

**AUDITED FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**SAGINAW VALLEY STATE UNIVERSITY**  
**UNIVERSITY CENTER, MICHIGAN**  
**MEMBERS OF THE BOARD OF CONTROL**  
**AND BUSINESS AFFAIRS ADMINISTRATION**

**JUNE 30, 2016**

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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) for the University and the Financial Accounting Standards Board (FASB) for the Saginaw Valley State University Foundation (Foundation). These financial statements focus on the financial condition and results of the financial position of the University and its component unit, Saginaw Valley State University 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 Position. This statement presents information on all University assets, deferred outflows, and liabilities. It is prepared on an accrual basis - revenues and expenses are recognized when earned or incurred, respectively.
- Statement of Revenues, Expenses, and Change in Net Position. This statement presents a summary of revenues and expenses classified as either operating or nonoperating. The University's operating loss results from the classification of State appropriations and Pell grants as nonoperating revenue. Also, this statement reflects a change in the University's net position 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 standards, 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 position increased by 4.5% from June 30, 2015 to June 30, 2016; 5.5% from June 30, 2014 to June 30, 2015; and 2.3% from June 30, 2013 to June 30, 2014.
- In fiscal 2016, operating revenue increased due to an increase in tuition and fees. In fiscal 2015, there was an increase in operating revenues, which is primarily due to an increase in sales and services revenue. Operating revenues slightly decreased in fiscal 2014 as a result of decreased grants and contracts.

Demand/economic factors underlying this level of performance were as follows:

- Applications increased by 18.3% from Fall 2014 to Fall 2015; increased 1.9% from Fall 2013 to Fall 2014; and decreased 5.6% from Fall 2012 to Fall 2013.
- Headcount decreased in Fall 2015 to 9,766 from Fall 2014 of 9,829 and from 10,245 in Fall 2013. Credit hours also decreased to 245,618 in 2015 from 251,820 in 2015 and 259,728 in 2014.

**FINANCIAL STATEMENT SUMMARIES**

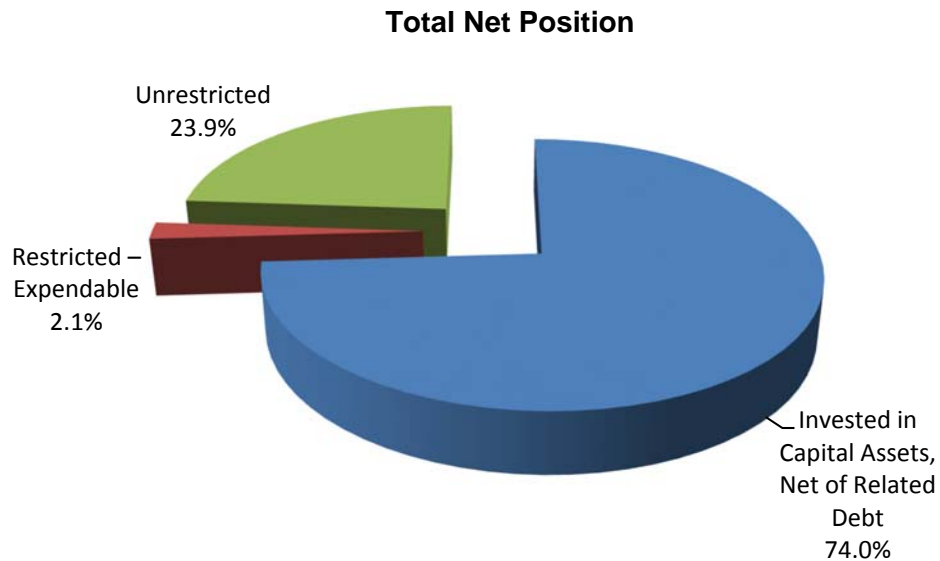
The net position of the University is summarized in the table below as of June 30:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	(in thousands of dollars)		
<b>Assets</b>			
Current Assets	\$ 89,874	\$ 66,598	\$ 70,017
Noncurrent Assets:			
Other	15,689	17,259	15,787
Capital	306,589	312,188	305,364
Total Assets	<u>412,152</u>	<u>396,045</u>	<u>391,168</u>
<b>Deferred Outflows</b>	<u>4,715</u>	<u>1,275</u>	<u>1,277</u>
<b>Liabilities</b>			
Current Liabilities	31,226	33,407	36,447
Noncurrent Liabilities	126,394	115,947	120,933
Total Liabilities	<u>157,620</u>	<u>149,354</u>	<u>157,380</u>
<b>Net Position</b>			
Net Investment in Capital Assets	191,954	194,259	181,042
Restricted	5,410	4,067	3,746
Unrestricted	61,883	49,640	50,277
Total Net Position	<u>\$ 259,247</u>	<u>\$ 247,966</u>	<u>\$ 235,065</u>

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

The University’s largest asset is its investment in capital assets, including land, land improvements and infrastructure, buildings, equipment, library acquisitions, construction in progress, and works of fine art. Capital assets represent 74% of the University’s total assets. Notes and bonds payable totaled \$117.3 million at June 30, 2016. This represents 74% of the University’s total liabilities.

A graphic illustration of the University’s net position at June 30, 2016 by classification and restriction is as follows:



The University’s net position consists of the net investment in capital assets, restricted net position, and unrestricted net position. Restricted net position represents assets whose use is restricted by a party independent of the University. This includes restrictions related to gifts and grants.

Unrestricted net position represents net position of the University that has 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, 2016.

The following summarizes the internal designations of the University unrestricted net position:

	<b>June 30,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	(in thousands of dollars)		
Capital Projects and Repair Reserve	\$ 40,928	\$ 29,404	\$ 32,061
Auxiliary Enterprises	1,362	1,362	1,362
Designated for Departmental Use	17,138	16,757	14,786
Amount Obligated by Contractual Commitments	51	116	73
Undesignated	2,404	2,001	1,995
<b>Total Unrestricted Net Position</b>	<b>\$ 61,883</b>	<b>\$ 49,640</b>	<b>\$ 50,277</b>

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

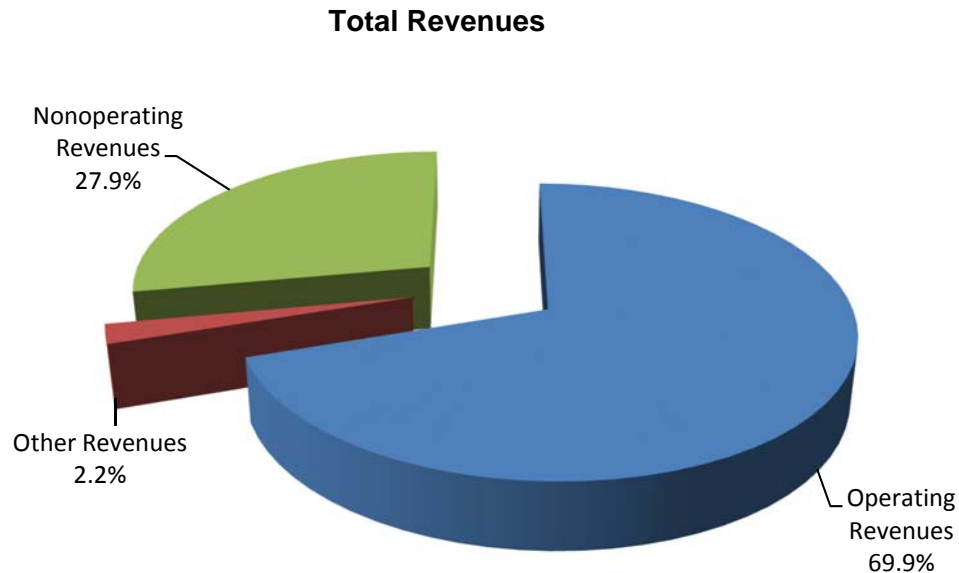
The following table summarizes the University's revenues, expenses, and change in net position for the years ended June 30:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	(in thousands of dollars)		
<b>Operating Revenues</b>			
Student Tuition and Fees, net	\$ 72,125	\$ 69,837	\$ 70,439
Federal Grants and Contracts	2,258	2,595	2,316
State and Local Grants and Contracts	2,161	1,372	837
Sales and Services of Educational Departments	5,208	5,400	5,172
Auxiliary Enterprises, net	19,511	19,853	20,096
Other Operating Revenues	<u>2,510</u>	<u>3,147</u>	<u>2,693</u>
Total Operating Revenues	103,773	102,204	101,553
<b>Operating Expenses</b>	<u>137,177</u>	<u>133,948</u>	<u>134,705</u>
<b>Operating Loss</b>	(33,404)	(31,744)	(33,152)
<b>Nonoperating Revenues (Expenses)</b>			
State Appropriations	28,181	27,619	25,991
Federal Pell Grant Program	13,216	14,328	14,651
Gifts	4,511	3,666	2,839
Investment Income, net	380	237	194
Interest on Capital Asset-Related Debt	<u>(4,835)</u>	<u>(5,058)</u>	<u>(5,478)</u>
Net Nonoperating Revenues	<u>41,453</u>	<u>40,792</u>	<u>38,197</u>
<b>Income Before Other Revenues</b>	8,049	9,048	5,045
<b>Other Revenues</b>			
Capital Appropriations	2,128	3,789	
Capital Grants and Gifts	<u>1,104</u>	<u>64</u>	<u>249</u>
Total Other Revenues	<u>3,232</u>	<u>3,853</u>	<u>249</u>
Increase in Net Position	11,281	12,901	5,294
Net Position - Beginning of Year	<u>247,966</u>	<u>235,065</u>	<u>229,771</u>
Net Position - End of Year	<u>\$ 259,247</u>	<u>\$ 247,966</u>	<u>\$ 235,065</u>

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

Capital appropriations during the current and prior years represent the State of Michigan contribution to the renovations of Wickes Hall. Capital grants and gifts relate primarily to gifts received for Zahnow Library renovations in 2016. While during 2015 and 2014 the capital grants and gifts were received primarily for the weight room, MFSM gardens, and pool renovations.

A graphic illustration of each University revenue source for the year ended June 30, 2016 follows:



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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	(in thousands of dollars)		
<b>Cash Provided (Used) By:</b>			
Operating Activities	\$ (17,640)	\$ (18,743)	\$ (17,793)
Noncapital Financing Activities	46,072	44,990	43,258
Capital Financing Activities	(2,297)	(34,156)	(32,064)
Investing Activities	<u>1,950</u>	<u>(1,243)</u>	<u>2,577</u>
Net Increase (Decrease)	28,085	(9,152)	(4,022)
Cash and Cash Equivalents - Beginning of Year	<u>38,475</u>	<u>47,627</u>	<u>51,649</u>
Cash and Cash Equivalents - End of Year	<u>\$ 66,560</u>	<u>\$ 38,475</u>	<u>\$ 47,627</u>



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

**OPERATING EXPENSES**

The University reports expenses on a functional basis. Operating expenses were \$137,177,249 in fiscal 2016, an increase of 2.4% over the prior year. The following summarizes the University's operating expenses for the years ended June 30:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	(in thousands of dollars)		
Educational and General:			
Instruction	\$ 43,506	\$ 42,963	\$ 42,546
Research	1,122	1,086	942
Public Service	3,514	3,771	4,370
Academic Support	15,271	14,471	14,157
Student Services	7,797	7,930	7,559
Institutional Support	13,652	13,035	13,428
Operations and Maintenance of Plant	13,282	12,744	13,774
Depreciation	15,189	14,286	13,969
Student Aid	8,626	8,349	8,383
Auxiliary Enterprises	<u>15,218</u>	<u>15,313</u>	<u>15,577</u>
Total Operating Expenses	<u>\$ 137,177</u>	<u>\$ 133,948</u>	<u>\$ 134,705</u>

**CAPITAL ASSETS/LONG-TERM DEBT**

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

The University engaged consultants to update the master plan which was finalized in fiscal 2013. The University also engaged consulting engineers to review the condition of the University's roofs, roads, and parking lots. The University then prepared a detailed deferred maintenance analysis of all infrastructure incorporating the results of the external reviews.

The University Board of Control has reviewed a long-term capital development and related financing plan. Fiscal 2016 and 2015 expenditures for capital projects approximated \$9.6 million and \$22.3 million, respectively, and were funded with University general revenue bonds, capital gifts, and other available University resources.

***University Rating***

The University issued General Revenue & Refunding Bonds, Series 2016A, in the amount of \$62,280,000 in April 2016. Proceeds from the bonds were used to refund prior General Revenue Bonds and to partially fund the renovations of Zahnow Library. Moody's Investors Services, Inc. and Standard & Poor's Ratings Services rated the bonds "A1" and "A", respectively.

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

**FACTORS OR CONDITIONS IMPACTING FUTURE PERIODS**

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

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

State appropriations increased by approximately 2.0% in fiscal 2016. The State implemented performance funding for a portion of the State appropriations allocation beginning in fiscal 2013. The University received \$496,100 related to the performance funding criteria during fiscal 2016.

**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 \$765,000 of administrative support to the Foundation during fiscal 2016. This support is reflected as institutional support in the University's financial statements and as gift revenue and corresponding administrative expenses in the Foundation's financial statements. The University received endowment distributions and unrestricted and restricted gifts of \$5,372,767 in fiscal 2016 from the Foundation.

As of June 30, 2016, the Foundation had 316 endowments, of which 23 were below their gift value. At June 30, 2015, all 317 endowments were at or above their gift value. The Foundation's spending policy is to distribute 4% 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. 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, some of the endowments did not distribute for one or more of the quarters during fiscal 2016.

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

	<b>2016</b>	<b>2015</b>	<b>2014</b>
	(in thousands of dollars)		
Unrestricted	\$ 9,207	\$ 9,796	\$ 9,901
Temporarily Restricted	12,009	13,957	14,860
Permanently Restricted	52,692	51,219	50,325
	\$ 73,908	\$ 74,972	\$ 75,086

## Report of Independent Auditors

Board of Control  
Saginaw Valley State University

### Report on the Financial Statements

We have audited the accompanying financial statements of Saginaw Valley State University (University), a component unit of the State of Michigan, and Saginaw Valley State University Foundation (Foundation), a discretely presented component unit of the University, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University's financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express opinions 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Saginaw Valley State University and its discretely presented component unit, Saginaw Valley State University Foundation, as of June 30, 2016 and 2015, and the respective changes in financial position and Saginaw Valley State University cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through vii be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2016 on our consideration of Saginaw Valley State University's internal control over financial reporting and on 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* in considering the University's internal control over financial reporting and compliance.

*Andrews Hooper Pavlik PLC*

Saginaw, Michigan  
August 26, 2016

**SAGINAW VALLEY STATE UNIVERSITY**

**STATEMENTS OF NET POSITION**

	<b>June 30,</b>	
	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 66,560,064	\$ 38,475,475
Accounts receivable, net	4,916,500	10,672,573
State appropriations receivable - operations	5,123,856	5,020,038
State appropriations receivable - charter schools	11,714,210	11,533,948
Inventories and prepaid expenses	<u>1,558,974</u>	<u>895,741</u>
Total current assets	89,873,604	66,597,775
<b>Noncurrent Assets</b>		
Notes receivable, net	10,155	10,155
Other long-term investments	15,679,417	17,248,691
Capital assets, net	<u>306,588,911</u>	<u>312,188,060</u>
Total noncurrent assets	<u>322,278,483</u>	<u>329,446,906</u>
Total assets	<u>412,152,087</u>	<u>396,044,681</u>
<b>DEFERRED OUTFLOWS</b>		
Refunding of debt	<u>4,714,844</u>	<u>1,274,746</u>
Total deferred outflows	<u>4,714,844</u>	<u>1,274,746</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	5,208,609	5,712,011
Unearned revenues	5,950,939	9,933,102
Deposits	12,865,975	12,926,598
Long-term liabilities - current portion	<u>7,200,000</u>	<u>4,835,000</u>
Total current liabilities	31,225,523	33,406,711
<b>Noncurrent Liabilities</b>		
Unearned revenues	12,067,607	1,190,002
Long-term liabilities, net of current portion	<u>114,326,851</u>	<u>114,757,223</u>
Total noncurrent liabilities	<u>126,394,458</u>	<u>115,947,225</u>
Total liabilities	<u>157,619,981</u>	<u>149,353,936</u>
<b>NET POSITION</b>		
Net investment in capital assets	191,953,580	194,259,231
Restricted for:		
Expendable Restricted		
Scholarships and fellowships	1,420,219	1,109,125
Research	513,391	264,780
Instructional department use	1,283,589	1,143,368
Loans	3,122	3,117
Other	2,190,071	1,546,236
Unrestricted	<u>61,882,978</u>	<u>49,639,634</u>
Total net position	<u>\$ 259,246,950</u>	<u>\$ 247,965,491</u>

**SAGINAW VALLEY STATE UNIVERSITY FOUNDATION**

**STATEMENTS OF FINANCIAL POSITION**

	<b>June 30,</b>	
	2016	2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,938,097	\$ 7,230,902
Accounts receivable, net	13,865	12,834
Contributions receivable, net	2,610,148	3,000,649
Investments	63,192,457	61,129,862
Cash value of life insurance	128,178	109,083
Beneficial interest trusts	4,993,709	5,166,560
<b>Total assets</b>	<b>\$ 74,876,454</b>	<b>\$ 76,649,890</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	\$ 692,572	\$ 1,389,224
Charitable gift annuities payable	275,474	288,639
Total liabilities	968,046	1,677,863
<b>Net assets</b>		
Unrestricted	9,207,026	9,796,523
Temporarily restricted	12,008,741	13,956,901
Permanently restricted	52,692,641	51,218,603
Total net assets	73,908,408	74,972,027
<b>Total liabilities and net assets</b>	<b>\$ 74,876,454</b>	<b>\$ 76,649,890</b>

**SAGINAW VALLEY STATE UNIVERSITY**

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

<b>REVENUES</b>	<b>For the year ended June 30,</b>	
	2016	2015
Operating revenues		
Student tuition and fees	\$ 92,938,201	\$ 89,239,236
Less: Scholarship allowances	(20,813,513)	(19,402,250)
	72,124,688	69,836,986
Federal grants and contracts	2,257,625	2,594,644
State and local grants and contracts	2,161,023	1,372,402
Sales and services of educational departments	5,208,234	5,399,773
Auxiliary enterprises	23,926,545	24,236,470
Less: Scholarship allowances	(4,415,110)	(4,382,898)
	19,511,435	19,853,572
Other operating revenues	2,509,686	3,146,747
Total operating revenues	103,772,691	102,204,124
 <b>EXPENSES</b>		
Operating expenses		
Educational and general		
Instruction	43,505,573	42,963,484
Research	1,121,499	1,085,606
Public service	3,513,826	3,771,305
Academic support	15,270,614	14,470,964
Student services	7,797,324	7,929,621
Institutional support	13,652,207	13,034,882
Operations and maintenance of plant	13,282,091	12,744,375
Depreciation	15,189,300	14,285,407
Student aid	8,626,442	8,349,072
Auxiliary enterprises	15,218,373	15,312,907
Total operating expenses	137,177,249	133,947,623
Operating loss	(33,404,558)	(31,743,499)
 <b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	28,181,200	27,618,698
Federal Pell Grant Program	13,216,249	14,327,887
Gifts	4,511,349	3,666,554
Investment income, net	380,114	237,120
Interest on capital asset-related debt	(4,835,304)	(5,058,492)
Net nonoperating revenues	41,453,608	40,791,767
Income before other revenues	8,049,050	9,048,268
Other Revenues		
Capital appropriations	2,127,786	3,788,940
Capital grants and gifts	1,104,623	63,411
Net other revenues	3,232,409	3,852,351
Increase in net position	11,281,459	12,900,619
Net position - beginning of year	247,965,491	235,064,872
Net position - end of year	\$ 259,246,950	\$ 247,965,491





**SAGINAW VALLEY STATE UNIVERSITY**

**STATEMENTS OF CASH FLOWS**

	<b>For the years ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash Flows from Operating Activities</b>		
Student tuition and fees	\$ 74,369,362	\$ 67,981,076
Grants and contracts	3,826,608	4,415,960
Payments to suppliers	(27,786,958)	(26,703,463)
Payments for utilities	(3,100,113)	(3,434,551)
Payments to employees	(61,393,544)	(59,986,463)
Payments for benefits	(21,336,587)	(20,852,077)
Payments for scholarships and fellowships	(8,386,820)	(8,078,572)
Collection of loans to students, net		8,400
Federal share of Perkins and Nurse Faculty loans	39	192
Auxiliary enterprises charges	18,896,347	20,202,193
Sales and services	4,761,866	4,557,411
Other receipts	2,509,686	3,146,747
<b>Net cash from operating activities</b>	<b>(17,640,114)</b>	<b>(18,743,147)</b>
<b>Cash Flows from Noncapital Financing Activities</b>		
State appropriations	28,077,382	27,324,300
Federal Pell Grant Program	13,448,680	14,070,497
Federal Direct Lending receipts	51,290,255	53,392,750
Federal Direct Lending disbursements	(51,290,255)	(53,392,750)
Gifts	4,546,141	3,594,892
<b>Net cash from noncapital financing activities</b>	<b>46,072,203</b>	<b>44,989,689</b>
<b>Cash Flows from Capital Financing Activities</b>		
Capital grants and gifts received	6,788,150	63,411
Proceeds from capital debt	62,280,000	18,525,000
Proceeds from capital debt premium	8,712,909	
Principal paid on capital debt	(60,420,000)	(24,720,000)
Interest paid on capital debt and related costs	(9,131,923)	(5,713,604)
Purchase of capital assets	(10,526,024)	(22,310,336)
<b>Net cash from capital financing activities</b>	<b>(2,296,888)</b>	<b>(34,155,529)</b>
<b>Cash Flows from Investing Activities</b>		
Investment income, net	380,114	237,120
Purchase of investments		(1,480,092)
Proceeds from redemption of investments	1,569,274	
<b>Net cash from investing activities</b>	<b>1,949,388</b>	<b>(1,242,972)</b>
<b>Net change in cash and cash equivalents</b>	<b>28,084,589</b>	<b>(9,151,959)</b>
Cash and cash equivalents - beginning of year	38,475,475	47,627,434
Cash and cash equivalents - end of year	<b>\$ 66,560,064</b>	<b>\$ 38,475,475</b>

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

	<b>For the years ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Reconciliation of operating loss to net cash from operating activities</b>		
<b>Operating loss</b>	\$ (33,404,558)	\$ (31,743,499)
<b>Adjustments to reconcile operating loss to net cash from operating activities:</b>		
Depreciation	15,189,300	14,285,407
Changes in assets and liabilities:		
Accounts receivable, net	1,752,847	(1,880,572)
Inventories and prepaid expenses	(663,233)	560,583
Notes receivable, net		8,400
Accounts payable and accrued liabilities	572,571	126,512
Unearned revenues	(1,101,046)	331,546
Deposits	(60,623)	(351,711)
Compensated absences	74,589	(80,005)
Student loans - federal	39	192
<b>Net cash from operating activities</b>	<b>\$ (17,640,114)</b>	<b>\$ (18,743,147)</b>

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

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 (U.S. GAAP) 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. 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 Foundation, a component unit of the University, is a not-for-profit corporation with a separate board of directors. Although the Foundation approves their own disbursements, their support is predominately 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.

The Foundation has applied the recognition principles of all applicable FASB codification sections. 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, Federal PELL Grant Program, gifts, investment income, capital appropriations and capital grants and gifts. 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.

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 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 the receipt of payment for items previously included in the allowance and delinquent receivables that have been charged off. The University considers receivables past due when they have not been paid within their contractual terms.

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 acquisition 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 and infrastructure	15 years
Buildings	20 - 50 years
Equipment	4 - 15 years
Library acquisitions	7 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.

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 long-term pool during the fiscal years ended June 30, 2016 or 2015.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

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

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:

Short-term Pool

1. All investments must be convertible into cash at any time without any significant loss of principal.
2. Any instrument issued, guaranteed, or insured by the U.S. Government, agencies, or other full faith instruments of investment grade are permitted.
3. Commercial paper issued by domestic corporations rated both "P-1" and "A-1" by Moody's Investors Service, Inc. and by Standard & Poor's, respectively, may be included.
4. Also permitted are certificates of deposit, bankers acceptances, or other such irrevocable primary obligations from a list of approved banks.
5. Commingled funds and short-term cash reserve mutual funds may be used if they are in compliance with the above guidelines.

Intermediate-term Pool

1. Fixed-income investments may include U.S. and non-U.S. issues of Government and Agency obligations, marketable corporate bonds, mortgage or asset-backed bonds, and preferred stocks with sinking funds as deemed prudent by the investment managers.
2. Fixed-income investments shall be made primarily in those rated "BAA" (investment grade) or better by Moody's and BBB (investment grade) or better by Standard & Poor's with emphasis toward "A" or better issues. However, up to 20% of the fixed-income investments can be made in below investment grade debt (high yield).
3. Fixed-income investments may include U.S. and non-U.S. issues, including high yield, global fixed-income, and emerging market debt instruments.
4. Diversification must be maintained and, with the exception of securities guaranteed by the U.S. Government, the securities of a single issuer should not exceed 10% of the market value of the manager's portfolio responsibility.
5. No equity exposure is permitted within the intermediate-term pool.
6. The Investment Committee may also implement a ladder bond portfolio that is diversified by holdings and maturities that emphasizes higher quality. The intent of this structure would be to alleviate duration risk as the bonds would be held to maturity and then reinvested. If the Investment Committee implements this structure, the duration guideline above would not apply.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

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

Interest Rate Risk

As a means of managing its exposure to fair value losses arising from increasing interest rates, the University's investment policy limits the average weighted maturity for a short-term portfolio to between one day and one year and the average weighted maturity for the intermediate-term portfolio to between one year and five years.

Concentration of Credit Risk

Cash and cash equivalents consist primarily of funds invested with either a bank short-term investment pool or Treasury Money Market Funds. The yield was 0.08% for 2016 and 0.01% for 2015. The Investment Policy requires that for the intermediate-term pool, diversification must be maintained and, with the exception of securities guaranteed by the U.S. Government, the securities of a single issuer should not exceed 10% of the market value of the manager's portfolio responsibility. No more than 10% of the fixed-income investments, at market, shall be invested in securities of any one issuer, except Government and Agency obligations.

The chart below lists the percentage of the investments by credit rating:

<u>Rating</u>	<u>% of Pool</u>
AAA	50 %
AA+	11
A+	5
A	7
A-	6
BBB+	8
NR (Certificate of Deposit)	5
NR (Cash)	8

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:

<u>Investment Type</u>	<u>Rating</u>	<u>Fair Market Value</u>	
		<u>2016</u>	<u>2015</u>
<b>Short-term Pool:</b>			
<u>Deposits:</u>			
Bank of America	N/A	\$ 618,334	\$ 21,326,730
Chemical Bank	N/A	2,026,527	2,023,878
PNC Bank	N/A	46,752,921	
Fidelity Institutional Money Market	AAA	14,897,461	14,885,919
<u>Investments:</u>			
U. S. Treasury Strips		2,153,170	2,084,596
<b>Intermediate-term Pool:</b>			
Chemical Bank Intermediate Fund		15,582,399	15,335,820
		82,030,812	55,656,943
Less Investments Reported as “Cash and Cash Equivalents” on Statements of Net Position		(66,351,395)	(38,408,252)
Total Investments		<u>\$ 15,679,417</u>	<u>\$ 17,248,691</u>
<b><u>As reported on the Statements of Net Position</u></b>			
Noncurrent Investments		\$ 15,679,417	\$ 17,248,691
Total Investments		<u>\$ 15,679,417</u>	<u>\$ 17,248,691</u>
Investments Reported as Cash and Cash Equivalents		\$ 66,351,395	\$ 38,408,252
Cash		208,669	67,223
Total Cash and Cash Equivalents		<u>\$ 66,560,064</u>	<u>\$ 38,475,475</u>

At June 30, 2016, Cash and Cash Equivalents included \$9,707,586 of unexpended Series 2016A General Revenue and Refunding Bond proceeds.



SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

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

Foreign Currency Risk

As of June 30, 2016 and 2015, the University had approximately \$510,000 and \$507,000, respectively, in foreign investments included in its Chemical Bank Intermediate Fund mutual funds.

Custodial Credit Risk

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, 2016, were \$66,258,997. Of that balance, \$65,331,979 was uninsured and uncollateralized. Cash and cash equivalents as reflected in the accounts of the investment institutions at June 30, 2015, were \$38,346,342. Of that balance, \$37,838,954 was uninsured and uncollateralized.

Investments: The University has engaged Comerica Bank to serve as custodian for the short-term and intermediate-term pools, other than the accounts with PNC Bank, Bank of America and Chemical Bank included in the short-term pool. The custodian maintains physical possession of securities owned by the University, 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 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, 2016 or 2015.

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.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE C - INVESTMENTS-FOUNDATION  
(continued)

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.

The following table summarizes the components of the Foundation's investments at June 30:

<u>Investment Type</u>	<u>Fair Market Value</u>	
	<u>2016</u>	<u>2015</u>
Equities	\$ 10,770	\$ 14,767
Mutual Fund - Equities	27,451,247	27,712,490
Mutual Fund - International Equities	12,163,664	12,896,307
Mutual Fund - Debt	13,504,336	13,023,102
Alternative Investments	10,062,440	7,483,196
Cash and Cash Equivalents	220,446	3,513,731
	<u>63,412,903</u>	<u>64,643,593</u>
Less Investments included in "Cash and Cash Equivalents" on Statements of Financial Position	<u>(220,446)</u>	<u>(3,513,731)</u>
Total Investments	<u>\$ 63,192,457</u>	<u>\$ 61,129,862</u>

SAGINAW VALLEY STATE UNIVERSITY  
 NOTES TO FINANCIAL STATEMENTS  
 (continued)

NOTE C - INVESTMENTS-FOUNDATION  
 (continued)

Investments in the mutual fund – debt have the following quality of investments at June 30, 2016:

- Dodge & Cox Income Fund – 44.70% AAA, 3.50% AA, 4.00% A, 37.10% BBB, 5.70% BB, 5.00% B;
- Loomis Sayles Global Bond Instl – 20.17% AAA, 9.47% AA, 31.93% A, 30.33% BBB, 5.36% BB, 1.95% B, 0.79% no rating;
- RidgeWorth SEIX Floating Rate High Income – 1.92% AAA, 4.47% BBB, 34.72% BB, 46.64% B, 11.26% below investment grade, 0.99% no rating;
- Vanguard Short-term Bond Index Signal – 69.72% AAA, 4.83% AA, 12.87% A, 12.58% BBB.

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>
Domestic Equities	30%	50%
International Equities	15%	25%
Fixed Income	20%	40%
Alternative Investments	N/A	20%
Cash/Short-term Investments	N/A	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 5% of the market value of the investment manager’s portfolio.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE C - INVESTMENTS-FOUNDATION  
(continued)

At June 30, 2016, the Foundation's investments that exceeded 5% of the investment portfolio included the Dodge & Cox Income Fund (\$7,003,267), Vanguard 500 Index Fund (\$11,252,286), DFA US Large Cap Value Portfolio (\$3,643,298), Standard Life Absolute Offshore Fund (\$3,162,485), Harbor International Fund (\$5,137,579), William Blair Funds International Growth Fund Class I (\$5,020,218), Wells Fargo Fds Tr Advantage Absolute Return Fund (\$4,147,948), and Harbor Capital Appreciation Fund (\$3,334,275).

Foreign Currency Risk

The Foundation investment policy states that foreign denominated investments should not exceed 25% of the portfolio. The Foundation's holdings in foreign investments were made in mutual funds as noted above.

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 possession of an outside party. Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE D - ACCOUNTS RECEIVABLE

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, 2016 and 2015 are listed below in the table:

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
Tuition and fees	\$ 3,664,493	\$ 5,691,885
Auxiliary enterprises	1,875,888	1,520,827
Contracts and grants	1,447,630	2,016,847
Sales and services	1,530,800	4,847,914
Agency accounts	1,135,357	1,047,353
Allowance for uncollectible accounts	<u>(4,737,668)</u>	<u>(4,452,253)</u>
Total accounts receivable	<u>\$ 4,916,500</u>	<u>\$ 10,672,573</u>

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 \$5,123,856 at June 30, 2016 and \$5,020,038 at June 30, 2015. Charter school appropriations receivable were recorded at June 30, 2016 of \$11,714,210 and at June 30, 2015 of \$11,533,948. The University has recorded a corresponding amount due to the charter schools which is recorded in deposits. The University received direct State appropriations and other funds in the amount of \$65,641,268 to be forwarded to 18 charter schools for fiscal 2016 and \$64,100,893 to 19 charter schools for fiscal 2015.

The detail of the Foundation's contributions and accounts receivable for June 30, 2016 and 2015 are listed below in the table:

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
Contributions receivable	\$ 2,966,738	\$ 3,291,137
Less: allowance for uncollectible pledges	167,228	179,584
Less: discount to reflect promise to give at fair value	<u>189,362</u>	<u>110,904</u>
	2,610,148	3,000,649
Other	<u>13,865</u>	<u>12,834</u>
Total receivables	<u>\$ 2,624,013</u>	<u>\$ 3,013,483</u>

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE E - CAPITAL ASSETS

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

<u>Asset Classification</u>	<u>Balance at June 30, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2016</u>
Land	\$ 1,898,683			\$ 1,898,683
Land improvements and infrastructure	38,935,120	\$ 798,342	\$ (3,732,014)	36,001,448
Buildings	386,342,793	11,003,086	(1,041,987)	396,303,892
Equipment	33,285,659	3,199,704	(2,636,557)	33,848,806
Library acquisitions	11,047,089	440,854	(691,293)	10,796,650
Construction in progress	11,789,336	(5,851,835)		5,937,501
Works of fine art	607,085			607,085
Accumulated depreciation:				
Land improvements and infrastructure	(21,663,245)	(2,044,588)	3,732,014	(19,975,819)
Buildings	(118,982,714)	(9,816,673)	1,041,987	(127,757,400)
Equipment	(23,148,445)	(2,629,386)	2,636,557	(23,141,274)
Library acquisitions	(7,923,301)	(698,653)	691,293	(7,930,661)
Total capital assets, net	<u>\$ 312,188,060</u>	<u>\$ (5,599,149)</u>	<u>\$ -</u>	<u>\$ 306,588,911</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:

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
Compensation	\$ 2,218,875	\$ 2,632,532
Supplies and construction related expenditures	2,989,734	3,079,479
Total accounts payable and accrued liabilities	<u>\$ 5,208,609</u>	<u>\$ 5,712,011</u>

NOTE G - NOTES AND BONDS PAYABLE

The University issued General Revenue and Refunding Bonds, Series 2016A, in the amount of \$62,280,000 in April 2016. A portion of the proceeds from the bonds were used to establish an irrevocable escrow fund to refund a portion of the remaining outstanding General Revenue (Refunding) Bonds, Series 2007 (\$20,565,000), 2008 (\$24,875,000) and 2008B (\$10,245,000). The refunding resulted in a deferred amount on refunding of \$3,552,809. As a result of the refunding, the University will reduce its aggregate debt service payments over the remaining 23 year period by approximately \$6,860,000. The refunding will result in an economic gain of \$5,370,000. The deferred amount on refunding is being amortized over the remaining life of the oldest bonds and

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE G – NOTES AND BONDS PAYABLE  
(continued)

is reported as a deferred outflow. The remaining proceeds from the Series 2016A bonds will be used, together with other available resources, to renovate Zahnow Library. The bonds were issued at a premium of \$8,712,909.

The University issued General Revenue and Refunding Bonds, Series 2015A, in the amount of \$18,525,000, in April 2015. The proceeds were used to retire the general revenue and refunding 2005 bonds. Since the 2005 bonds refunded a previous bond, the deferred amount on refunding from the 2005 bonds was carried forward to the new bonds. The deferred amount on refunding is being amortized over the remaining life of the old bonds and is reported as a deferred outflow.

The University issued General Revenue and Refunding Bonds, Series 2013A, in the amount of \$19,250,000, in June 2013. A portion of the proceeds from the bonds were used to establish an irrevocable escrow fund that refunded a portion of the remaining Series 2004 Bonds and the Series 2004B Bonds. The refunded bonds were called for redemption on July 1, 2014. The bonds were refunded in order to reduce the University's debt service. The refunding resulted in a deferred amount on refunding of \$434,768. The deferred amount on refunding is being amortized over the remaining life of the old bonds and is reported as a deferred outflow. The remaining proceeds from the Series 2013A bonds were used, together with other available resources, to renovate and expand the Ryder Center. The bonds were issued at a premium of \$2,618,113.

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 were 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 Series 2010A bonds were issued at a premium of \$1,471,071.

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 Series 2008B Bonds were partially refunded with the Series 2016A Bonds previously discussed.

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 Series 2008 Bonds were partially refunded with the Series 2016A Bonds previously discussed.

The University issued General Revenue Bonds, Series 2007, in the amount of \$24,435,000 in March 2007 to fund various capital projects. The Series 2007 Bonds were partially refunded with the Series 2016A Bonds previously discussed.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE G - NOTES AND BONDS PAYABLE  
(continued)

Notes and bonds payable outstanding as of June 30 consist of the following:

	<u>Interest Rates</u>	<u>Maturity</u>	<u>2016</u>	<u>2015</u>
General Revenue & Refunding Bonds, Series 2016A	3.00% to 5.00%	2017-2038	\$ 62,280,000	
General Revenue & Refunding Bonds, Series 2015A	2.79%	2017-2035	16,540,000	\$ 18,525,000
General Revenue & Refunding Bonds, Series 2013A	3.125% to 5.00%	2017-2034	17,070,000	18,585,000
General Revenue Bonds, Series 2010A	3.25% to 5.00%	2017-2030	18,765,000	18,890,000
General Revenue Bonds, Series 2008B	4.25% to 4.50%	2017-2018	585,000	11,105,000
General Revenue Refunding Bonds, Series 2008	4.00%	2017-2018	1,340,000	26,845,000
General Revenue Bonds, Series 2007	4.00%	2017	720,000	21,490,000
Total			<u>\$ 117,300,000</u>	<u>\$ 115,440,000</u>

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

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 7,100,000	\$ 5,182,866	\$ 12,282,866
2018	7,280,000	4,933,586	12,213,586
2019	7,470,000	4,626,235	12,096,235
2020	7,795,000	4,302,107	12,097,107
2021	5,570,000	3,941,529	9,511,529
2022-2026	30,765,000	15,498,305	46,263,305
2027-2031	32,755,000	8,398,374	41,153,374
2032-2036	14,430,000	2,484,873	16,914,873
2037-2038	4,135,000	170,450	4,305,450
	<u>\$ 117,300,000</u>	<u>\$ 49,538,325</u>	<u>\$ 166,838,325</u>



SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE G - NOTES AND BONDS PAYABLE  
(continued)

The net deferred amount on refunding from the Series 2016A, Series 2015A and Series 2013A bonds is reported on the Statements of Net Position as a deferred outflow at June 30, 2016 was \$4,714,844. The deferred outflow for Series 2015A and Series 2013A at June 30, 2015 was \$1,274,746.

The University has a \$260,000 letter of credit for the Wolverine Power Marketing Cooperative electricity contract at a per annum fee of 1.5%. 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, 2016 or 2015. The letter of credit is secured by general revenues.

During July 2009, the University entered into a \$10.0 million line of credit with Chemical Bank. The University can select the interest rate to be either prime minus one-half percent (however, the rate payable shall never be less than 2.75% per annum) or the London Interbank Offer Rate (LIBOR) plus 225 basis points. The line's revolving loan agreement requires the University and Foundation to maintain aggregate deposits with the lender of not less than \$2,500,000. No amounts have been drawn against this line of credit.

NOTE H - LONG-TERM LIABILITIES

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

	<u>Balance at June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2016</u>	<u>Current Portion</u>
Notes and bonds payable:					
General revenue bonds	\$ 115,440,000	\$ 62,280,000	\$ 60,420,000	\$ 117,300,000	\$ 7,100,000
Other long-term liabilities:					
Compensated absences	4,123,541	74,589		4,198,130	100,000
Student loans - federal	28,682	39		28,721	
Total other liabilities	<u>4,152,223</u>	<u>74,628</u>	<u>-</u>	<u>4,226,851</u>	<u>100,000</u>
Total long-term liabilities	<u>\$ 119,592,223</u>	<u>\$ 62,354,628</u>	<u>\$ 60,420,000</u>	<u>\$ 121,526,851</u>	<u>\$ 7,200,000</u>

As of June 30, 2016 and 2015, employees had earned but not taken annual vacation leave of approximately \$3,211,000, and \$3,111,000, respectively. The University had a commitment for accumulated sick leave of approximately \$987,000 as of June 30, 2016 and \$1,013,000 as of June 30, 2015. These amounts are reflected above as liabilities for compensated absences.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE I - UNRESTRICTED NET POSITION

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

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Capital projects and repair reserves	\$ 40,927,560	\$ 29,403,849
Auxiliary enterprises	1,361,891	1,361,891
Designated for departmental use	17,138,033	16,756,849
Amount obligated by contractual commitments	50,952	116,958
Undesignated	2,404,542	2,000,087
Total unrestricted net position	<u>\$ 61,882,978</u>	<u>\$ 49,639,634</u>

NOTE J – COMMITMENTS AND CONTINGENCIES

The amount of funding required to complete construction in progress will come from the General Revenue Bond proceeds, institutional resources, and gifts. The costs to complete significant construction in progress at June 30, 2016 approximate \$12,500,000.

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

The University has entered into lease agreements with the State Building Authority (SBA) and the State of Michigan during prior fiscal years for the Science East and West Buildings, Zahnow Library, West Complex, the Regional Education Center, Pioneer Hall renovations, and the Health and Human Services building. The projects were financed with SBA Revenue Bonds, State appropriations and University resources. The SBA bond issues are secured by a pledge of rentals to be received from the State of Michigan pursuant to 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 Position.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

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 \$765,000 of administrative support to the Foundation during fiscal 2016 and \$971,000 of support during fiscal 2015. The Foundation recorded these amounts as gifts and expenses in the Statements of Activities and Change in Net Assets. The University received \$5,372,767 during fiscal 2016 and \$3,974,531 during fiscal 2015 from the Foundation. These amounts include endowment distributions and restricted and unrestricted gifts. Under the spending policy established by the Board, 4.0% 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 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, 2016, of the Foundation's 316 endowments, 23 were under their gift value as compared to zero of the 317 endowments below their gift value at June 30, 2015. There were however, endowments that did not distribute for one or more of the quarters during fiscal 2016 and 2015 as the market values were below gift values.

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

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE K - SUPPORT ORGANIZATIONS  
(continued)

In accordance with GASB standards, 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. TIAA-CREF is a defined contribution plan whereby the University generally contributes 12% of the employees' pay to the plan with no liability beyond that contribution. University contributions for the years ended June 30, 2016 and 2015 approximated \$6,260,000 and \$6,156,000, respectively, with annual covered payroll for participants of the plan approximating \$52,168,000 in 2016 and \$51,303,000 in 2015. 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 – FAIR MARKET MEASUREMENT

The following tables present information about the University and Foundations assets measured at fair value on a recurring basis at June 30, 2016 and 2015 and the valuation techniques used to determine fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the University or Foundation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted process for similar assets in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Lever 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related assets.

In instances where inputs used to measure fair value fall into difference levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The University and Foundation's assessment of the significance of particular inputs to these fair values measurements require judgement and considers factors specific to each asset.

The University and Foundation's policy is to recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. For the years ended June 30, 2016 and 2015, there were no transfers between levels of the fair value hierarchy.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE N – FAIR MARKET MEASUREMENT  
(continued)

Assets measured at fair value on a recurring basis as of June 30, 2016 included the following:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2016
<b>University</b>				
U.S. Treasury Strips	\$ 2,153,170			\$ 2,153,170
U.S. Federal Agencies	9,052,212			9,052,212
Corporate Bonds	3,963,515			3,963,515
Foreign Bonds and Notes	510,520			510,520
	<u>\$ 15,679,417</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,679,417</u>
<b>Foundation</b>				
Equities	\$ 10,770			\$ 10,770
Mutual Fund - Equities	27,451,247			27,451,247
Mutual Fund - Int'l Equities	12,163,664			12,163,664
Mutual Fund - Debt	13,504,336			13,504,336
Alternative Investments	3,162,485	\$ 5,937,370	\$ 962,585	10,062,440
	<u>\$ 56,292,502</u>	<u>\$ 5,937,370</u>	<u>\$ 962,585</u>	<u>\$ 63,192,457</u>

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE N – FAIR MARKET MEASUREMENT  
(continued)

Assets measured at fair value on the recurring basis as of June 30, 2015 included the following:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2015
<b>University</b>				
U.S. Treasury Strips	\$ 2,084,596			\$ 2,084,596
Certificates of Deposit	982,616			982,616
U.S. Federal Agencies	8,977,364			8,977,364
Collateralized Mtg Obligations	749,093			749,093
Corporate Bonds	3,436,012			3,436,012
Foreign Bonds and Notes	507,245			507,245
Private Placements	511,765			511,765
	<u>\$ 17,248,691</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,248,691</u>
<b>Foundation</b>				
Equities	\$ 14,767			\$ 14,767
Mutual Fund - Equities	27,712,490			27,712,490
Mutual Fund - Int'l Equities	12,896,307			12,896,307
Mutual Fund - Debt	13,023,102			13,023,102
Alternative Investments		\$ 6,413,557	\$ 1,069,639	7,483,196
	<u>\$ 53,646,666</u>	<u>\$ 6,413,557</u>	<u>\$ 1,069,639</u>	<u>\$ 61,129,862</u>

U.S. Treasury Strips, U.S. Federal Agencies, Corporate Bonds, Foreign Bonds and Notes, Equities, Mutual Fund-Equities, Mutual Fund-International Equities, Mutual Fund-Debt and certain Alternative Investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Alternative Investments classified in Level 2 of the fair value hierarchy are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss and liquidity assumptions. Alternative Investments classified in Level 3 of the fair value hierarchy are measured using unobservable inputs that are available in situations where there is little, if any, market activity for the related assets.

SAGINAW VALLEY STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
(continued)

NOTE O - EXPENDITURES BY NATURAL CLASSIFICATION

The table below lists expenditures by natural classification by function for the fiscal year ending June 30, 2016:

Function	Salary & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Total
Instruction	\$ 30,518,605	\$ 10,072,162			\$ 2,914,806		\$ 43,505,573
Research	614,432	96,387			410,680		1,121,499
Public service	1,223,130	378,716			1,911,980		3,513,826
Academic support	7,672,417	2,620,052			4,978,145		15,270,614
Student services	3,710,730	1,667,070		\$ 14,760	2,404,764		7,797,324
Institutional support	7,276,160	2,744,600			3,631,447		13,652,207
Operations and maintenance of plant	4,713,343	2,212,032		2,142,532	4,214,184		13,282,091
Depreciation						\$ 15,189,300	15,189,300
Student aid	232,660		\$ 8,386,820		6,962		8,626,442
Auxiliary enterprises	5,099,694	1,538,873		942,821	7,636,985		15,218,373
<b>Total</b>	<b>\$ 61,061,171</b>	<b>\$ 21,329,892</b>	<b>\$ 8,386,820</b>	<b>\$ 3,100,113</b>	<b>\$ 28,109,953</b>	<b>\$ 15,189,300</b>	<b>\$ 137,177,249</b>

The table below lists expenditures by natural classification by function for the fiscal year ending June 30, 2015:

Function	Salary & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Total
Instruction	\$ 30,337,164	\$ 9,917,186			\$ 2,709,134		\$ 42,963,484
Research	523,598	122,655		\$ 254	439,099		1,085,606
Public service	1,327,250	431,652			2,012,403		3,771,305
Academic support	7,830,392	2,331,964			4,308,608		14,470,964
Student services	3,753,058	1,485,826		14,191	2,676,546		7,929,621
Institutional support	6,954,178	2,804,509			3,276,195		13,034,882
Operations and maintenance of plant	4,489,987	2,167,217		2,257,654	3,829,517		12,744,375
Depreciation						\$ 14,285,407	14,285,407
Student aid	231,930		\$ 8,078,572		38,570		8,349,072
Auxiliary enterprises	4,703,494	1,551,315		1,162,452	7,895,646		15,312,907
<b>Total</b>	<b>\$ 60,151,051</b>	<b>\$ 20,812,324</b>	<b>\$ 8,078,572</b>	<b>\$ 3,434,551</b>	<b>\$ 27,185,718</b>	<b>\$ 14,285,407</b>	<b>\$ 133,947,623</b>