

SAGINAW VALLEY STATE UNIVERSITY

UNIVERSITY CENTER, MICHIGAN

MEMBERS OF THE BOARD OF CONTROL  
AND BUSINESS AFFAIRS ADMINISTRATION

JUNE 30, 2010

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SAGINAW VALLEY STATE UNIVERSITY

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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 11.9% from June 30, 2009 to June 30, 2010, .08% from June 30, 2008 to June 30, 2009, and 1.2% from June 30, 2007 to June 30, 2008.
- Operating revenues increased in fiscal 2010, 2009 and 2008 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 11.3% from Fall 2008 to Fall 2009, 10.6% from Fall 2007 to Fall 2008, and 5.9% from Fall 2006 to Fall 2007.
- Headcount enrollment increased from 9,662 in Fall 2007 to 9,837 in Fall 2008 and to 10,498 in Fall 2009. Credit hours increased from 229,646 in 2007 to 233,412 in 2008, 240,842 in 2009 and 258,524 in 2010.

**FINANCIAL STATEMENT SUMMARIES**

Net assets are summarized in the table below.

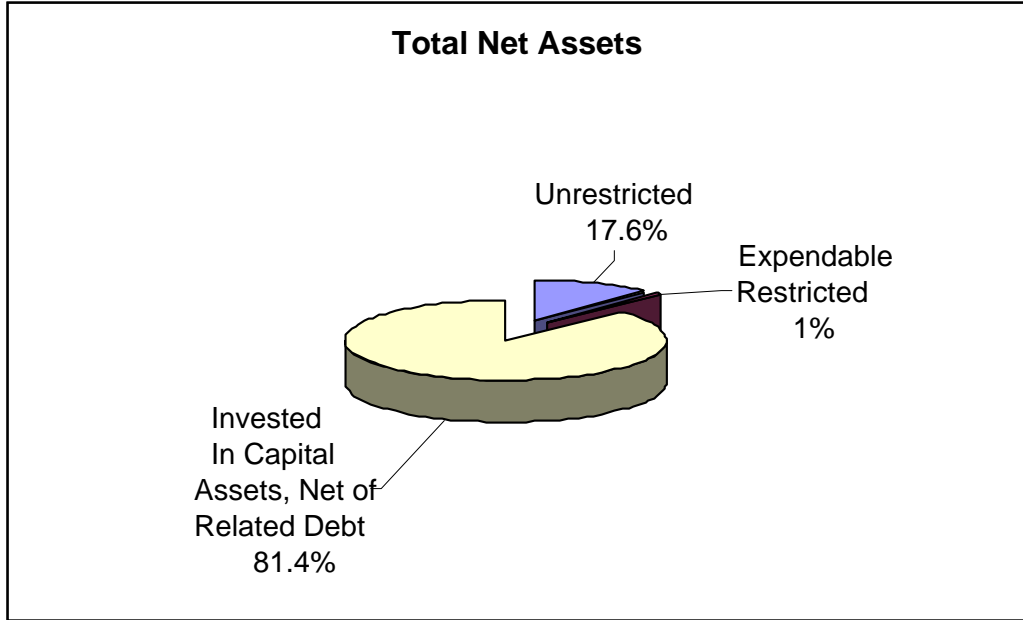
	<b>Statements of Net Assets</b>		
	<b>June 30</b>		
	<b>(in thousands of dollars)</b>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Assets</b>			
Current Assets	\$ 79,401	\$ 53,643	\$ 62,636
Noncurrent Assets:			
Other	205	7,386	4,993
Capital	283,695	266,157	251,065
Total Assets	<u>363,301</u>	<u>327,186</u>	<u>318,694</u>
<b>Liabilities</b>			
Current Liabilities	30,311	22,635	24,614
Noncurrent Liabilities	131,232	124,305	113,987
Total Liabilities	<u>161,543</u>	<u>146,940</u>	<u>138,601</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	164,240	146,347	148,079
Restricted – Expendable	2,086	1,779	1,746
Unrestricted	35,432	32,120	30,268
Total Net Assets	<u>\$201,758</u>	<u>\$180,246</u>	<u>\$180,093</u>

The University's largest asset is its investment in capital assets, including land, land improvements and infrastructure, buildings, equipment, library acquisitions, and construction in progress. Capital assets represent 78% of the University's total assets. Notes and bonds payable totaled \$130.9 million at

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

June 30, 2010. This represents 81% 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, 2010. The following summarizes the internal designations of the unrestricted net assets:

	Unrestricted Net Assets		
	June 30 2010	2009	2008
Capital Projects & Repairs Reserve	\$22,210,285	\$19,757,713	\$19,841,747
Auxiliary Enterprises	1,361,891	1,361,891	1,361,891
Designated for Departmental Use	9,970,727	9,145,068	7,498,192
Amount Obligated by Contractual Commitments	133,359	116,564	54,021
Undesignated	1,755,708	1,738,479	1,511,659
<b>Total Unrestricted Net Assets</b>	<b>\$35,431,970</b>	<b>\$32,119,715</b>	<b>\$30,267,510</b>

**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:

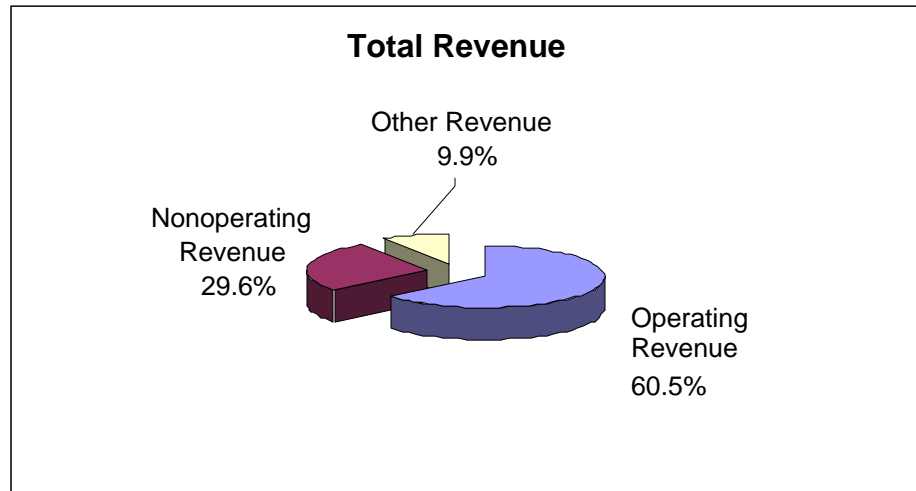
	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(in thousands of dollars)		
<b>Operating Revenues</b>			
Student Tuition and Fees, net	\$ 57,833	\$ 52,865	\$ 49,016
Federal Grants and Contracts	6,251	5,314	4,020
State and Local Grants and Contracts	1,075	1,091	943
Sales & Services of Educational Departments	4,368	3,693	3,442
Auxiliary Enterprises, net	17,621	16,394	14,684
Other Operating Revenues	<u>2,403</u>	<u>2,264</u>	<u>2,091</u>
Total Operating Revenues	89,551	81,621	74,196
<b>Operating Expenses</b>	<u>121,028</u>	<u>113,641</u>	<u>108,538</u>
<b>Operating Loss</b>	(31,477)	(32,020)	(34,342)
<b>Nonoperating Revenues (Expenses)</b>			
State Appropriations	27,710	28,640	30,981
Federal grant - State fiscal stabilization funds	808		
Federal Pell Grant Program	12,935	7,788	6,796
Gifts	1,915	1,264	2,304
Investment Income, net	530	(428)	1,489
Interest on Capital Asset-Related Debt	<u>(5,520)</u>	<u>(5,459)</u>	<u>(6,952)</u>
Net Nonoperating Revenues	<u>38,378</u>	<u>31,805</u>	<u>34,618</u>
<b>Income (Loss) Before Other Revenues</b>	6,901	(215)	276
Capital Appropriations	14,532	267	1,683
Capital Grants and Gifts	<u>79</u>	<u>101</u>	<u>260</u>
Total Other Revenues	<u>14,611</u>	<u>368</u>	<u>1,943</u>
Increase in Net Assets	21,512	153	2,219
Net Assets at Beginning of Year	<u>180,246</u>	<u>180,093</u>	<u>177,874</u>
Net Assets at End of Year	<u><u>\$ 201,758</u></u>	<u><u>\$ 180,246</u></u>	<u><u>\$ 180,093</u></u>

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

Since 2001, SVSU as well as its sister institutions in Michigan have experienced the impact of a poor economy and deficit-ridden state budget. The University's year-end state appropriations accrual as of June 30, 2007 reflected the July 2007 payment less a base operations reduction of \$822,400 as signed into law via Public Act 17 of 2007. The August payment of \$2,624,800 was delayed by Executive Order 2007-3 and Public Act 17 of 2007. Since at the time the fiscal 2007 financial statements were issued there was no appropriated commitment by the State of Michigan to honor the August payment, the amount was not recognized as revenue or a receivable at June 30, 2007. The University did receive the August 2007 payment in October 2007 and recorded this amount as fiscal 2008 State Appropriations. For fiscal 2008 through 2010 both the July and August payments were recorded as receivables. For fiscal 2010, the State appropriated \$807,600 to the University from their state fiscal stabilization fund. This represents Federal American Recovery and Reinvestment Act funds which are reported as nonoperating revenue.

Capital appropriations represent the State of Michigan's contribution to the Health & Human Services building for fiscal 2010 and to Pioneer Hall for fiscal 2009 and 2008. 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:



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

The following table summarizes cash flows for the years ended June 30:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(in thousands of dollars)</b>		
<b>Cash Provided (Used) By:</b>			
Operating Activities	(\$17,905)	(\$20,898)	(\$21,561)
Noncapital Financing Activities	43,320	37,851	36,799
Capital Financing Activities	(25,918)	(19,796)	(14,309)
Investing Activities	7,710	(2,831)	1,585
Net Increase (Decrease)	7,207	(5,674)	2,514
Cash and Cash Equivalents at Beginning of Year	34,699	40,373	37,859
Cash and Cash Equivalents at End of Year	\$41,906	\$34,699	\$40,373

**OPERATING EXPENSES**

The University reports expenditures on a functional basis. Operating expenses were \$121,028,230 in fiscal 2010, an increase of 6.5% over the prior year. The following summarizes operating expenses for the years ended June 30:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(in thousands of dollars)</b>		
<b>Educational and General</b>			
Instruction	\$ 38,853	\$ 37,333	\$ 34,836
Research	796	688	570
Public Service	2,626	2,408	2,535
Academic Support	14,920	14,042	12,864
Student Services	6,189	5,701	5,286
Institutional Support	12,464	11,879	11,897
Operations and Maintenance of Plant	11,250	11,574	12,266
Depreciation	11,759	11,323	11,548
Student Aid	9,011	6,346	5,391
Auxiliary Enterprises	13,160	12,347	11,345
Total Operating Expenses	\$ 121,028	\$ 113,641	\$ 108,538

Effective for fiscal 2008 and forward, the University increased the threshold it uses for capitalizing assets from \$500 to \$5,000. The impact of this change was an increase in expense of approximately \$3,214,000 for fiscal year 2008, the majority of which is reflected in Operations and Maintenance of Plant.

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

**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 2010 expenditures for capital projects approximated \$29.3 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 issued General Revenue Bonds, Series 2010A, in the amount of \$29,590,000 in May 2010. Proceeds from the bonds were used to refund prior General Revenue bonds to reduce debt service and to finance various capital projects. Moody's Investors Services, Inc. and Standard & Poor's Ratings Services have rated the bonds "A1" and "A", respectively.

**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 \$797,000 of administrative support to the Foundation during fiscal 2010. 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 \$1,994,541 in fiscal 2010.

As of June 30, 2010 the market value of approximately 65% of the Foundation's endowments was below the gift value. The Foundation's spending policy is to distribute four percent annually, with distributions made quarterly. Distributions are based on the average market value of the endowment for the preceding twelve calendar quarters, with the calculation made September 30 of each year.

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

The September 30 per unit market value is utilized for distributions for the four quarterly distributions of the next fiscal year. However, the policy does not allow distribution if the individual endowment value is below historical gift value at each quarter end. As a result, many of the endowments did not distribute for one or more of the quarters during fiscal 2010.

The net assets of the Foundation were as follows as of June 30:

	2010	2009	2008
Nonexpendable Restricted	\$36,976,637	\$35,868,402	\$34,794,240
Expendable Restricted	403,158	723,590	3,055,622
Unrestricted	3,890,338	808,151	4,489,964
	<u>\$41,270,133</u>	<u>\$37,400,143</u>	<u>\$42,339,826</u>



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

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, 2010 and 2009 and Saginaw Valley State University Foundation, a discretely presented component unit of the University, as of and for the years ended June 30, 2010 and 2009. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2010 and 2009, 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 20, 2010 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 audit.

The Management's Discussion and Analysis (MD&A) on pages i to viii 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 PLC*

Saginaw, Michigan  
August 20, 2010

**SAGINAW VALLEY STATE UNIVERSITY**

**STATEMENTS OF NET ASSETS**

	June 30, 2010		June 30, 2009	
	SVSU	Component Unit SVSU Foundation	SVSU	Component Unit SVSU Foundation
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 41,905,892	\$ 2,154,582	\$ 34,699,345	\$ 3,002,304
Short-term investments		54,590		52,385
Accounts receivable, net	18,031,197	708,995	2,271,811	1,755,331
State appropriations receivable - operations	5,038,200		5,207,236	
State appropriations receivable - charter schools	11,452,370		8,516,517	
Inventories and prepaid expenses	2,966,830		2,941,462	
Notes receivable, net	6,171		6,527	
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Total current assets	79,400,660	2,918,167	53,642,898	4,810,020
<b>Noncurrent Assets</b>				
Cash and cash equivalents, restricted		53,656		60,295
Notes receivable, net	12,342		13,252	
Accounts receivable, net		3,150,574		2,829,776
Endowment investments		35,399,197		29,945,211
Other long-term investments	192,879		7,372,663	
Capital assets, net	283,694,966		266,157,132	
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Total noncurrent assets	283,900,187	38,603,427	273,543,047	32,835,282
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<b>Total assets</b>	363,300,847	41,521,594	327,185,945	37,645,302
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities	8,535,045	251,461	7,284,394	245,159
Deferred revenues	6,924,112		5,272,200	
Deposits	10,109,900		7,317,323	
Long-term liabilities - current portion	4,741,995		2,761,757	
	<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities	30,311,052	251,461	22,635,674	245,159
<b>Noncurrent Liabilities</b>				
Deferred revenues	1,440,000			
Long-term liabilities, net of current portion	129,791,495		124,304,808	
	<hr/>	<hr/>	<hr/>	<hr/>
Total noncurrent liabilities	131,231,495	-	124,304,808	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total liabilities</b>	161,542,547	251,461	146,940,482	245,159
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	164,240,442		146,346,587	
Nonexpendable Restricted				
Scholarships		13,418,816		11,771,553
Endowed chairs		11,423,099		11,423,099
Other		12,134,722		12,673,750
Expendable Restricted				
Capital		50,000		87,000
Scholarships and fellowships	844,869	50,933	688,346	195,633
Research	65,888		65,355	
Instructional department use	309,663		210,303	
Loans	2,503		4,089	
Other	862,965	302,225	811,068	440,957
Unrestricted	35,431,970	3,890,338	32,119,715	808,151
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<b>Total net assets</b>	\$ 201,758,300	\$ 41,270,133	\$ 180,245,463	\$ 37,400,143
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**SAGINAW VALLEY STATE UNIVERSITY**

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

	For the year ended June 30, 2010		For the year ended June 30, 2009	
	SVSU	Component Unit SVSU Foundation	SVSU	Component Unit SVSU Foundation
<b>REVENUES</b>				
Operating revenues				
Student tuition and fees	\$ 71,099,791		\$ 62,340,054	
Less: Scholarship allowances	(13,266,292)		(9,474,709)	
	57,833,499		52,865,345	
Federal grants and contracts	6,251,247		5,313,983	
State and local grants and contracts	1,074,776		1,090,453	
Gifts		\$ 1,861,574		\$ 2,827,886
Sales and services of educational departments	4,368,138		3,692,711	
Auxiliary enterprises	20,784,784		18,630,057	
Less: Scholarship allowances	(3,163,698)		(2,236,312)	
	17,621,086		16,393,745	
Other operating revenues	2,402,582		2,264,439	
	89,551,328	1,861,574	81,620,676	2,827,886
Total operating revenues				
<b>EXPENSES</b>				
Operating expenses				
Educational and general				
Instruction	38,864,357		37,333,093	
Research	796,612		687,643	
Public service	2,626,286		2,407,537	
Academic support	14,919,914		14,041,945	
Student services	6,188,969		5,701,201	
Institutional support	12,452,651	920,416	11,878,820	831,182
Operations and maintenance of plant	11,249,996		11,574,500	
Depreciation	11,758,730		11,322,924	
Student aid	9,011,043		6,346,089	
Auxiliary enterprises	13,159,672		12,347,458	
	121,028,230	920,416	113,641,210	831,182
Total operating expenses				
Operating income (loss)	(31,476,902)	941,158	(32,020,534)	1,996,704
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	27,710,100		28,639,800	
Federal grant - State fiscal stabilization fund	807,600			
Federal Pell Grant Program	12,935,067		7,788,071	
Gifts	1,915,456	(1,915,456)	1,263,805	(1,263,805)
Investment income, net	530,035	3,815,138	(427,961)	(6,645,916)
Interest on capital asset-related debt	(5,520,068)		(5,458,607)	
Net nonoperating revenues (expenses)	38,378,190	1,899,682	31,805,108	(7,909,721)
Income (loss) before other revenues (expenses)	6,901,288	2,840,840	(215,426)	(5,913,017)
Capital appropriations	14,532,464		267,242	
Additions to permanent endowments		1,108,235		1,074,162
Capital grants and gifts	79,085	(79,085)	100,828	(100,828)
Total other revenues (expenses)	14,611,549	1,029,150	368,070	973,334
Increase (decrease) in net assets	21,512,837	3,869,990	152,644	(4,939,683)
Net assets - beginning of year	180,245,463	37,400,143	180,092,819	42,339,826
Net assets - end of year	\$ 201,758,300	\$ 41,270,133	\$ 180,245,463	\$ 37,400,143

**SAGINAW VALLEY STATE UNIVERSITY**

**STATEMENTS OF CASH FLOWS**

	<b>For the years ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash Flows from Operating Activities</b>		
Student tuition and fees	\$ 57,827,386	\$ 52,743,269
Grants and contracts	6,680,751	6,257,770
Payments to suppliers	(24,911,754)	(24,922,651)
Payments for utilities	(3,561,155)	(3,799,741)
Payments to employees	(53,160,201)	(51,191,039)
Payments for benefits	(16,947,047)	(15,598,212)
Payments for scholarships and fellowships	(9,377,500)	(6,482,211)
Federal share of Perkins loans	(10,804)	(16,343)
Collection of loans to students	1,266	16,033
Auxiliary enterprises charges	17,216,919	15,937,099
Sales and services	5,934,922	3,893,304
Other receipts	2,402,582	2,264,439
<b>Net cash used by operating activities</b>	<b>(17,904,635)</b>	<b>(20,898,283)</b>
<b>Cash Flows from Noncapital Financing Activities</b>		
State appropriations	27,879,136	28,588,236
Federal grant - State fiscal stabilization fund	807,600	
Federal Pell Grant Program	12,815,291	7,813,855
Federal Direct Lending receipts	53,031,298	42,577,827
Federal Direct Lending disbursements	(53,031,298)	(42,577,827)
Gifts	1,817,436	1,449,560
<b>Net cash provided by noncapital financing activities</b>	<b>43,319,463</b>	<b>37,851,651</b>
<b>Cash Flows from Capital Financing Activities</b>		
Capital appropriations	48,269	337,537
Capital grants and gifts received	79,085	100,828
Principal paid on capital debt	(22,440,000)	(2,235,000)
Proceeds from capital debt	29,590,000	12,555,000
Proceeds from capital debt premium	1,471,071	
Interest paid on capital debt and related costs	(6,282,515)	(5,330,724)
Purchase of capital assets	(28,384,010)	(25,223,682)
<b>Net cash used by capital financing activities</b>	<b>(25,918,100)</b>	<b>(19,796,041)</b>
<b>Cash Flows from Investing Activities</b>		
Interest on investments	4,436	266,952
Purchase of investments		(6,368,926)
Proceeds from redemption of investments	7,705,383	3,270,718
<b>Net cash provided (used) by investing activities</b>	<b>7,709,819</b>	<b>(2,831,256)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		
Cash and cash equivalents - beginning of year	34,699,345	40,373,274
Cash and cash equivalents - end of year	<b>\$ 41,905,892</b>	<b>\$ 34,699,345</b>

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

	<b>For the years ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Reconciliation of operating loss to net cash used by operating activities</b>		
<b>Operating loss</b>	\$ (31,476,902)	\$ (32,020,534)
<b>Adjustments to reconcile operating loss to net cash used by operating activities:</b>		
Depreciation	11,758,730	11,322,924
Changes in assets and liabilities:		
Accounts receivable, net	(3,993,248)	3,565,878
Inventories and prepaid expenses	184,906	(52,318)
Notes receivable, net	1,266	16,033
Accounts payable and accrued liabilities	858,097	(50,657)
Deferred revenues	1,711,903	4,419
Deposits	2,792,577	(4,095,092)
Compensated absences	268,840	427,407
Student loans - federal	(10,804)	(16,343)
<b>Net cash used by operating activities</b>	<b>\$ (17,904,635)</b>	<b>\$ (20,898,283)</b>

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

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 codification sections applicable on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB codification sections applicable after November 30, 1989.

The Foundation has applied the recognition principles of all applicable FASB pronouncements issued to date. Certain disclosures conform more to the GASB presentation than what may be required by FASB.

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. When both restricted and unrestricted resources are available for expenses, the University applies the restricted and unrestricted resources at its discretion.

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 are for the University's fiscal year ending June 30 and are generally paid in eleven monthly installments from October through August. For fiscal 2010, the State appropriated \$807,600 to the University from their state fiscal stabilization fund. This represents Federal American Recovery and Reinvestment Act funds which are reported as nonoperating revenue.

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 expense 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.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE A – SIGNIFICANT ACCOUNTING POLICIES  
(continued)

Institutional Physical Properties

Physical properties are stated at cost or, when donated, at fair market value at date of gift. The University uses a \$5,000 threshold for capitalizing assets. Depreciation is computed using the straight-line method over the useful life of the property as follows:

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

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

Reclassifications

Certain fiscal year 2009 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, 2010 or 2009.

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.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE B - CASH AND CASH EQUIVALENTS AND INVESTMENTS-UNIVERSITY  
(continued)

Credit Risk-Continued

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.

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.

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, Treasury Money Market Funds, or previously the Commonfund Short Term Fund. The yield was 0.02% for 2010 and 0.54% for 2009. The University's noncurrent investments consisted of investment in the Commonfund Short Term Fund and Absolute Return Fund. In September 2008 the Commonfund froze 90% of the assets in the Short Term fund due to market conditions. As of June 30, 2010 the fund had released all of the original assets. The University had included the illiquid portion of the Short Term fund in noncurrent investments, until received. The Commonfund is also liquidating the Absolute Return fund. As of June 30, 2010 the fund had released all but \$192,879.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

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

The following table summarizes the components of the University's cash and cash equivalents and investments at June 30, 2010 and 2009:

<u>Investment Type</u>	<u>Rating</u>	<u>Fair Market Value</u>	
		<u>2010</u>	<u>2009</u>
Deposits:			
Bank of America	Moody's Aa3 P-1 Standard & Poor's A-1	\$ 15,298,005	\$ 12,090,209
Commonfund Short Term Fund			6,320,345
Columbia Treasury Reserves	AAA	13,013,537	13,012,382
Fidelity Institutional Treasury	AAA	13,546,697	9,541,484
Investments:			
Mutual Funds – Commonfund Absolute Return Fund	N/A	192,879	1,052,318
		\$ 42,051,118	\$ 42,016,738
Less Investments Reported as "Cash and Cash Equivalents" on Statement of Net Assets		(41,858,239)	(34,644,075)
Total Investments		<u>\$ 192,879</u>	<u>\$ 7,372,663</u>
<b><u>As reported on the Statement of Net Assets</u></b>			
Noncurrent Investments		\$ 192,879	\$ 7,372,663
Total Investments		<u>\$ 192,879</u>	<u>\$ 7,372,663</u>
Investments Reported as Cash and Cash Equivalents		\$ 41,858,239	\$ 34,644,075
Cash		47,653	55,270
Total Cash and Cash Equivalents		<u>\$ 41,905,892</u>	<u>\$ 34,699,345</u>

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

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

Foreign Currency Risk

The University did not have holdings in foreign investments as of June 30, 2010 or 2009.

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, 2010 were \$42,140,740. Of that balance \$41,639,304 was uninsured and uncollateralized. Cash and cash equivalents as reflected in the accounts of the investment institutions at June 30, 2009 were \$35,268,407. Of that balance \$35,001,436 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, 2010 or 2009.

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 requires that fixed income investments emphasize high-quality and that on average, the portfolio should have a rating of "A" or better as defined by a majority of the major credit rating agencies.

Interest Rate Risk

As a means of managing its exposure to fair value losses arising from increasing interest rates, the Foundation's investment policy limits the maximum maturity for any single security to 40 years; mortgage bonds will be on an average maturity basis with the weighted average maturity not to exceed ten years.

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, 2010 and 2009:

<u>Investment Type</u>	<u>Rating</u>	<u>Fair Market Value</u>	
		<u>2010</u>	<u>2009</u>
Commonfund Short Term Fund			\$ 196,231
Commonfund Intermediate Term Fund	Average Quality of Investments: AA	\$ 13,676	732,009
Equities	N/A	4,935	2,254,016
Mutual Fund - Equities	N/A	15,502,848	10,925,905
Mutual Fund - International Equities	N/A	5,843,329	4,637,402
Mutual Fund - Debt	N/A	10,372,786	7,436,975
Alternative Investments	N/A	3,716,213	3,815,058
Cash and Cash Equivalents	N/A	53,656	60,295
		35,507,443	30,057,891
Less Investments Reported as "Cash and Cash Equivalents, Restricted" on Statement of Net Assets		(53,656)	(60,295)
Total Investments		\$35,453,787	\$29,997,596
<b><u>As reported on the Statement of Net Assets</u></b>			
Short-term Investments		\$ 54,590	\$ 52,385
Endowment Investments		35,399,197	29,945,211
		\$35,453,787	\$29,997,596

The weighted average life of investments in the Commonfund Intermediate Term Fund is 2.9 years and the effective duration is 1.5 years and the average quality is AA.

Mutual Fund – debt have the following quality of investment:

- Harbor Bond Fund – A1/P1 4%, 66% AAA, 11% AA, 10% A, 4% BBB, 5% below investment grade;
- Loomis Sayles Global Bond Fund – 8.6% AAA, 50.6% AA, 20.7% A, 9.8% BBB, 10.3% below investment grade;
- Ridgeworth SEIX Floating Rate High Income Fund – 1.8% BBB, 98.2% below investment grade;
- Vanguard Short-term Bond Fund – 76.5% AAA, 6.4% AA, 9.8% A, 7.3% BBB.

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 other forms of investments is prudent. To accomplish the endowment investment objectives, investment managers are authorized to utilize portfolios of equity securities, fixed-income securities, alternative investments, and short-term investments (cash and cash equivalents). The total portfolio shall be maintained within the following ranges:

	<u>Minimum</u>	<u>Maximum</u>
Equities	50%	70%
Fixed Income	20%	40%
Alternative Investments		20%
Cash/Short-term Investments		10%

The investments shall be reviewed quarterly to ensure the Endowment assets are within these ranges.

To ensure diversification in the investment equity portfolio, the Foundation's investment policy limits investment in an individual common stock to 10% of a given investment manager's portfolio based on market value. Additionally, within each separately managed account, economic sector allocations must be less than twice that of the same economic sector as defined by the market benchmark. For the fixed income portfolio, with the exception of securities guaranteed by the U.S. Government, the securities of single issuers should not exceed five percent of the market value of the investment manager's portfolio.

At June 30, 2010, the Foundation's investments that exceeded five percent of the investment portfolio included the Vanguard Growth Index Fund (\$2,426,752), Vanguard 500 Index Fund (\$4,591,650), DFA US Large Cap Value Portfolio (\$2,817,053), Vanguard Mid Cap Index Fund (\$2,317,394), Harbor International Fund (\$2,130,979), Harbor Bond Fund (\$6,179,310), Vanguard Short-term Bond Fund (\$2,033,393) and the William Blair Funds International Growth Fund Class I (\$2,057,434).

Foreign Currency Risk

The Foundation investment policy states that foreign denominated investments should not exceed 20% of the portfolio. The Foundation's holdings in foreign investments were made in mutual funds as noted above. In addition, the Foundation had \$126,844 in foreign equities at June 30, 2009.

Custodial Credit Risk

The Foundation has engaged Comerica Bank to serve as custodian of the endowment investments. The custodian maintains physical possession of securities owned by the Foundation, collects dividend and interest payments, redeems maturing securities, and affects receipt and delivery following purchases and sales. The custodian also performs regular accounting of all assets owned, purchased or sold.

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

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE C – INVESTMENTS-FOUNDATION  
(continued)

Custodial Credit Risk-Continued

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.

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, excluding State appropriations, as of June 30, 2010 and 2009 are listed below in the table:

	June 30,	
	2010	2009
Tuition and fees	\$ 2,143,356	\$ 1,618,868
Auxiliary enterprises	1,115,093	931,815
Contracts and grants	1,816,257	1,061,864
Sales and services	385,449	390,670
State Building Authority	14,529,796	45,601
Agency accounts	98,746	67,523
Allowance for uncollectible accounts	(2,057,500)	(1,844,530)
Total accounts receivable	\$18,031,197	\$2,271,811

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 \$8,000 at June 30, 2010 and 2009. 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, 2010 was returned in July, 2010.

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 \$5,038,200 at June 30, 2010 and \$5,207,236 at June 30, 2009. Charter schools appropriations receivable were recorded at June 30, 2010 of \$11,452,370 and at June 30, 2009 of \$8,516,517. The University has recorded a corresponding amount due to the charter schools. The University received \$64,131,828 of State appropriations to be forwarded to eighteen (18) charter schools for fiscal 2010 and \$61,257,267 for fiscal 2009.

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, 2010 and 2009 are listed below in the table:

	June 30,	
	2010	2009
Pledges receivable	\$1,047,016	\$2,028,067
Less: allowance for uncollectible pledges	69,467	120,989
Less: discount to reflect promise to give at fair value	54,899	67,766
	922,650	1,839,312
Interest in trusts held by others	2,931,593	2,745,795
Other	5,326	
Total Foundation accounts receivable	\$3,859,569	\$4,585,107
Current	\$ 708,995	\$1,755,331
Noncurrent	3,150,574	2,829,776
Total Foundation accounts receivable	\$3,859,569	\$4,585,107

NOTE E - CAPITAL ASSETS

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

Asset Classification	Balance at June 30, 2009	Additions	Retirements	Balance at June 30, 2010
Land	\$ 1,882,803			\$ 1,882,803
Land improvements and infrastructure	23,829,690	\$ 1,119,729		24,949,419
Buildings	289,605,969	18,744,209	\$ (46,910)	308,303,268
Equipment	42,869,002	3,983,610	\$(7,690,254)	39,162,358
Library acquisitions	10,631,815	782,426	(499,176)	10,915,065
Construction in progress	20,841,191	4,666,590		25,507,781
Works of fine art	607,085			607,085
Accumulated depreciation:				
Land improvements and infrastructure	(12,466,196)	(1,172,273)		(13,638,469)
Buildings	(75,090,519)	(6,984,461)	46,910	(82,028,070)
Equipment	(29,419,393)	(2,949,603)	7,690,254	(24,678,742)
Library acquisitions	(7,134,315)	(652,393)	499,176	(7,287,532)
Total capital assets, net	\$266,157,132	\$17,537,834	\$ 0	\$283,694,966

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,	
	2010	2009
Compensation	\$1,653,971	\$1,417,635
Supplies and construction related expenditures	6,881,074	5,866,759
Total accounts payable and accrued liabilities	\$8,535,045	\$7,284,394

NOTE G - NOTES AND BONDS PAYABLE

The University issued General Revenue Bonds, Series 2010A, in the amount of \$29,590,000, in May 2010. Proceeds from the bonds were used to refund all of the remaining Series 1998 and 2001A Bonds and to fund various capital projects. The refunded bonds will be called for redemption on their respective first call date: July 1, 2010 for both refunded bond series. The bonds were refunded in order to reduce the University's debt service. The difference in the cash flow requirements of the portion of the Series 2010 General Revenue Bonds used to advance refund the old bonds and the refunded old bonds was a gain on refunding of \$2,010,850 (\$34,631,224 debt services of the old bonds versus \$32,620,374 debt service of the new bonds). The present value of the gain at 3.42% is \$1,436,451. The Series 2010A bonds were issued at a premium of \$1,471,071, bear interest at rates ranging from 3.00% - 5.00% and mature at various dates through July 1, 2030.

The University issued General Revenue Bonds, Series 2008B, in the amount of \$12,555,000, in August 2008. Proceeds from the bonds were used to finance construction of new student housing. The bonds bear interest at rates ranging from 3.50% to 5.00% and mature at various dates through July 1, 2038.

The University issued General Revenue Refunding Bonds, Series 2008, in the amount of \$26,845,000 in March 2008 to refund all of the Series 2001B General Revenue Bonds and to pay the related 2001B Bonds swap termination fee of \$1,486,000. The bonds bear interest at rates ranging from 4.00% to 5.00% and mature at various dates through July 1, 2031.

The University issued General Revenue Bonds, Series 2007, in the amount of \$24,435,000 in March 2007 to fund various capital projects. The interest rate of the 2007 bonds range from 4.00% to 5.00% and mature at various dates through July 1, 2037.

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 (done on July 1, 2008 for the 1998 bonds; on July 1, 2009 for the 1999 bonds, and to be done on July 1, 2010 for the 2001A bonds). The bonds were refunded in order to reduce the University's debt service.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE G - NOTES AND BONDS PAYABLE  
(continued)

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	<u>18,360,000</u>
Deferred amount on refunding	<u>\$ 1,472,228</u>

The deferred amount on refunding is being 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 was 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.

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 2001A, in the amount of \$15,560,000 on January 15, 2001 to finance various capital projects.

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.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE G - NOTES AND BONDS PAYABLE  
(continued)

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 4.60% to 5.30% and were originally to mature at various dates through July 1, 2028.

Notes and bonds payable consist of the following:

	Interest Rates	Maturity	Outstanding Balance June 30,	
			2010	2009
General Revenue Bonds, series 2010A	3.00% to 5.00%	2011-2030	\$ 29,590,000	
General Revenue Bonds, series 2008B	3.50% to 4.50%	2010-2038	12,335,000	\$ 12,555,000
General Revenue Refunding Bonds, series 2008	4.00%-5.00%	2016-2031	26,845,000	26,845,000
General Revenue Bonds, series 2007	4.00%-5.00%	2010-2037	24,280,000	24,435,000
General Revenue Bonds, series 2005	4.00%-4.50%	2008-2035	26,495,000	27,010,000
General Revenue Bonds, series 2004B	3.50%-4.625%	2014-2034	2,795,000	2,875,000
General Revenue Bonds, series 2004A	4.00%-5.00%	2008-2034	9,665,000	10,410,000
General Revenue Bonds, series 2001A	4.30%-5.50%	2008-2030		8,435,000
General Revenue Bonds, series 1998	4.85%-5.30%	2008-2028		12,290,000
Total			<u>\$132,005,000</u>	<u>\$124,855,000</u>

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	Total
2011	\$ 4,700,000	\$ 6,232,546	\$ 10,932,546
2012	5,025,000	5,911,650	10,936,650
2013	5,255,000	5,690,525	10,945,525
2014	5,485,000	5,459,400	10,944,400
2015	5,680,000	5,218,439	10,898,439
2016-2020	20,695,000	23,118,547	43,813,547
2021-2025	25,740,000	18,076,363	43,816,363
2026-2030	32,365,000	11,445,225	43,810,225
2031-2035	19,420,000	4,358,119	23,778,119
2036-2038	7,640,000	635,750	8,275,750
	<u>\$132,005,000</u>	<u>\$86,146,564</u>	<u>\$218,151,564</u>
Less: Deferred amount on refunding (net)	(1,118,894)		
Total	<u>\$130,886,106</u>		

The University has a \$260,000 letter of credit at a per annum fee of 1.5 percent. In addition, amounts drawn against the letter of credit include interest at the bank prime rate plus one half percent per annum. No amounts were drawn against the letter of credit at June 30, 2010 or 2009. The letter of credit is secured by general revenues.

On July 15, 2009 the University entered into a \$10 million line of credit at prime as established by The Wall Street Journal, however the rate payable shall never be less that 3.25% per annum. No amounts have been drawn against this line of credit.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE H - LONG-TERM LIABILITIES

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

	Balance at June 30, 2009	Additions	Reductions	Balance at June 30, 2010	Current Portion
Notes and bonds payable:					
General revenue bonds	\$124,855,000	\$29,590,000	\$22,440,000	\$132,005,000	\$4,700,000
Deferred amount on refunding	(1,177,783)		(58,889)	(1,118,894)	(58,889)
Other long-term liabilities:					
Compensated absences	3,361,520	268,840		3,630,360	100,000
Student loans - federal	27,828	152	10,956	17,024	884
Total other liabilities	3,389,348	268,992	10,956	3,647,384	100,884
Total long-term liabilities	<u>\$127,066,565</u>	<u>\$29,858,992</u>	<u>\$22,392,067</u>	<u>\$134,533,490</u>	<u>\$4,741,995</u>

As of June 30, 2010 and 2009, employees had earned but not taken annual vacation leave of approximately \$2,729,000 and \$2,555,000, respectively. The University has a commitment for accumulated sick leave of approximately \$901,000 as of June 30, 2010 and \$807,000 as of June 30, 2009. These amounts are reflected above as liabilities for compensated absences.

NOTE I - UNRESTRICTED NET ASSETS

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

	June 30,	
	2010	2009
Capital projects and repair reserves	\$22,210,285	\$19,757,713
Auxiliary enterprises	1,361,891	1,361,891
Designated for departmental use	9,970,727	9,145,068
Amount obligated by contractual commitments	133,359	116,564
Undesignated	1,755,708	1,738,479
Total unrestricted net assets	<u>\$35,431,970</u>	<u>\$32,119,715</u>

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

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. The costs to complete construction in progress approximate \$24,445,000.

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

The University has entered into lease agreements with the State Building Authority (SBA) and the State of Michigan during prior fiscal years for 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 \$797,000 of administrative support to the Foundation during fiscal 2010 and \$774,000 of support during fiscal 2009. These amounts were recorded as gifts and expenses in the statements of revenues, expenses, and changes in net assets. The Foundation transferred \$1,994,541 to the University during fiscal 2010 and \$1,364,633 during fiscal 2009. These amounts include endowment distributions and restricted and unrestricted gifts. 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. During 2009, the State of Michigan adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). According to UPMIFA, the Foundation may appropriate for spending as much of the endowment as the institution deems prudent for the uses, benefits, purposes and duration for which the particular endowment fund was established, subject to the evaluation of several specific

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE K - SUPPORT ORGANIZATIONS  
(continued)

factors including general economic conditions and the fund's purpose. Although UPMIFA allows spending of the original gift, the Foundation's board policy does not allow for distribution if the individual endowment fund value is below historical gift value at the end of a quarter.

As of June 30, 2010 the market value of approximately 65% of the Foundation's endowments was below the gift value compared to 76% below gift value at June 30, 2009. Therefore, many of the endowments did not distribute for one or more of the quarters during fiscal 2010.

The Foundation classifies the original value of any gifts donated to a permanent endowment as nonexpendable restricted net assets and any subsequent investment returns, realized or unrealized, as expendable restricted or unrestricted net assets.

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 and are not included in these financial statements as a component unit of the University.

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, 2010 and 2009 approximated \$5,442,000 and \$5,240,000, respectively, with annual covered payroll for participants of the plan approximating \$45,349,000 in 2010 and \$43,668,000 in 2009. The University has no liability for past service or post-employment benefit costs.

NOTE M - LIABILITY AND PROPERTY INSURANCE

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

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE N – EXPENDITURES BY NATURAL CLASSIFICATION

The table below lists expenditures by natural classification by function for the fiscal year ending June 30, 2010:

Function	Salary & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Total
Instruction	\$27,565,052	\$ 8,461,079	\$ 189,508		\$ 2,637,718		\$ 38,853,357
Research	453,563	118,713		\$ 2,683	221,653		796,612
Public service	733,521	221,637	10,357		1,660,771		2,626,286
Academic support	6,919,432	2,206,592	138,272		5,655,618		14,919,914
Student services	3,239,296	1,136,243	7,872	9,858	1,795,700		6,188,969
Institutional support	5,978,298	2,152,816			4,332,537		12,463,651
Operations and maintenance of plant	4,065,018	1,699,738	11,000	2,546,197	2,928,043		11,249,996
Depreciation						\$11,758,730	11,758,730
Student aid	384,273		8,726,240		(99,470)		9,011,043
Auxiliary enterprises	4,011,644	1,265,509	294,251	1,002,417	6,585,851		13,159,672
<b>Total</b>	<b>\$53,350,097</b>	<b>\$17,262,327</b>	<b>\$9,377,500</b>	<b>\$3,561,155</b>	<b>\$25,718,421</b>	<b>\$11,758,730</b>	<b>\$121,028,230</b>

The table below lists expenditures by natural classification by function for the fiscal year ending June 30, 2009:

Function	Salary & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Total
Instruction	\$26,638,450	\$ 7,991,377	\$ 205,510		\$ 2,497,756		\$ 37,333,093
Research	389,631	89,837		\$ 2,241	205,934		687,643
Public service	759,306	227,589	2,550		1,418,092		2,407,537
Academic support	6,596,315	2,010,288	36,078		5,399,264		14,041,945
Student services	3,148,024	1,010,470			1,542,707		5,701,201
Institutional support	5,821,282	2,006,889	1,443		4,049,206		11,878,820
Operations and maintenance of plant	3,909,987	1,598,496	12,738	2,790,398	3,262,881		11,574,500
Depreciation						\$11,322,924	11,322,924
Student aid	379,165		5,974,369		(7,445)		6,346,089
Auxiliary enterprises	3,664,640	1,118,983	249,523	1,007,102	6,307,210		12,347,458
<b>Total</b>	<b>\$51,306,800</b>	<b>\$16,053,929</b>	<b>\$6,482,211</b>	<b>\$3,799,741</b>	<b>\$24,675,605</b>	<b>\$11,322,924</b>	<b>\$113,641,210</b>