 529,301		\$ 1,674,151		\$29,711,014
Research	326,459	85,967	1,966		148,118		562,510
Public service	476,582	133,959	1,100		1,005,846		1,617,487
Academic support	5,611,204	1,743,713	302,690		2,036,148		9,693,755
Student services	2,333,181	750,233	6,520		917,338		4,007,272
Institutional support	4,902,027	1,394,716			2,912,992		9,209,735
Operations and maintenance of plant	3,336,753	1,264,169		\$1,856,290	2,106,954		8,564,166
Depreciation						\$10,018,513	10,018,513
Student aid	361,901		4,755,348		13,223		5,130,472
Auxiliary enterprises	2,621,086	762,371	161,330	532,684	4,345,888		8,423,359
<b>Total</b>	<b>\$40,811,194</b>	<b>\$12,800,689</b>	<b>\$5,758,255</b>	<b>\$2,388,974</b>	<b>\$15,160,658</b>	<b>\$10,018,513</b>	<b>\$86,938,283</b>

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>

Saginaw Valley State University  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2005

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	\$ 185,741
Federal Work-Study Program	84.033	E-P033A022069	273,837
Federal Pell Grant Program (Note 3)	84.063	E-P063P020238	5,445,152
Loans and Loan Guarantees-Federal Direct Loan Program (Note 2)	84.268	**	26,330,186
Total Student Financial Assistance			32,234,916
Direct Programs:			
Strengthening Institutions	84.031A	P031A000143	3,674
Strengthening Institutions	84.031A	P031A000143	178,687
REC Congressional Award	84.116Z	P116Z030181	5,106
Career Ladder	84.195E	T195E010004	7,372
Career Ladder	84.195E	T195E010004	53,297
Career Ladder	84.195E	T195E010004	196,062
Career Ladder	84.195E	T195E010004	100,000
Business & International Education (BIE) Grant	84.153A	P153A020028	32,843
Improving Teacher Quality	84.336B	P336B99044-03	467,084
Transition to Teaching	84.350A	S350A020089	157,688
Transition to Teaching	84.350A	S350A020089	219,393
Transition to Teaching	84.350A	S350A020089	104,697
Total Direct Programs			1,525,903
Passed Through State of Michigan-Department of Community Health:			
Talented Tenth Teen Summer Institute 2004	84.186A	20041955	49,225
Passed Through Michigan Department of Education:			
Improving Math Teacher Quality	84.367B	030290-914	641
Improving Math Teacher Quality	84.367B	040290-108	94,864
Improving Science Teacher Quality	84.367B	030290-922	4,428
Improving Science Teacher Quality	84.367B	040290-215	88,815
Improving Math Teacher Quality	84.367	050290-0405	64,368
Improving Science Teacher Quality	84.367	050290-407	70,507
Math & Science Partnership	84.366	052410-MSPF2004	67,867
Total Passed Through Michigan Department of Education			391,490
Passed Through University of California:			
Saginaw Valley National Writing Project	84.928A	94-MI05	5,434
Saginaw Valley National Writing Project	84.928A	94-MI05	15,643
Total Passed Through University of California			21,077
<u>National Institute of Standards and Technology</u>			
Passed Through Industrial Technology Institute:			
SVMA/MMTC (Note 4)	11.611	70NANB5H0059	34,400
SVMA/MMTC (Note 4)	11.611	70NANB5H0059	19,626
SVMA/MMTC (Note 4)	11.611	70NANB5H0059	104,629
Total Passed Through Industrial Technology Institute			158,655

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	\$ 1,590
Passed Through Saginaw County Juvenile Center Juvenile Accountability Block Grant	16.523	73001-C-04	37,195
Juvenile Accountability Block Grant	16.523	73001-C-04	6,595
Total Passed Through Saginaw Country Juvenile Center			<u>43,790</u>
<u>Michigan Department of Labor &amp; Economic Growth - (WIA)</u>			
Passed Through Michigan Works!:			
Michigan Works!-Danti Tool	*	67444-96773-04	2,299
Michigan Works!-Acra Cast Inc.	*	67444-96773-04	2,878
Michigan Works!-Linear Motion Systems	*	67444-96773-04	99
Total Passed Through Michigan Works!			<u>5,276</u>
<u>National Aeronautics and Space Administration</u>			
Passed Through University of Michigan:			
Michigan Space Grant	43.002	NGT-40007	918
NoX Reduction by Ceria in Catalytic Converters	43.UNKNOWN	**	2,500
Development of New Equipment for Surface Analysis	43.UNKNOWN	**	792
Hardware/Software Co-Design for Fractal Image	43.UNKNOWN	**	5,000
Data Mining from Different Perspectives	43.UNKNOWN	**	2,500
Total Passed Through University of Michigan			<u>11,710</u>
<u>U.S. Department of Health and Human Services - HRSA</u>			
Direct Programs:			
Advanced Education Nursing Traineeships	93.358	2 A10 HP 00097 03	289
Total Expenditures of Federal Awards			<u><u>\$34,443,921</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, 2005

- 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, 2005, Direct Student Loans totaled \$26,330,186 (\$12,346,677 subsidized, \$12,628,391 unsubsidized, and \$1,355,118 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, 2005. The University will process amendments subsequent to year end to finalize the 2004-2005 award year. Amounts reported do not include an administrative cost allowance of \$10,910.
- Note 4:** The grant expenditures disclosed include both the federal portion (58%) and State of Michigan portion (42%) 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 \$96,227 in loans outstanding as of June 30, 2005. 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, 2005 was returned in July 2005.

The University utilizes the services of Campus Partners to administer the repayment of Perkins loans and perform certain due diligence procedures. The most recent available report on Campus Partners'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, 2005, and have issued our report thereon dated August 25, 2005. 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 25, 2005



**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, 2005. 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, 2005.

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 Campus Partners. Campus Partners'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 Campus Partners 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 Campus Partners. 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 Campus Partners.

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 & Pavlik P.L.C.*

Saginaw, Michigan  
August 25, 2005

Saginaw Valley State University  
 Schedule of Findings and Questioned Costs  
 Year ended June 30, 2005

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
84.195E	U.S. Department of Education: Career Ladder
84.350A	Transition to Teaching

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, 2005

No matters were reported.