

OMB Circular A-133
Reporting Package

Saginaw Valley State University

Year ended June 30, 2006

Saginaw Valley State University

OMB Circular A-133
Reporting Package

Year ended June 30, 2006

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Audited Financial Statements and
Other Financial Information

Saginaw Valley State University

*Years ended June 30, 2006 and 2005
with Report of Independent Auditors*

Saginaw Valley State University

Audited Financial Statements
and Other Financial Information

Years ended June 30, 2006 and 2005

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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 1.3% from June 30, 2005 to June 30, 2006 and .3% from June 30, 2004 to June 30, 2005.
- Operating revenues increased in fiscal 2006 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 3.5% from Fall 2004 to Fall 2005, and 5.5% from Fall 2003 to Fall 2004.
- Headcount enrollment increased from 9,168 in Fall 2003 to 9,448 in Fall 2004 and 9,569 in Fall 2005. Credit hours increased from 216,378 in 2004 to 223,360 in 2005 and 227,356 in 2006.

FINANCIAL STATEMENT SUMMARIES

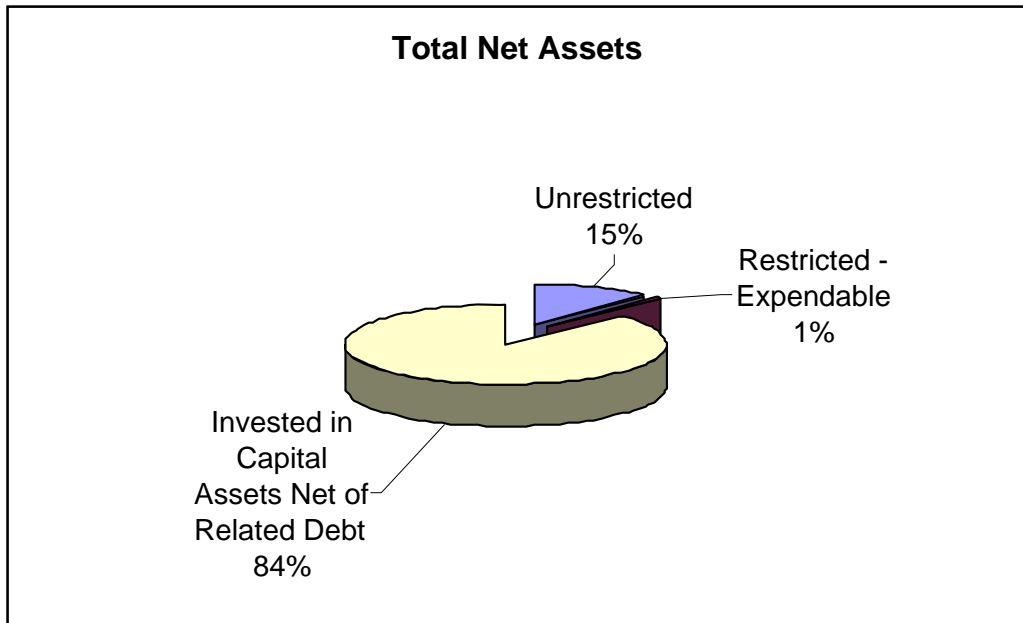
Net assets are summarized in the table below.

Statements of Net Assets			
June 30, 2006, 2005 and 2004			
(in thousands of dollars)			
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Assets			
Current Assets	\$ 43,721	\$ 49,402	\$ 32,684
Noncurrent Assets:			
Other	4,508	4,093	3,936
Capital	<u>229,511</u>	<u>225,232</u>	<u>219,007</u>
Total Assets	<u>277,740</u>	<u>278,727</u>	<u>255,627</u>
Liabilities			
Current Liabilities	18,647	20,040	15,954
Noncurrent Liabilities	<u>91,084</u>	<u>92,897</u>	<u>74,399</u>
Total Liabilities	109,731	112,937	90,353
Net Assets			
Invested in Capital Assets, Net of Related Debt	141,937	144,936	145,654
Restricted – Expendable	1,069	880	854
Unrestricted	<u>25,003</u>	<u>19,974</u>	<u>18,766</u>
Total Net Assets	<u><u>\$168,009</u></u>	<u><u>\$165,790</u></u>	<u><u>\$165,274</u></u>

**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 in excess of 80% of the University's total assets. Notes and bonds payable totaled \$90.5 million at June 30, 2006. This represents 82.5% 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 Federal 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, 2006. The following summarizes the internal designations of the unrestricted net assets:

	Unrestricted Net Assets		
	June 30, 2006, 2005 and 2004		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Capital projects and repair reserves	\$15,192,766	\$11,200,751	\$11,188,929
Auxiliary enterprises	1,386,375	1,411,903	1,444,479
Designated for departmental use	6,965,010	5,990,205	4,899,634
Amount obligated by contractual commitments	141,683	285,748	77,182
Undesignated	1,317,197	1,084,958	1,155,480
Total unrestricted net assets	<u>\$25,003,031</u>	<u>\$19,973,565</u>	<u>\$18,765,704</u>

SAGINAW VALLEY STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

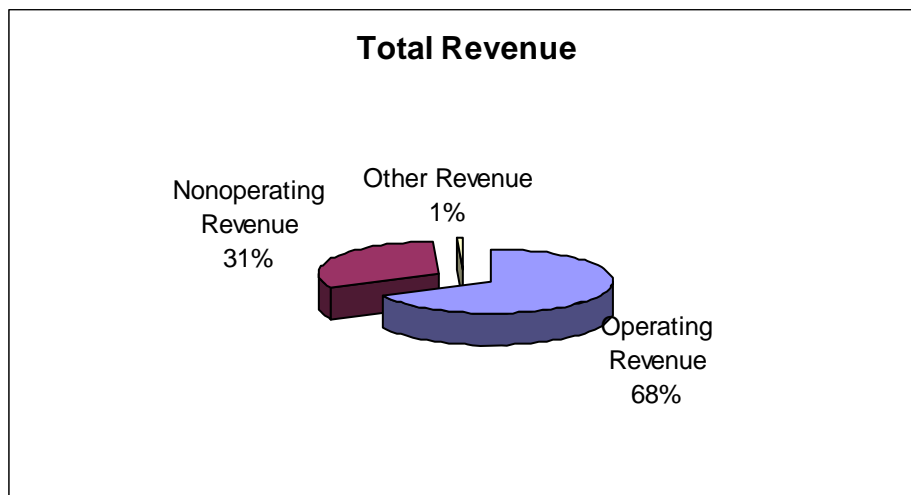
The following table summarizes revenues, expenses, and changes in net assets for the years ended June 30:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	(in thousands of dollars)		
Operating Revenues			
Student Tuition and Fees, net	\$40,435	\$36,850	\$34,192
Federal Grants and Contracts	8,428	8,142	9,490
State and Local Grants and Contracts	1,091	886	830
Sales & Services of Educational Departments	3,136	2,504	2,334
Auxiliary Enterprises, net	12,118	10,697	9,553
Other Operating Revenues	1,614	1,375	1,278
Total Operating Revenues	<u>66,822</u>	<u>60,454</u>	<u>57,677</u>
Operating Expenses	<u>92,427</u>	<u>86,938</u>	<u>81,893</u>
Operating Loss	(25,605)	(26,484)	(24,216)
Nonoperating Revenues (Expenses)			
State Appropriations	27,706	25,934	26,140
Gifts	1,661	1,363	985
Investment Income, net	1,686	937	348
Interest on Capital Asset-Related Debt	(4,021)	(3,454)	(2,777)
Net Nonoperating Revenues	<u>27,032</u>	<u>24,780</u>	<u>24,696</u>
Income (Loss) Before Other Revenues	1,427	(1,704)	480
Capital Appropriations	-	950	6,370
Capital Grants and Gifts	792	1,270	1,843
Total Other Revenues	<u>792</u>	<u>2,220</u>	<u>8,213</u>
Increase in Net Assets	2,219	516	8,693
Net Assets at Beginning of Year	<u>165,790</u>	<u>165,274</u>	<u>156,581</u>
Net Assets at End of Year	<u>\$168,009</u>	<u>\$165,790</u>	<u>\$165,274</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. However, the annual state appropriation for fiscal 2006 did increase 6.8% to \$27.7 million. 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 for the years ended June 30:

	2006	2005	2004
	(in thousands of dollars)		
Cash provided (used) by:			
Operating Activities	(\$17,510)	(\$14,955)	(\$14,448)
Noncapital Financing Activities	28,709	27,755	26,732
Capital Financing Activities	(21,217)	2,679	(11,983)
Investing Activities	1,251	752	2,216
Net Increase (Decrease)	(8,767)	16,231	2,517
Cash and Cash Equivalents at Beginning of Year	32,309	16,078	13,561
Cash and Cash Equivalents at End of Year	\$23,542	\$32,309	\$16,078

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

OPERATING EXPENSES

The University reports expenditures on a functional basis. Operating expenses were \$92,427,312 in fiscal 2006, an increase of 6.3% over the prior year. The following summarizes operating expenses for the years ended June 30:

	2006	2005	2004
	(in thousands of dollars)		
Educational and General			
Instruction	\$31,279	\$29,711	\$27,663
Research	700	563	501
Public Service	1,906	1,617	1,538
Academic Support	10,537	9,694	10,243
Student Services	4,427	4,007	4,120
Institutional Support	10,010	9,210	8,990
Operations and Maintenance of Plant	8,733	8,564	7,978
Depreciation	10,468	10,019	8,652
Student Aid	4,974	5,130	4,721
Auxiliary Enterprises	9,393	8,423	7,487
 Total Operating Expenses	 \$92,427	 \$86,938	 \$81,893

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. Fiscal 2006 expenditures for capital projects approximated \$14.7 million. These capital projects were funded by a combination of bonds issued by the Michigan State Building Authority (SBA), University general revenue 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.

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.

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

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 \$911,000 of administrative support to the Foundation during fiscal 2006. 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 \$2,454,342 in fiscal 2006. The net assets of the Foundation were as follows as of June 30, 2006:

Nonexpendable restricted	\$30,638,820
Expendable restricted	4,132,405
Unrestricted	2,307,607
	<u>\$37,078,832</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, 2006 and 2005 and Saginaw Valley State University Foundation, a discretely presented component unit of the University, as of and for the years ended June 30, 2006 and 2005. 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, 2006 and 2005, and the changes in their 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 24, 2006 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* 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 basic 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 State 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 24, 2006

SAGINAW VALLEY STATE UNIVERSITY

STATEMENTS OF NET ASSETS

	June 30, 2006		June 30, 2005	
	SVSU	Component Unit SVSU Foundation	SVSU	Component Unit SVSU Foundation
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 23,541,574	\$ 1,543,676	\$ 32,309,109	\$ 1,263,422
Short-term investments		6,510		12,568
Accounts receivable, net	3,490,555	3,923,215	2,384,626	1,523,296
State appropriations receivable - operations	5,122,327		4,546,262	
State appropriations receivable - charter schools	10,084,696		8,640,255	
Inventories and prepaid expenses	1,465,895		1,496,231	
Notes receivable, net	16,036		25,815	
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Total current assets	43,721,083	5,473,401	49,402,298	2,799,286
Noncurrent Assets				
Cash and cash equivalents, restricted		1,457,187		506,648
Notes receivable, net	32,072		52,412	
Accounts receivable, net		6,695,135		3,244,040
Endowment investments		23,867,990		22,618,653
Other long-term investments	4,475,858		4,040,610	
Capital assets, net	229,511,435		225,232,098	
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Total noncurrent assets	234,019,365	32,020,312	229,325,120	26,369,341
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Total assets	277,740,448	37,493,713	278,727,418	29,168,627
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	3,291,705	414,881	6,514,473	227,143
Deferred revenues	4,293,681		3,646,303	
Deposits	8,921,207		7,973,600	
Long-term liabilities - current portion	2,140,004		1,906,211	
	<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities	18,646,597	414,881	20,040,587	227,143
Noncurrent Liabilities				
Long-term liabilities	91,084,415		92,897,242	
	<hr/>	<hr/>	<hr/>	<hr/>
Total noncurrent liabilities	91,084,415	-	92,897,242	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	109,731,012	414,881	112,937,829	227,143
NET ASSETS				
Invested in capital assets, net of related debt	141,937,427		144,935,727	
Nonexpendable Restricted				
Scholarships		9,047,721		6,629,282
Endowed chairs		11,647,537		8,676,976
Other		9,943,562		7,649,842
Expendable Restricted				
Capital		799,156		19,906
Scholarships and fellowships	367,683	326,942	188,977	70,850
Research	78,894		106,303	
Instructional department use	107,908		130,227	
Loans	10,403		17,322	
Other	504,090	3,006,307	437,468	3,838,753
Unrestricted	25,003,031	2,307,607	19,973,565	2,055,875
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Total net assets	\$ 168,009,436	\$ 37,078,832	\$ 165,789,589	\$ 28,941,484
	<hr/>	<hr/>	<hr/>	<hr/>

SAGINAW VALLEY STATE UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS

	<u>For the year ended June 30, 2006</u>		<u>For the year ended June 30, 2005</u>	
	<u>SVSU</u>	<u>Component Unit SVSU Foundation</u>	<u>SVSU</u>	<u>Component Unit SVSU Foundation</u>
REVENUES				
Operating revenues				
Student tuition and fees	\$ 47,151,649		\$ 43,013,426	
Less: Scholarship allowances	<u>(6,716,746)</u>		<u>(6,163,310)</u>	
	40,434,903		36,850,116	
Federal grants and contracts	8,428,262		8,141,545	
State and local grants and contracts	1,090,878		886,035	
Gifts		\$ 1,942,574		\$ 1,288,734
Sales and services of educational departments	3,135,998		2,503,847	
Auxiliary enterprises	13,546,841		11,940,650	
Less: Scholarship allowances	<u>(1,428,345)</u>		<u>(1,243,280)</u>	
	12,118,496		10,697,370	
Other operating revenues	<u>1,613,421</u>		<u>1,375,393</u>	
Total operating revenues	66,821,958	1,942,574	60,454,306	1,288,734
EXPENSES				
Operating expenses				
Educational and general				
Instruction	31,278,498		29,711,014	
Research	700,448		562,510	
Public service	1,905,624		1,617,487	
Academic support	10,537,364		9,693,755	
Student services	4,427,627		4,007,272	
Institutional support	10,009,721	911,234	9,209,735	677,179
Operations and maintenance of plant	8,732,718		8,564,166	
Depreciation	10,468,401		10,018,513	
Student aid	4,974,131		5,130,472	
Auxiliary enterprises	<u>9,392,780</u>		<u>8,423,359</u>	
Total operating expenses	<u>92,427,312</u>	<u>911,234</u>	<u>86,938,283</u>	<u>677,179</u>
Operating income (loss)	(25,605,354)	1,031,340	(26,483,977)	611,555
NONOPERATING REVENUES (EXPENSES)				
State appropriations	27,706,300		25,933,700	
Gifts	1,661,505	(1,661,505)	1,362,867	(1,362,867)
Investment income, net	1,685,814	1,877,630	936,702	1,597,526
Interest on capital asset-related debt	<u>(4,021,255)</u>		<u>(3,453,822)</u>	
Net nonoperating revenues (expenses)	<u>27,032,364</u>	<u>216,125</u>	<u>24,779,447</u>	<u>234,659</u>
Income (loss) before other revenues	1,427,010	1,247,465	(1,704,530)	846,214
Capital appropriations			950,050	
Additions to permanent endowments		7,682,720		269,151
Capital grants and gifts	<u>792,837</u>	<u>(792,837)</u>	<u>1,270,337</u>	<u>(1,270,337)</u>
Total other revenues (expenses)	<u>792,837</u>	<u>6,889,883</u>	<u>2,220,387</u>	<u>(1,001,186)</u>
Increase (decrease) in net assets	2,219,847	8,137,348	515,857	(154,972)
Net assets - beginning of year	165,789,589	28,941,484	165,273,732	29,096,456
Net assets - end of year	<u>\$ 168,009,436</u>	<u>\$ 37,078,832</u>	<u>\$ 165,789,589</u>	<u>\$ 28,941,484</u>

SAGINAW VALLEY STATE UNIVERSITY

STATEMENTS OF CASH FLOWS

	For the years ended June 30,	
	2006	2005
Cash Flows from Operating Activities		
Student tuition and fees	\$ 40,509,844	\$ 37,096,558
Grants and contracts	8,514,437	9,660,042
Payments to suppliers	(16,367,599)	(15,089,280)
Payments for utilities	(3,100,348)	(2,388,974)
Payments to employees	(46,412,096)	(40,513,295)
Payments for benefits	(11,657,633)	(12,234,185)
Payments for scholarships and fellowships	(5,371,604)	(5,758,255)
Federal share of Perkins loans	(30,663)	(68,431)
Collection of loans to students	30,119	42,368
Auxiliary enterprises charges	11,793,288	10,598,507
Sales and services	2,968,713	2,324,773
Other receipts	1,613,421	1,375,393
Net cash used by operating activities	(17,510,121)	(14,954,779)
Cash Flows from Noncapital Financing Activities		
State appropriations	27,130,235	26,703,976
Federal Direct Lending receipts	29,383,070	26,330,186
Federal Direct Lending disbursements	(29,383,070)	(26,330,186)
Gifts	1,578,326	1,051,191
Net cash provided by noncapital financing activities	28,708,561	27,755,167
Cash Flows from Capital Financing Activities		
Capital appropriations	550,049	1,042,482
Capital grants and gifts received	792,837	1,270,337
Principal paid on capital debt	(1,830,000)	(23,155,000)
Proceeds from capital debt		43,000,000
Interest paid on capital debt and related costs	(3,698,492)	(5,837,237)
Purchase of capital assets	(17,030,935)	(13,641,702)
Net cash provided (used) by capital financing activities	(21,216,541)	2,678,880
Cash Flows from Investing Activities		
Interest on investments	1,250,566	751,636
Net cash provided by investing activities	1,250,566	751,636
Net increase (decrease) in cash and cash equivalents	(8,767,535)	16,230,904
Cash and cash equivalents - beginning of the year	32,309,109	16,078,205
Cash and cash equivalents - end of year	<u>\$ 23,541,574</u>	<u>\$ 32,309,109</u>

SAGINAW VALLEY STATE UNIVERSITY
STATEMENTS OF CASH FLOWS - CONTINUED

	For the years ended June 30,	
	2006	2005
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	\$ (25,605,354)	\$ (26,483,977)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	10,468,401	10,018,513
Changes in assets and liabilities:		
Accounts receivable, net	(3,017,240)	(478,620)
Inventories and prepaid expenses	(8,538)	(30,763)
Notes receivable, net	30,119	42,368
Accounts payable and accrued liabilities	(1,164,571)	472,893
Deferred revenues	647,378	175,627
Deposits	947,607	903,960
Compensated absences	222,740	493,651
Student loan - federal	(30,663)	(68,431)
Net cash used by operating activities	\$ (17,510,121)	\$ (14,954,779)

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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)

Revenue Recognition – 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.

Accounts Receivable

Accounts receivable are stated at the outstanding principal balance adjusted for any charge-offs and the allowance for doubtful accounts.

The University determines the allowance for doubtful accounts based on an evaluation of accounts receivable, past and recent experience, current economic conditions, and other pertinent factors. The allowance for doubtful accounts is increased by the provision charged to expenses and reduced by charge-offs. The University considers receivables past due when they have not been paid within their contractual terms. The University charges off receivables when the receivable is deemed uncollectible.

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

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

(continued)

Institutional Physical Properties – Continued

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 2005 balances have been reclassified to conform to the current year presentation.

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, 2006 or 2005.

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 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 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 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, 2006 and 2005:

	<u>Rating</u>	<u>Fair Market Value</u>	
		<u>2006</u>	<u>2005</u>
<u>Investment Type</u>			
Deposits:			
Standard Federal Bank - Public Funds	Moody's Aaa		
	Standard & Poor's AAAM	\$ 2,740,637	\$ 3,042,636
Commonfund Short Term Fund	Average Quality of Fund Investments: AAA	22,582,374	27,975,816
Investments:			
Mutual Funds - Commonfund Absolute Return Fund	N/A	4,475,858	4,040,610
		\$ 29,798,869	\$ 35,059,062
Less Investments Reported as "Cash and Cash Equivalents" on Statement of Net Assets		(25,323,011)	(31,018,452)
Total Investments		<u>\$ 4,475,858</u>	<u>\$ 4,040,610</u>
<u>As reported on the Statement of Net Assets</u>			
Noncurrent Investments		\$ 4,475,858	\$ 4,040,610
Total Investments		<u>\$ 4,475,858</u>	<u>\$ 4,040,610</u>
Investments Reported as Cash and Cash Equivalents		\$ 25,323,011	\$ 31,018,452
Cash		(1,781,437)	1,290,657
Total Cash and Cash Equivalents		<u>\$ 23,541,574</u>	<u>\$ 32,309,109</u>

The effective duration of investments in the Commonfund Short Term Fund is 2.86 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 4.12% for 2006 and 2.28% for 2005. 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, 2006 or 2005.

Custodial Credit Risk

For deposits, custodial credit risk is present if the deposits are not covered by depository insurance and are 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, 2006 were \$25,592,837. Of that balance \$25,456,516 was uninsured and uncollateralized. Cash and cash equivalents as reflected in the accounts of the investment institutions at June 30, 2005 were \$33,329,723. Of that balance \$33,189,142 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, 2006 or 2005.

NOTE C – INVESTMENTS - 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.

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.

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE C – INVESTMENTS - FOUNDATION

(continued)

The following table summarizes the components of the Foundation's investments at June 30, 2006 and 2005:

<u>Investment Type</u>	<u>Rating</u>	<u>Fair Market Value</u>	
		<u>2006</u>	<u>2005</u>
Investments:			
Commonfund Short Term Fund	Average Quality of Investments: AAA	\$ 1,001,861	\$ 639,288
Commonfund Intermediate Term Fund	Average Quality of Investments: AA+	4,145,034	4,035,130
		<u>5,146,895</u>	<u>4,674,418</u>
Equities	N/A	16,425,392	16,015,639
Mutual fund – equities	N/A	334,910	333,375
Mutual fund - International equities	N/A	1,887,386	1,464,036
Partnerships	N/A	79,917	143,753
Cash and cash equivalents	N/A	1,457,187	506,648
		<u>25,331,687</u>	<u>23,137,869</u>
Less Investments Reported as "cash and cash equivalents, restricted" on Statement of Net Assets		(1,457,187)	(506,648)
Total Investments		<u>\$ 23,874,500</u>	<u>\$ 22,631,221</u>
<u>As reported on the Statement of Net Assets</u>			
Short-term investments		\$ 6,510	\$ 12,568
Endowment Investments		23,867,990	22,618,653
		<u>\$ 23,874,500</u>	<u>\$ 22,631,221</u>

The effective duration of investments in the Commonfund Short Term Fund is 2.86 years. The weighted average life of investments in the Commonfund Intermediate Term Fund is 2.8 years and the effective duration is 1.59 years.

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE C – INVESTMENTS - 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 others 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. The Foundation's investments that exceeded five percent of the investment portfolio included the Commonfund Intermediate Term Fund (\$4,145,034) and the William Blair Funds International Growth Fund Class I (\$1,887,386).

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 has \$749,519 in foreign equities at June 30, 2006.

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. The details of accounts receivable as of June 30, 2006 and 2005 are listed below in the table:

	June 30,	
	2006	2005
Tuition and fees	\$1,238,670	\$ 594,103
Auxiliary enterprises	645,199	777,122
Contracts and grants	2,268,078	704,470
Sales and services	387,423	457,101
State Building Authority		550,049
Agency accounts	82,012	91,083
Allowance for uncollectible accounts	(1,130,827)	(789,302)
Total accounts receivable	\$3,490,555	\$2,384,626

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, 2006 and 2005. 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, 2006 was returned in July, 2006.

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 \$5,122,327 at June 30, 2006 and \$4,546,262 at June 30, 2005. Charter schools appropriations receivable were recorded at June 30, 2006 of \$10,084,696 and at June 30, 2005 of \$8,640,255. The University has recorded a corresponding amount due to the charter schools. The University received \$56,127,805 of State appropriations to be forwarded to eighteen (18) charter schools for fiscal 2006 and \$47,953,225 for fiscal 2005.

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, 2006 and 2005 are listed below in the table:

	June 30,	
	2006	2005
Pledges receivable	\$7,776,261	\$2,178,723
Less: allowance for uncollectible pledges	450,819	162,641
Less: discount to reflect promise to give at fair value	682,261	106,839
	6,643,181	1,909,243
Interest in trusts held by others	3,965,400	2,851,059
Accrued interest	9,769	7,034
Total Foundation accounts receivable	\$10,618,350	\$4,767,336

NOTE E - CAPITAL ASSETS

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

Asset Classification	Balance at June 30, 2005	Additions	Retirements	Balance at June 30, 2006
Land	\$ 1,914,038			\$ 1,914,038
Land improvements and infrastructure	18,492,550	\$ 1,084,968		19,577,518
Buildings	231,910,048	17,608,189		249,518,237
Equipment	45,801,773	3,130,868	(\$3,106,999)	45,825,642
Library acquisitions	9,439,006	691,293	(417,541)	9,712,758
Construction in progress	11,702,854	(7,767,580)		3,935,274
Works of fine art	599,842			599,842
Accumulated depreciation:				
Land improvements and infrastructure	(8,665,775)	(815,505)		(9,481,280)
Buildings	(51,025,888)	(5,896,643)		(56,922,531)
Equipment	(28,360,578)	(3,223,616)	3,106,999	(28,477,195)
Library acquisitions	(6,575,772)	(532,637)	417,541	(6,690,868)
Total capital assets, net	\$225,232,098	\$ 4,279,337		\$229,511,435

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,	
	2006	2005
Compensation	\$849,566	\$2,608,162
Supplies and construction related expenditures	2,442,139	3,906,311
Total accounts payable and accrued liabilities	\$3,291,705	\$6,514,473

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 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, was \$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 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, 2006 was 3.47% 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 mark-to-market value of the swap has been estimated to be \$159,534 as of June 30, 2006, in favor of the University. 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, 2006, while the counterparty was not rated by an independent rating agency, the guarantor was rated A1 by Moody's, and A+ by Standard & Poor's.

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.

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

On June 10, 2005 the University entered in to 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.

The mark-to-market value of the swaps has been estimated to be \$631,296 and \$358,543, respectively, as of June 30, 2006, in favor of the University.

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,	
			2006	2005
General Revenue Bonds, series 2005	3.00%-4.50%	2006-2035	\$27,890,000	\$28,010,000
General Revenue Bonds, series 2004B	3.50%-4.625%	2014-2034	3,095,000	3,165,000
General Revenue Bonds, series 2004A	3.00%-5.00%	2006-2034	11,465,000	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%	2006-2030	9,455,000	9,765,000
General Revenue Bonds, series 1999	4.75%-5.63%	2006-2029	560,000	730,000
General Revenue Bonds, series 1998	4.50%-5.30%	2006-2028	15,010,000	15,790,000
General Revenue Bonds, series 1996	5.25%	2006		50,000
Total			\$91,875,000	\$93,705,000

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
2007	\$ 2,070,000	\$4,013,555	\$40,260	\$ 6,123,815
2008	2,150,000	3,930,365	40,260	6,120,625
2009	2,235,000	3,840,123	40,260	6,115,383
2010	2,335,000	3,745,185	40,260	6,120,445
2011	2,205,000	3,648,337	40,260	5,893,597
2012-2016	13,005,000	16,828,799	100,650	29,934,449
2017-2021	16,280,000	13,758,483		30,038,483
2022-2026	20,635,000	9,636,923		30,271,923
2027-2031	27,060,000	4,367,508		31,427,508
2032-2035	3,900,000	415,988		4,315,988
	<u>\$91,875,000</u>	<u>\$64,185,266</u>	<u>\$301,950</u>	<u>\$156,362,216</u>
Less: Deferred amount on refunding (net)	(1,354,450)			
Total	<u>\$90,520,550</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, 2006 or 2005. 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, 2006. 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:

	<u>Balance at June 30, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2006</u>	<u>Current Portion</u>
Notes and bonds payable:					
General revenue bonds	\$93,705,000		\$1,830,000	\$91,875,000	\$2,070,000
Deferred amount on refunding	(1,413,339)		(58,889)	(1,354,450)	(58,889)
Other long-term liabilities:					
Compensated absences	2,410,288	\$222,740		2,633,028	100,000
Student loan - federal	101,504	12,290	42,953	70,841	28,893
Total other liabilities	<u>2,511,792</u>	<u>235,030</u>	<u>42,953</u>	<u>2,703,869</u>	<u>128,893</u>
Total long-term liabilities	<u>\$94,803,453</u>	<u>\$235,030</u>	<u>\$1,814,064</u>	<u>\$93,224,419</u>	<u>\$2,140,004</u>

As of June 30, 2006 and 2005, employees had earned but not taken annual vacation leave of approximately \$2,057,000 and \$1,944,000, respectively. The University has a commitment for accumulated sick leave of approximately \$576,000 as of June 30, 2006 and \$466,000 as of June 30, 2005. 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:

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
Capital projects and repair reserves	\$15,192,766	\$11,200,751
Auxiliary enterprises	1,386,375	1,411,903
Designated for departmental use	6,965,010	5,990,205
Amount obligated by contractual commitments	141,683	285,748
Undesignated	1,317,197	1,084,958
Total unrestricted net assets	<u>\$25,003,031</u>	<u>\$19,973,565</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 \$16,240,000.

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, Zahnnow 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 \$911,000 of administrative support to the Foundation during fiscal 2006 and \$677,000 of support during fiscal 2005. These amounts were recorded as gifts and expenses in the statements of revenues, expenses, and changes in net assets. The Foundation transferred \$2,454,342 to the University during fiscal 2006 and \$2,633,204 during fiscal 2005. 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.

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.

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

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, 2006 and 2005 approximated \$4,602,000 and \$4,230,000, respectively, with annual covered payroll for participants of the plan approximating \$38,379,000 in 2006 and \$35,200,000 in 2005. 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.

NOTE N - EXPENDITURES BY NATURAL CLASSIFICATION

The table below lists expenditures by natural classification by function for the fiscal year ending June 30, 2006:

Function	Salary & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Total
Instruction	\$23,215,594	\$ 5,775,151	\$259,996		\$2,027,757		\$31,278,498
Research	410,763	62,110			227,575		700,448
Public service	530,251	105,268			1,270,105		1,905,624
Academic support	6,226,261	1,472,036	307,696		2,531,371		10,537,364
Student services	2,559,359	716,699			1,151,569		4,427,627
Institutional support	5,229,159	1,521,712			3,258,850		10,009,721
Operations and maintenance of plant	3,587,056	1,183,535		\$2,394,525	1,567,602		8,732,718
Depreciation						\$10,468,401	10,468,401
Student aid	365,846		4,594,251		14,034		4,974,131
Auxiliary enterprises	2,874,775	698,298	209,661	705,823	4,904,223		9,392,780
Total	\$44,999,064	\$11,534,809	\$5,371,604	\$3,100,348	\$16,953,086	\$10,468,401	\$92,427,312

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE N – EXPENDITURES BY NATURAL CLASSIFICATION
(continued)

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
Total	\$40,811,194	\$12,800,689	\$5,758,255	\$2,388,974	\$15,160,658	\$10,018,513	\$86,938,283

Saginaw Valley State University
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

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	\$ 158,321
Federal Work-Study Program	84.033	E-P033A022069	271,816
Federal Pell Grant Program (Note 3)	84.063	E-P063P020238	5,559,238
Loans and Loan Guarantees-Federal Direct Loan Program (Note 2)	84.268	**	29,383,070
Total Student Financial Assistance			35,372,445
Direct Programs:			
Strengthening Institutions	84.031A	P031A000143	17,124
Strengthening Institutions	84.031A	P031A000143	167,813
Career Ladder	84.195E	T195E010004	152,086
Global Business Initiative	84.153A	P153A050075	51,539
Improving Teacher Quality	84.336B	P336B99044-03	79,827
Transition to Teaching	84.350A	S350A020089-03	50,650
Transition to Teaching	84.350A	S350A020089-04	276,870
Transition to Teaching	84.350A	S350A020089-05	253,256
Crisis Management Intervention Center	84.116Z	P116Z050194	179,832
Total Direct Programs			1,228,997
Passed Through Michigan Department of Education:			
Math & Science Partnership	84.366	052410-MSPF2004	296,880
Math & Science Partnership	84.366	062410-MSPF2005	82,489
Improving Math Teacher Quality	84.367	050290-0405	134,170
Improving Science Teacher Quality	84.367	050290-407	129,734
Improving English Teacher Quality	84.367	060290-659	71,111
Improving Math Teacher Quality	84.367	060290-428	47,050
Improving Science Teacher Quality	84.367	060290-421	48,435
Intensive Mentor Training	84.367A	050510 Project 1	36,482
Improving Math Teacher Quality	84.367B	040290-108	504
Improving Science Teacher Quality	84.367B	040290-215	753
Total Passed Through Michigan Department of Education			847,608
Passed Through University of California:			
Saginaw Valley National Writing Project	84.928A	94-MI05	27,357
Saginaw Valley National Writing Project	84.928A	94-MI05	23,861
Total Passed Through University of California			51,218
<u>U.S. Department of Agriculture</u>			
Passed Through Corn Marketing Program of Michigan:			
Biodegradable Plastics from Distillers Grain	10.156	791N5200321	52,000

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 Commerce</u>			
Passed Through Industrial Technology Institute:			
SVMA/MMTC (Note 4)	11.611	70NANB5H0059	\$ 2,524
SVMA/MMTC (Note 4)	11.611	70NANB5H0059	177,866
Total Passed Through Industrial Technology Institute			180,390
<u>U.S. Department of Justice</u>			
Passed Through Saginaw County Juvenile Center:			
Juvenile Accountability Block Grant	16.523	73001-C-04	33,016
<u>U.S. Department of Labor</u>			
Passed Through Michigan State University:			
WIRED - Workforce Innovation Regional Economic Development	17.261	61-7295-308	18,236
<u>National Aeronautics and Space Administration</u>			
Passed Through University of Michigan:			
Michigan Space Grant	43.002	NGT-40007	1,411
<u>National Endowment for the Humanities</u>			
Passed Through Michigan Humanities Council:			
Brown vs. Board of Education	45.129	Q015-04	57
<u>U.S. Department of Energy</u>			
Passed Through Michigan Department of Labor & Economic Growth:			
Biofuels Pilot Plant Project	81.041	PLA-06-54	8,680
<u>U.S. Department of Health and Human Services - HRSA</u>			
Direct Programs:			
Advanced Education Nursing Traineeships	93.358	A10HP05111	19,615
Total Expenditures of Federal Awards			\$37,813,673

** 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, 2006

- 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, 2006, Direct Student Loans totaled \$29,383,070 (\$13,886,725 subsidized, \$13,648,459 unsubsidized, and \$1,847,886 PLUS). These amounts were excluded from total federal expenditures when determining the dollar threshold for major programs.
- Note 3:** The Pell grant expenditures are the actual amounts incurred through June 30, 2006. The University will process amendments subsequent to year end to finalize the 2005-2006 award year. Amounts reported do not include an administrative cost allowance of \$11,275.
- 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 \$66,108 in loans outstanding as of June 30, 2006. 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, 2006 was returned in July 2006.

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' 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 Other Matters 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 State University Foundation, as of and for the year ended June 30, 2006, and have issued our report thereon dated August 24, 2006. 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 and Other Matters

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 grant agreements, 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*. However, we noted certain other matters that we reported to management of the University in a separate letter dated August 24, 2006.

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 reportable 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 caused by error or fraud 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 24, 2006



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, 2006. 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, 2006.

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 grant agreements 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 reportable 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 grant agreements caused by error or fraud 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 24, 2006

Saginaw Valley State University
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2006

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
84.366	U.S. Department of Education: Mathematics and Science Partnership
84.367	Improving Math Teacher Quality
84.367	Improving Science Teacher Quality
84.367	Improving English Teacher Quality
84.367A	Intensive Mentor Training
84.367B	Improving Math Teacher Quality
84.367B	Improving Science Teacher Quality

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, 2006

No matters were reported.