

SAGINAW VALLEY STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following provides a discussion and analysis of the FY2002 financial performance of SVSU. This discussion, the financial statements and related footnotes have been prepared by and are the responsibility of management.

USING THE ANNUAL REPORT

The annual report consists of a series of financial statements, which have been prepared in accordance with the Governmental Accounting Standards Board 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, results of operations, and cash flows of the University as a whole.

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

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

REPORTING ENTITY

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

The financial statements report information about total University operations. The SVSU Foundation and SVRDC are not component units of the University and thus are not required to be consolidated into the financial statements. They are, however, referenced in the financial statement footnotes.

**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 6.7% due to continuing investment in capital assets and reserves for repairs, maintenance and future debt service.
- Unrestricted net assets increased.
- Operating revenues increased as a result of increased enrollment, tuition rates, housing capacity and grant activity.

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

- Applications increased 9.4% over the prior year.
- Headcount enrollment increased from 8,607 to 8,936.
- Credit hours increased from 193,460 to 199,472.

FINANCIAL STATEMENT SUMMARIES

Net assets are summarized in the table below.

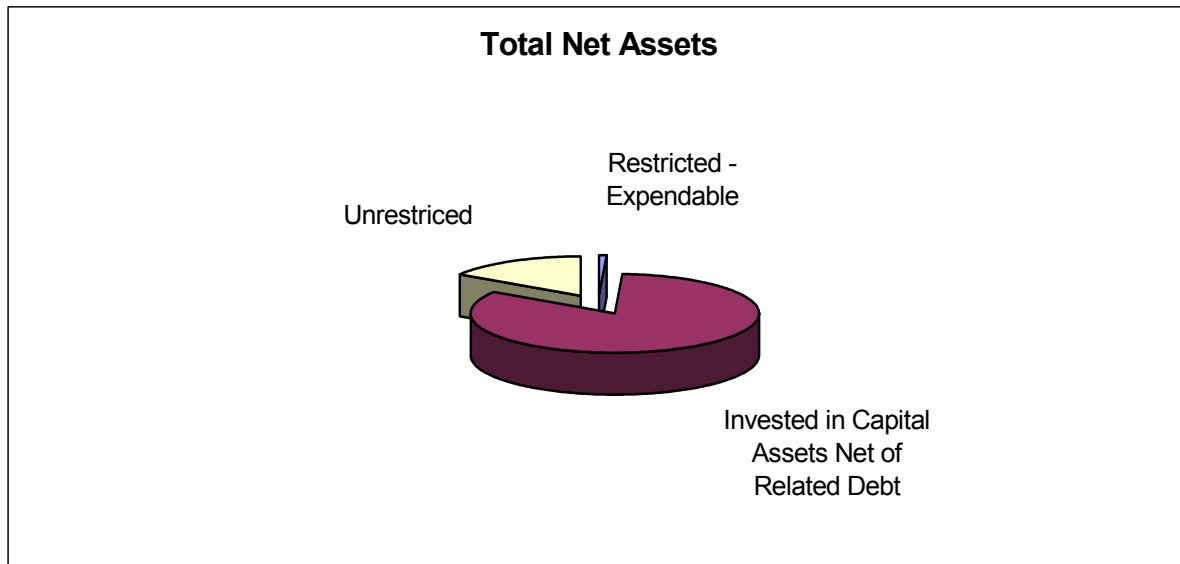
Statement of Net Assets June 30, 2002 and 2001 (in thousands of dollars)				
	2002	2001	Increase (Decrease)	Percent Change
Assets				
Current Assets	\$ 43,892	\$ 37,896	\$ 5,996	15.8
Noncurrent Assets				
Other	3,688	110	3,578	3252.7
Capital	174,685	152,634	22,051	14.4
Total Assets	<u>222,265</u>	<u>190,640</u>	<u>31,625</u>	<u>16.6</u>
Liabilities				
Current Liabilities	14,382	14,195	187	1.3
Noncurrent Liabilities	76,981	53,804	23,177	43.1
Total Liabilities	<u>91,363</u>	<u>67,999</u>	<u>23,364</u>	<u>34.4</u>
Net Assets				
Invested in Capital Assets Net of Related Debt	108,860	105,706	3,154	3.0
Restricted – Expendable	1,263	1,490	(227)	(15.2)
Unrestricted	20,779	15,445	5,334	34.5
Total Net Assets	<u>\$130,902</u>	<u>\$ 122,641</u>	<u>\$ 8,261</u>	<u>6.7</u>

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 78.6% of the

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

University's total assets. The University issued \$24.4 million of general revenue bonds in November 2001 to finance various capital projects. Unexpended proceeds of approximately \$10.3 million are included in short-term investments at June 30, 2002. Notes and bonds payable totaled \$76.4 million at June 30, 2002. This represents 83.6% of the University's total liabilities.

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



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

Unrestricted net assets represent net assets of the University that have not been restricted by parties independent of the University. This includes funds that the Board of Control and management have designated for specific purposes as well as amounts that have been contractually committed for goods and services that have not been received as of June 30, 2002. The following summarizes the internal designations of the unrestricted net assets:

Unrestricted Net Assets June 30, 2002	
Capital projects and repair reserves	\$14,481,075
Auxiliary enterprises	1,443,379
Designated for departmental use	3,623,824
Amount obligated by contractual commitments	202,599
Unrestricted	<u>1,027,998</u>
Total unrestricted net assets	<u>\$20,778,875</u>

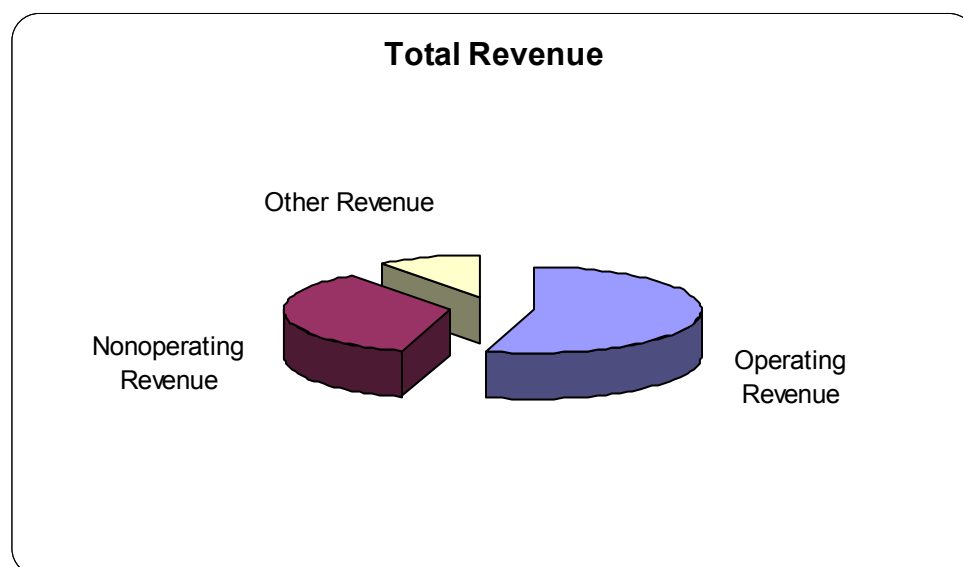
**SAGINAW VALLEY STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED**

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, 2002 and 2001				
(in thousands of dollars)				
	<u>2002</u>	<u>2001</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating Revenues				
Student Tuition and Fees	\$26,245	\$23,476	\$2,769	11.8
Federal Grants and Contracts	8,301	6,157	2,144	34.8
State and Local Grants and Contracts	784	728	56	7.7
Sales & Services of Educational Departments	2,549	2,508	41	1.6
Auxiliary Enterprises	7,776	6,745	1,031	15.3
Other Operating Revenues	<u>1,461</u>	<u>1,177</u>	<u>284</u>	24.1
Total Operating Revenues	47,116	40,791	6,325	15.5
Operating Expenses	<u>75,333</u>	<u>68,462</u>	<u>6,871</u>	10.0
Operating Loss	(28,217)	(27,671)	(546)	(2.0)
Nonoperating Revenues (Expenses)				
State Appropriations	27,393	26,947	446	1.7
Gifts	1,959	2,111	(152)	(7.2)
Investment Income	879	1,163	(284)	(24.4)
Interest on Capital Asset-related Debt	<u>(2,380)</u>	<u>(1,504)</u>	<u>(876)</u>	(58.2)
Net nonoperating revenues	<u>27,851</u>	<u>28,717</u>	<u>(866)</u>	(3.0)
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	(366)	1,046	(1,412)	(135.0)
Capital Appropriations	6,754	12,305	(5,551)	(45.1)
Capital Grants and Gifts	<u>1,873</u>	<u>20</u>	<u>1,853</u>	9,265.0
Total Other Revenues	<u>8,627</u>	<u>12,325</u>	<u>(3,698)</u>	(30.0)
Increase in Net Assets	8,261	13,371	(5,110)	(38.2)
Net Assets at Beginning of Year	<u>122,641</u>	<u>109,270</u>	<u>13,371</u>	12.2
Net Assets at End of Year	<u>\$130,902</u>	<u>\$122,641</u>	<u>\$8,261</u>	6.7

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

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, 2002 and 2001				
(in thousands of dollars)				
	<u>2002</u>	<u>2001</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Cash provided (used) by:				
Operating Activities	(\$22,015)	(\$18,542)	(\$3,473)	(18.7)
Noncapital Financing Activities	29,251	28,696	555	1.9
Capital Financing Activities	2,650	(5,595)	8,245	147.4
Investing Activities	<u>(14,685)</u>	<u>3,938</u>	<u>(18,623)</u>	(472.9)
Net Increase (Decrease) in Cash and Cash Equivalents	(4,799)	8,497	(13,296)	(156.5)
Cash and Cash Equivalents at Beginning of Year	<u>22,843</u>	<u>14,346</u>	<u>8,497</u>	59.2
Cash and Cash Equivalents at End of Year	<u>\$18,044</u>	<u>\$22,843</u>	<u>(\$4,799)</u>	(21.0)

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

OPERATING EXPENSES

The University reports expenditures on a functional basis. Expenses in FY2002 were \$75,332,707, an increase of 10.0% over the prior year. The following summarizes operating expenses:

Operating Expenses				
For the Years Ended June 30, 2002 and 2001				
(in thousands of dollars)				
	<u>2002</u>	<u>2001</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Education and General				
Instruction	\$24,176	\$22,398	\$1,778	7.9
Research	773	569	204	35.9
Public Service	1,093	1,067	26	2.4
Academic Support	10,445	9,177	1,268	13.8
Student Services	4,486	4,621	(135)	(2.9)
Institutional Support	8,207	7,304	903	12.4
Operations and Maintenance of Plant	8,524	7,169	1,355	18.9
Depreciation	6,987	6,651	336	5.1
Student Aid	3,853	3,525	328	9.3
Auxiliary Enterprises	6,755	5,931	824	13.9
Other Expenses	<u>34</u>	<u>50</u>	<u>(16)</u>	<u>(32.0)</u>
	<u>\$75,333</u>	<u>\$68,462</u>	<u>\$6,871</u>	<u>10.0</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. FY2002 expenditures for capital projects approximated \$29 million. Capital projects were funded by a combination of bonds issued by the Michigan State Building Authority (SBA), University-issued general revenues bonds (\$24,400,000 Series 2001B), capital gifts and other available University resources. Current year activity included the following: Herbert Dow Doan Science Building, Regional Education Center, Library Addition and Remodeling, Macomb Graduate Education Facility, Marshall Fredericks Sculpture Museum expansion, remodeling, and infrastructure improvements. For more information, reference the capital assets footnote in the audited financial statements.

The University plans to continue implementation of its capital plan in FY2003. Remaining Series 2001B general revenue bond funds, resources from SBA financing (\$30 million), private fund-raising and other

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

available University resources will fund the following projects:

- Marshall Fredericks Sculpture Museum Expansion
- Regional Education Center Construction
- Library Addition and Renovation
- Macomb Graduate Education Facility Construction
- Student Activity Center Construction
- Ryder Center Fitness Facility
- Living Center II Student Housing

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 has not requested an underlying bond rating for debt issued in FY2002. By purchase of bond insurance, the University secured the following ratings:

Moody's: Aaa
Standard & Poor's: AAA

The University maintains both a strong credit profile and a sound borrowing strategy.

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

Report of Independent Auditors

Board of Control
Saginaw Valley State University

We have audited the accompanying basic financial statements of Saginaw Valley State University, a component unit of the State of Michigan, as of and for the years ended June 30, 2002 and 2001. These basic financial statements are the responsibility of the University's administration. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the administration, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Saginaw Valley State University as of June 30, 2002 and 2001, and the results of its operations and 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 22, 2002 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 audit.

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.

Andrews Hooper & Pavlik P.L.C.

Saginaw, Michigan
August 22, 2002

SAGINAW VALLEY STATE UNIVERSITY

STATEMENTS OF NET ASSETS

	June 30,	
	2002	2001
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 18,044,153	\$ 22,270,333
Short-term investments	12,040,537	
Accounts receivable, net	2,321,894	5,203,989
State appropriations receivable - operations	4,980,600	4,899,481
State appropriations receivable - charter schools	5,754,162	4,473,944
Inventories and prepaid expenses	667,411	204,262
Deposits with bond trustee		572,544
Notes receivable, net	82,690	271,655
Total current assets	43,891,447	37,896,208
Noncurrent Assets		
Notes receivable, net	165,380	109,628
Long-term investments	3,523,110	
Capital assets, net	174,684,573	152,634,054
Total noncurrent assets	178,373,063	152,743,682
Total assets	222,264,510	190,639,890
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	4,980,578	5,662,721
Deferred revenue	2,775,500	2,738,833
Deposits	5,139,564	4,594,453
Long-term liabilities-current portion	1,486,209	1,198,502
Total current liabilities	14,381,851	14,194,509
Noncurrent Liabilities		
Long-term liabilities	76,980,680	53,804,323
Total noncurrent liabilities	76,980,680	53,804,323
Total liabilities	91,362,531	67,998,832
NET ASSETS		
Invested in capital assets, net of related debt	108,859,526	105,706,282
Expendable Restricted		
Scholarships and fellowships	368,079	498,947
Research	320,010	367,606
Instructional department use	23,542	205,174
Loans	55,949	81,414
Other	495,998	336,429
Unrestricted	20,778,875	15,445,206
Total net assets	\$ 130,901,979	\$ 122,641,058

SAGINAW VALLEY STATE UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	For the years ended June 30,	
	2002	2001
REVENUES		
Operating revenues		
Student tuition and fees	\$ 30,233,567	\$ 26,748,842
Less: Scholarship allowances	(3,988,410)	(3,272,735)
	26,245,157	23,476,107
Federal grants and contracts	8,301,003	6,157,343
State and local grants and contracts	783,970	727,796
Sales and services of educational departments	2,548,856	2,508,247
Auxiliary enterprises	8,593,956	7,325,402
Less: Scholarship allowances	(817,801)	(580,440)
	7,776,155	6,744,962
Other operating revenues	1,460,916	1,177,121
	47,116,057	40,791,576
EXPENSES		
Operating expenses		
Educational and general		
Instruction	24,175,678	22,397,687
Research	772,700	568,816
Public service	1,092,648	1,067,018
Academic support	10,445,118	9,177,191
Student services	4,485,704	4,621,221
Institutional support	8,207,135	7,304,221
Operations and maintenance of plant	8,523,939	7,169,148
Depreciation	6,986,617	6,651,348
Student Aid	3,853,135	3,524,768
Auxiliary enterprises	6,755,344	5,930,517
Other expenses	34,689	50,219
	75,332,707	68,462,154
Operating loss	(28,216,650)	(27,670,578)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	27,393,300	26,947,150
Gifts	1,958,494	2,110,920
Investment income	878,563	1,163,046
Interest on capital asset-related debt	(2,379,770)	(1,504,111)
Net nonoperating revenues	27,850,587	28,717,005
Income (loss) before other revenues	(366,063)	1,046,427
Capital appropriations	6,754,180	12,304,338
Capital grants and gifts	1,872,804	20,000
Total other revenues	8,626,984	12,324,338
Increase in net assets	8,260,921	13,370,765
Net assets - beginning of year	122,641,058	109,270,293
Net assets - end of year	\$ 130,901,979	\$ 122,641,058

SAGINAW VALLEY STATE UNIVERSITY

STATEMENTS OF CASH FLOWS

	For the years ended June 30,	
	2002	2001
Cash Flows from Operating Activities		
Student tuition and fees	\$ 25,587,633	\$ 24,057,335
Grants and contracts	8,920,714	6,833,235
Payments to suppliers	(16,036,598)	(11,669,736)
Payments for utilities	(2,135,843)	(1,908,593)
Payments to employees	(36,465,591)	(33,573,979)
Payments for benefits	(10,122,610)	(9,227,506)
Payments for scholarships and fellowships	(3,850,008)	(3,571,358)
Federal share of Perkins loans	(156,179)	(218,609)
Collection of loans to students	133,213	271,509
Auxiliary enterprises charges	7,896,236	6,835,556
Sales and services	2,753,102	2,452,489
Other receipts	1,460,916	1,177,121
Net cash used by operating activities	(22,015,015)	(18,542,536)
Cash Flows from Noncapital Financing Activities		
State appropriations	27,312,181	26,584,997
Federal Direct Lending receipts	15,669,715	14,094,233
Federal Direct Lending disbursements	(15,669,715)	(14,094,233)
Gifts	1,938,873	2,110,920
Net cash provided by noncapital financing activities	29,251,054	28,695,917
Cash Flows from Capital Financing Activities		
Proceeds from capital debt	24,400,000	15,560,000
Capital appropriations	9,454,912	10,003,606
Capital grants and gifts received	1,872,804	20,000
Principal paid on capital debt	(955,000)	(775,000)
Interest paid on capital debt and related costs	(3,339,403)	(1,504,111)
Purchase of capital assets	(28,782,992)	(28,899,196)
Net cash provided (used) by capital financing activities	2,650,321	(5,594,701)
Cash Flows from Investing Activities		
Purchase of investments	(28,534,176)	
Interest on investments	749,137	1,163,046
Proceeds from sale and maturities of investments	13,099,955	2,775,226
Net cash provided (used) by investing activities	(14,685,084)	3,938,272
Net increase (decrease) in cash and cash equivalents	(4,798,724)	8,496,952
Cash and cash equivalents - beginning of the year	22,842,877	14,345,925
Cash and cash equivalents - end of year	\$ 18,044,153	\$ 22,842,877

SAGINAW VALLEY STATE UNIVERSITY

STATEMENTS OF CASH FLOWS - CONTINUED

	For the years ended June 30,	
	2002	2001
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	\$ (28,216,650)	\$ (27,670,578)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	6,986,617	6,651,348
Changes in assets and liabilities:		
Accounts receivable, net	(1,079,234)	378,962
Inventories and prepaid expenses	(103,516)	107,048
Notes receivable, net	133,213	271,509
Accounts payable and accrued liabilities	(336,287)	1,617,578
Deferred revenue	36,667	181,479
Deposits	545,111	3,719
Compensated absences	175,243	135,008
Student loan - federal	(156,179)	(218,609)
Net cash used by operating activities	\$ (22,015,015)	\$ (18,542,536)

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

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. These 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).

Reporting Entity

The University's financial statements are incorporated into 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. Financial statements of the universities are presented discretely in the State's financial report. Transactions with the State relate primarily to appropriations for operations and capital projects and grants from various state agencies.

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 should apply all applicable Financial Accounting Standards Board (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.

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:

Classification	Life
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

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 expended as incurred; significant renewals and improvements are capitalized.

Reclassifications

Certain fiscal year 2001 balances have been reclassified to conform with the current year presentation.

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.

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.

NOTE B - CASH AND CASH EQUIVALENTS

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

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

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

Cash and cash equivalents as reflected in the accounts of the investment institutions at June 30, 2002 were \$19,160,615. Of that balance, \$244,903 was covered by federal depository insurance or by collateral held by the University's agent in the University's name (GASB credit risk category #1), \$-0- was covered by collateral held in the pledging institution's trust department in the University's name (GASB credit risk category #2), and \$18,915,712 was uninsured and uncollateralized (GASB credit risk category #3).

Cash and cash equivalents as reflected in the accounts of the investment institutions at June 30, 2001 were \$23,453,029. Of that balance, \$772,544 was covered by federal depository insurance or by collateral held by the University's agent in the University's name (GASB credit risk category #1), \$-0- was covered by collateral held in the pledging institution's trust department in the University's name (GASB credit risk category #2), and \$22,680,485 was uninsured and uncollateralized (GASB credit risk category #3).

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS-CONTINUED

The following table summarizes the components of the University's cash and cash equivalents and deposits with bond trustees at June 30:

	2002	2001
Cash	\$(210,252)	\$ 258,068
Michigan National Bank - Public Funds	1,722,665	3,966,307
Common Fund - Short Term Fund	16,450,693	18,618,502
William Blair - Ready Reserves	81,047	
Totals	\$18,044,153	\$22,842,877

Cash and cash equivalents consist primarily of funds invested with either a bank short-term investment pool or the Common Fund Short-Term Fund. In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, these short-term investments have been classified as money market investments and accordingly are carried at cost which approximates fair market value. Investment policies are established by the University's Board of Control. The yield on short-term investments was 2.45% for 2001-2002 and 5.83% for 2000-2001.

NOTE C - INVESTMENTS

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

The following table summarizes the categorization of investments at June 30, 2002:

	Category 3	Not Categorized	Total
Short-term investments			
Commercial paper	\$2,902,390		\$2,902,390
Government securities	1,024,681		1,024,681
Corporate bonds	8,113,466		8,113,466
Subtotal	12,040,537		12,040,537
Long-term investments			
Mutual funds		\$3,523,110	3,523,110
Total	\$12,040,537	\$3,523,110	\$15,563,647

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NOTES TO FINANCIAL STATEMENTS-CONTINUED

NOTE D - ACCOUNTS RECEIVABLE AND NOTES RECEIVABLE

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, 2002	June 30, 2001
Tuition & fees	\$398,273	\$163,344
Auxiliary enterprises	637,913	720,317
Contracts and grants	1,627,314	898,764
Sales and services	439,587	546,443
State Building Authority		2,700,732
Agency accounts	38,707	776,515
Allowance for uncollectible accounts	(819,900)	(602,126)
Total accounts receivable	<u>\$2,321,894</u>	<u>\$5,203,989</u>

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 \$98,000 for 2002 and 2001. 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, 2002 was returned in August, 2002.

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 \$4,980,600 at June 30, 2002 and \$4,899,481 at June 30, 2001. Charter schools appropriations receivable were recorded at June 30, 2002 of \$5,754,162 and at June 30, 2001 of \$4,473,944. The University has a corresponding payable to the charter schools which is included in deposits. The University received \$30,977,736 of State appropriations to be forwarded to eighteen (18) charter schools for fiscal 2002 and \$25,214,678 for fiscal 2001.

NOTE E - CAPITAL ASSETS

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

Asset Classification	Balance at June 30, 2001	Additions	Retirements	Balance at June 30, 2002
Land	\$ 1,776,895			\$1,776,895
Land improvements & infrastructure	10,105,289	\$4,967,858		15,073,147
Buildings	132,976,007	36,124,515		169,100,522
Equipment	36,915,188	5,156,396	\$3,483,892	38,587,692

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS-CONTINUED

Asset Classification	Balance at June 30, 2001	Additions	Retirements	Balance at June 30, 2002
Library acquisitions	\$9,023,839	\$544,739		\$9,568,578
Construction in progress	31,153,325	(17,756,372)		13,396,953
Works of fine art	599,842			599,842
Accumulated depreciation:				
Land improvements & infrastructure	(6,395,845)	(400,090)		(6,795,935)
Buildings	(32,578,214)	(3,759,284)		(36,337,498)
Equipment	(24,232,468)	(2,387,608)	(\$3,483,892)	(23,136,184)
Library acquisitions	(6,709,804)	(439,635)		(7,149,439)
Total net capital assets	<u>\$ 152,634,054</u>	<u>\$ 22,050,519</u>		<u>\$174,684,573</u>

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 as of June 30, 2002 and June 30, 2001, respectively:

	June 30, 2002	June 30, 2001
Compensation	\$1,323,151	\$1,353,117
Supplies and construction related expenditures	3,657,427	4,309,604
Total accounts payable and accrued liabilities	<u>\$4,980,578</u>	<u>\$5,662,721</u>

NOTE G - NOTES AND BONDS PAYABLE

The University issued General Revenue Bonds, Series 2001B, in the amount of \$24,400,000 on November 13, 2001 to finance various capital projects. The bonds are select auction variable rate securities (SAVRS), therefore they pay interest at a rate which is determined at auction every thirty-five days. The interest rate paid on June 25, 2002 was 1.53% plus a .25% broker fee.

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

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS-CONTINUED

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 is funding 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 which will provide partial funding for debt service requirements for the Series 1993 Bonds and Series 1996 Bonds. As of June 30, 2002, \$3,190,000 of the 1993 and 1996 defeased bond principal remains outstanding. The interest rates of the 1998 bonds range from 4.20% to 5.30% and mature at various dates through July 1, 2028. The bonds maturing on or after July 1, 2009, are subject to redemption in whole or in part on any date on or after July 1, 2008. The redemption price ranges from 100% to 102% of the principal to be redeemed.

The General Revenue Bonds, Series 1993, in the amount of \$8,665,000 were issued on May 15, 1993 to advance, refund and defease the outstanding Housing and Auxiliary Facilities Revenue Refunding Bond, Series 1987. Additionally, the issue provided financing to renovate and expand the Doan Center food service and student activity facility. The outstanding General Revenue Bonds bear interest rates ranging from 4.75% to 5.55% and mature at various dates through 2016. The bonds maturing on or after 2004 are subject to redemption in whole or in part on any date on or after July 1, 2003 and \$1,850,000 thereof have been advance refunded. The redemption price ranges from 100% to 102% of the principal to be redeemed.

Notes and bonds payable consist of the following as of June 30, 2002 and 2001:

	Interest Rate	Maturity	Outstanding Balance June 30, 2002	Outstanding Balance June 30, 2001
General revenue bonds, series 2001B	SAVRS	2017-2032	\$24,400,000	
General revenue bonds, series 2001A	4.05%-5.50%	2003-2030	15,560,000	\$15,560,000
General revenue bonds, series 1999	4.75%-5.63%	2002-2029	8,320,000	8,460,000
General revenue bonds, series 1998	4.20%-5.30%	2002-2028	23,970,000	24,380,000
General revenue bonds, series 1996	5.05%-7.00%	2002-2006	180,000	220,000
General revenue bonds, series 1993	4.75%-5.55%	2002-2016	4,015,000	4,380,000
Total			\$76,445,000	\$53,000,000

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	Total
2003	\$1,260,000	\$3,105,200	\$4,365,200
2004	1,325,000	3,047,086	4,372,086

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS-CONTINUED

2005	1,380,000	2,986,049	4,366,049
Year Ended June 30	Principal	Interest	Total
2006	\$1,445,000	\$2,922,721	\$4,367,721
2007	1,520,000	2,855,749	4,375,749
2008-2012	8,250,000	13,144,038	21,394,038
2013-2017	9,925,000	10,917,879	20,842,879
2018-2022	13,285,000	8,294,553	21,579,553
2023-2027	16,995,000	5,082,704	22,077,704
2028-2032	21,060,000	1,624,900	22,684,900
Total	<u>\$76,445,000</u>	<u>\$53,980,879</u>	<u>\$130,425,879</u>

The University has a \$3,500,000 bank line of credit at 80% of the prime rate for interim financing of cash flow deficits. The line of credit is secured by general revenues and no amounts were outstanding at June 30, 2002 or 2001.

NOTE H - LONG-TERM LIABILITIES

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

	Balance at June 30, 2001	Additions	Reductions	Balance at June 30, 2002	Current Portion
Notes and bonds payable:					
General revenue bonds	\$53,000,000	\$24,400,000	\$955,000	\$76,445,000	\$1,260,000
Other long-term liabilities:					
Compensated absences	1,507,865	175,243		1,683,108	100,000
Student loan - federal	494,960	56,665	212,844	338,781	126,209
Total other liabilities	2,002,825	231,908	212,844	2,021,889	226,209
Total long-term liabilities	<u>\$55,002,825</u>	<u>\$24,631,908</u>	<u>\$1,167,844</u>	<u>\$78,466,889</u>	<u>\$1,486,209</u>

As of June 30, 2002 and 2001, employees had earned but not taken annual vacation leave of approximately \$1,329,000 and \$1,321,000, respectively. The University has a commitment for accumulated sick leave of \$354,000 as of June 30, 2002 and \$187,000 as of June 30, 2001. These amounts are reflected above as liabilities for compensated absences.

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS-CONTINUED

NOTE I - UNRESTRICTED NET ASSETS

The following summarizes the internal designations of the unrestricted net assets:

	June 30, 2002	June 30, 2001
Capital projects and repair reserves	\$14,481,075	\$9,535,955
Auxiliary enterprises	1,443,379	1,339,820
Designated for departmental use	3,623,824	3,383,042
Amount obligated by contractual commitments	202,599	294,272
Unrestricted	1,027,998	892,117
Total unrestricted net assets	<u>\$20,778,875</u>	<u>\$15,445,206</u>

NOTE J - COMMITMENTS AND CONTINGENCIES

The amount of funding required to complete construction in progress will come from the remaining Series 2001B General Revenue Bond proceeds, included in short-term investments, institutional resources, gifts and capital appropriations from the State of Michigan. Costs to complete construction in progress approximate \$44,700,000. In July 2002, the Board of Control authorized construction of Living Center II at a cost not to exceed \$9 million.

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 the Ryder Health and Physical Education Center, Brown Hall, Science Building, Zahn Library, Wickes Hall and the West Complex. 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 Statement of Net Assets.

NOTE K - AFFILIATED SUPPORT ORGANIZATIONS

The Saginaw Valley State University Foundation (Foundation) is an independent corporation formed for the purpose of receiving funds for the sole benefit of the University. 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 Foundation transferred \$3,546,999 to the University during fiscal 2001-2002 and \$1,672,457 during fiscal 2000-2001. The operations and net assets of the Foundation are not included in the University's financial statements. The Foundation's net assets, at market value, were as follows:

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS-CONTINUED

	June 30, 2002
Unrestricted	\$724,928
Temporarily restricted	9,113,424
Permanently restricted	21,916,234
Totals	<u>\$31,754,586</u>

The Foundation transfers appropriate amounts from the individual endowments to recipient University accounts to be expended for the specific purpose of each endowment.

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 non-student, 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, 2002 and 2001 approximated \$3,643,000 and \$3,334,000, respectively, with annual covered payroll for participants of the plan approximating \$31,554,000 in 2002 and \$29,151,000 in 2001. 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, 2002:

Function	Salary & Wages	Benefits	Scholarship s & Fellowships	Utilities	Supplies & Other Services	Depreciation	Total
Instruction	\$17,379,238	\$4,801,601	\$141,671		\$1,853,168		\$24,175,678
Research	535,415	124,299			112,986		772,700
Public service	322,053	93,115			677,480		1,092,648
Academic support	5,875,354	1,580,079	56,145		2,933,540		10,445,118

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NOTES TO FINANCIAL STATEMENTS-CONTINUED

Function	Salary & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Total
Student services	\$2,338,418	\$648,352	\$3,377		\$1,495,557		\$4,485,704
Institutional support	4,077,199	1,236,828	68,066		2,825,042		8,207,135
Operation & maintenance of plant	3,154,191	1,137,179		\$1,642,091	2,590,478		8,523,939
Student aid	314,728		3,459,182		79,225		3,853,135
Depreciation						\$6,986,617	6,986,617
Auxiliary enterprises	2,471,261	628,754	121,567	493,752	3,040,010		6,755,344
Other expenses	14,687	727			19,275		34,689
Total	\$36,482,544	\$10,250,934	\$3,850,008	\$2,135,843	\$15,626,761	\$6,986,617	\$75,332,707

The table below lists expenditures by natural classification by function for the fiscal year ending June 30, 2001:

Function	Salary & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Total
Instruction	\$16,384,519	\$4,454,218	\$163,053		\$1,395,897		\$22,397,687
Research	418,756	49,593			100,467		568,816
Public service	379,904	86,693	2,224		598,197		1,067,018
Academic support	5,455,171	1,442,475	69,390	\$210	2,209,945		9,177,191
Student services	2,452,684	552,974	10,981		1,604,582		4,621,221
Institutional support	3,739,025	1,217,756		200	2,347,240		7,304,221
Operation & maintenance of plant	2,757,664	1,060,929		1,487,208	1,863,347		7,169,148
Student aid	293,506		3,227,426		3,836		3,524,768
Depreciation						\$6,651,348	6,651,348
Auxiliary enterprises	2,051,338	587,052	98,283	420,976	2,772,868		5,930,517
Other expenses	4,704	317			45,198		50,219
Total	\$33,937,271	\$9,452,007	\$3,571,357	\$1,908,594	\$12,941,577	\$6,651,348	\$68,462,154