

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2019

SAGINAW VALLEY STATE UNIVERSITY

UNIVERSITY CENTER, MICHIGAN

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AND BUSINESS AFFAIRS ADMINISTRATION**

JUNE 30, 2019

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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 4.6% from June 30, 2018 to June 30, 2019; 3.4% from June 30, 2017 to June 30, 2018; and 2.9% from June 30, 2016 to June 30, 2017.
- In fiscal year 2019, operating revenue increased due to auxiliary activities, federal grants and contracts, and sales and services. In 2018 and 2017, operating revenue decreased due to a decrease in tuition and fees and an increase in scholarship allowances.

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

- Applications increased by 8.4% from Fall 2017 to Fall 2018; decreased by 5.6% from Fall 2016 to Fall 2017; and decreased by 8.0% from Fall 2015 to Fall 2016.
- Headcount decreased in Fall 2018 to 8,535 from Fall 2017 of 8,662 and from Fall 2016 of 9,165. Credit hours also decreased to 218,733 in 2019 from 219,367 in 2018 and 233,497 in 2017.

FINANCIAL STATEMENT SUMMARIES

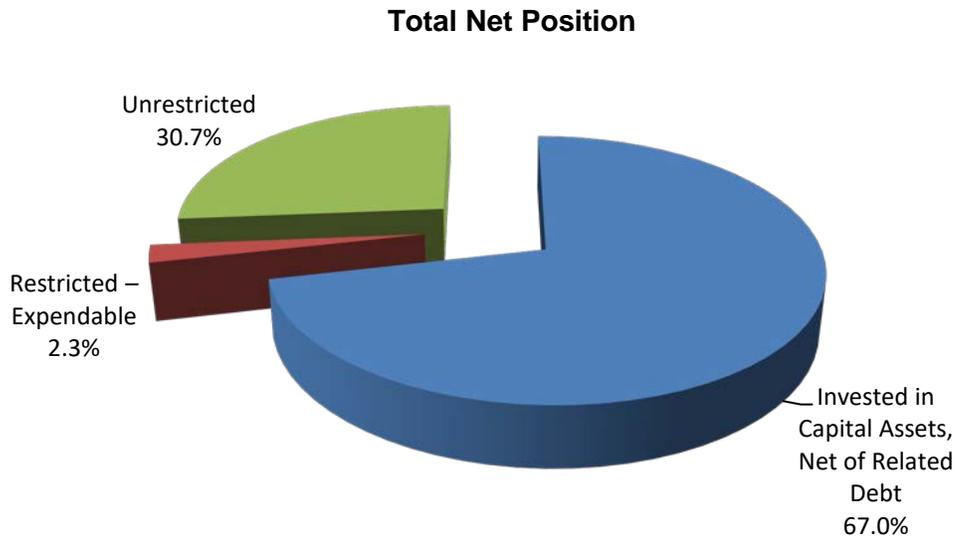
The net position of the University is summarized in the table below as of June 30:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
	(in thousands of dollars)		
Assets			
Current Assets	\$ 87,222	\$ 69,494	\$ 75,903
Noncurrent Assets:			
Other	40,704	46,555	31,367
Capital	294,821	298,100	304,773
Total Assets	<u>422,747</u>	<u>414,149</u>	<u>412,043</u>
Deferred Outflows	<u>3,990</u>	<u>4,231</u>	<u>4,473</u>
Liabilities			
Current Liabilities	35,620	32,318	31,314
Noncurrent Liabilities	102,451	110,091	118,309
Total Liabilities	<u>138,071</u>	<u>142,409</u>	<u>149,623</u>
Net Position			
Net Investment in Capital Assets	193,346	188,816	190,801
Restricted	6,715	6,142	5,863
Unrestricted	88,605	81,013	70,229
Total Net Position	<u>\$ 288,666</u>	<u>\$ 275,971</u>	<u>\$ 266,893</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 70% of the University’s total assets. Notes and bonds payable, which includes unamortized bond premiums, totaled \$105.5 million at June 30, 2019. This represents 76% of the University’s total liabilities.

A graphic illustration of the University’s net position at June 30, 2019 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, 2019.

The following summarizes the internal designations of the University’s unrestricted net position at June 30:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
	(in thousands of dollars)		
Capital Projects and Repair Reserve	\$ 63,933	\$ 59,268	\$ 48,354
Auxiliary Enterprises	1,362	1,362	1,362
Designated for Departmental Use	20,108	17,386	17,852
Amount Obligated by Contractual Commitments	257	192	57
Undesignated	2,945	2,805	2,604
Total Unrestricted Net Position	<u><u>\$ 88,605</u></u>	<u><u>\$ 81,013</u></u>	<u><u>\$ 70,229</u></u>

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

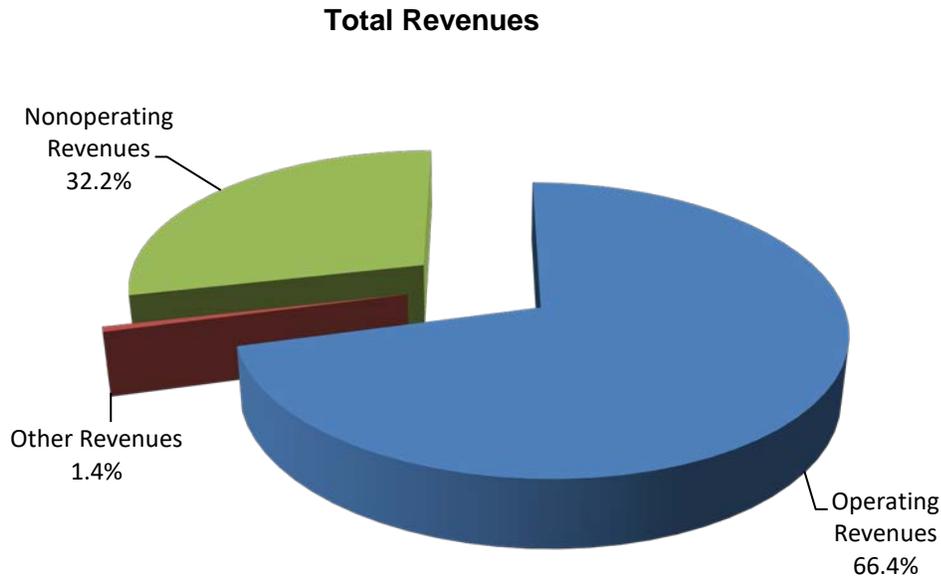
The following table summarizes the University's revenues, expenses, and change in net position for the fiscal years ended June 30:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
	(in thousands of dollars)		
Operating Revenues			
Student Tuition and Fees, net	\$ 69,075	\$ 68,417	\$ 69,871
Federal Grants and Contracts	3,912	2,901	2,718
State and Local Grants and Contracts	1,424	1,187	1,216
Sales and Services of Educational Departments	7,271	6,277	5,967
Auxiliary Enterprises, net	19,612	18,353	18,966
Other Operating Revenues	<u>3,358</u>	<u>3,300</u>	<u>3,196</u>
Total Operating Revenues	104,652	100,435	101,934
Operating Expenses	<u>140,767</u>	<u>135,785</u>	<u>136,216</u>
Operating Loss	(36,115)	(35,350)	(34,282)
Nonoperating Revenues (Expenses)			
State Appropriations	30,541	29,779	29,114
Federal Pell Grant Program	12,351	12,394	12,243
Gifts	5,000	4,242	4,111
Investment Income, net	2,927	635	322
Interest on Capital Asset-Related Debt	<u>(4,138)</u>	<u>(4,428)</u>	<u>(4,686)</u>
Net Nonoperating Revenues	<u>46,681</u>	<u>42,622</u>	<u>41,104</u>
Income Before Other Revenues	10,566	7,272	6,822
Other Revenues			
Capital Appropriations			83
Capital Grants and Gifts	<u>2,129</u>	<u>1,806</u>	<u>741</u>
Total Other Revenues	<u>2,129</u>	<u>1,806</u>	<u>824</u>
Change in Net Position	12,695	9,078	7,646
Net Position - Beginning of Year	<u>275,971</u>	<u>266,893</u>	<u>259,247</u>
Net Position - End of Year	<u>\$ 288,666</u>	<u>\$ 275,971</u>	<u>\$ 266,893</u>

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

Capital appropriations during the prior year represent the State of Michigan contribution to the renovations of Wickes Hall. Capital grants and gifts relate primarily to gifts received for Zahnow Library and College of Business renovations in 2019 and 2018.

A graphic illustration of each University revenue source for the fiscal year ended June 30, 2019 follows:



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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
	(in thousands of dollars)		
Cash Provided (Used) By:			
Operating Activities	\$ (20,304)	\$ (19,064)	\$ (21,238)
Noncapital Financing Activities	46,223	46,206	45,323
Capital Financing Activities	(20,427)	(19,606)	(23,712)
Investing Activities	<u>8,777</u>	<u>(14,553)</u>	<u>(15,366)</u>
Net Change	14,269	(7,017)	(14,993)
Cash and Cash Equivalents - Beginning of Year	<u>44,550</u>	<u>51,567</u>	<u>66,560</u>
Cash and Cash Equivalents - End of Year	<u>\$ 58,819</u>	<u>\$ 44,550</u>	<u>\$ 51,567</u>

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

OPERATING EXPENSES

The University reports expenses on a functional basis. Operating expenses were \$140,766,339 in fiscal year 2019, an increase of 3.7% from the prior year. The following summarizes the University's operating expenses for the years ended June 30:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
	(in thousands of dollars)		
Educational and General:			
Instruction	\$ 43,606	\$ 43,147	\$ 43,039
Research	2,332	1,275	934
Public Service	4,740	3,943	4,132
Academic Support	14,603	14,665	15,122
Student Services	8,962	8,776	8,761
Institutional Support	13,266	12,955	12,920
Operations and Maintenance of Plant	12,727	12,404	12,494
Capital Asset Impairment Loss	917		
Depreciation	15,414	15,378	15,305
Student Aid	8,051	7,601	7,959
Auxiliary Enterprises	<u>16,148</u>	<u>15,641</u>	<u>15,550</u>
 Total Operating Expenses	 <u>\$ 140,766</u>	 <u>\$ 135,785</u>	 <u>\$ 136,216</u>

CAPITAL ASSETS/LONG-TERM DEBT

Capital Plan and Related Debt Financing

The University Board of Control has reviewed a long-term capital development and related financing plan. Expenditures for capital projects approximated \$13.1 million and \$8.7 million during fiscal years 2019 and 2018, respectively, and were funded with University general revenue bonds, capital gifts, and other available University resources.

University Rating

The University's most recent ratings through Moody's Investors Services, Inc. and Standard & Poor's Financial Services were '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:

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

State appropriations increased by approximately 2.6% in fiscal 2019. The State implemented performance funding for a portion of the State appropriations allocation beginning in fiscal 2013. The University received \$761,900 in fiscal 2019 and \$652,100 in fiscal 2018 related to the performance funding criteria.

SAGINAW VALLEY STATE UNIVERSITY FOUNDATION

The Foundation is an independent corporation formed for the purpose of receiving funds predominantly for the benefit of the University. The University provided \$892,928 of administrative support to the Foundation during fiscal year 2019. This support is reflected as institutional support in the University's financial statements and as gift revenue and corresponding fundraising and management and general expenses in the Foundation's financial statements. The University received endowment distributions and unrestricted and restricted gifts of \$7,129,299 in fiscal 2019 from the Foundation.

As of June 30, 2019, the Foundation had 336 endowments, with none below their gift value. At June 30, 2018, the Foundation had 333 endowments, with none below 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 year 2019.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
	(in thousands of dollars)		
Without donor restrictions	\$ 10,858	\$ 10,858	\$ 10,202
With donor restrictions	82,527	76,349	69,946
	<u>\$ 93,385</u>	<u>\$ 87,207</u>	<u>\$ 80,148</u>

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, 2019 and 2018, 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, 2019 and 2018, and the respective changes in financial position and Saginaw Valley State University's 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 23, 2019, 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 solely 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 effectiveness of the University's 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 23, 2019

SAGINAW VALLEY STATE UNIVERSITY

STATEMENTS OF NET POSITION

	June 30,	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 58,819,627	\$ 44,550,333
Accounts receivable, net	8,850,725	5,648,587
State appropriations receivable - operations	5,550,542	5,412,016
State appropriations receivable - charter schools	12,364,135	12,039,919
Inventories and prepaid expenses	1,636,687	1,843,107
Total current assets	87,221,716	69,493,962
Noncurrent Assets		
Other long-term investments	40,704,363	46,554,789
Capital assets, net	294,821,114	298,100,095
Total noncurrent assets	335,525,477	344,654,884
Total assets	422,747,193	414,148,846
DEFERRED OUTFLOWS		
Refunding of debt	3,989,897	4,231,546
Total deferred outflows	3,989,897	4,231,546
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	8,269,798	5,552,154
Unearned revenues	5,218,907	5,353,188
Charter schools payable and deposits	13,654,976	13,261,495
Long-term liabilities - current portion	8,476,626	8,151,626
Total current liabilities	35,620,307	32,318,463
Noncurrent Liabilities		
Unearned revenues	1,060,660	287,502
Long-term liabilities, net of current portion	101,389,928	109,803,866
Total noncurrent liabilities	102,450,588	110,091,368
Total liabilities	138,070,895	142,409,831
NET POSITION		
Net investment in capital assets	193,346,539	188,815,541
Restricted for:		
Expendable Restricted		
Scholarships and fellowships	1,947,779	1,787,941
Research	613,797	643,398
Instructional department use	1,342,156	1,127,921
Other	2,811,428	2,582,826
Unrestricted	88,604,496	81,012,934
Total net position	\$ 288,666,195	\$ 275,970,561

SAGINAW VALLEY STATE UNIVERSITY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2019	2018
ASSETS		
Cash and cash equivalents	\$ 2,333,997	\$ 3,409,599
Accounts receivable, net	385,010	20,627
Contributions receivable, net	8,044,213	3,553,141
Investments	79,755,452	76,473,282
Cash value of life insurance	181,547	160,353
Beneficial interest trusts	5,935,514	5,321,002
Total assets	\$ 96,635,733	\$ 88,938,004
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 3,034,507	\$ 1,505,395
Charitable gift annuities payable	215,961	225,465
Total liabilities	3,250,468	1,730,860
Net assets		
Without donor restrictions	10,858,378	10,858,243
With donor restrictions	82,526,887	76,348,901
Total net assets	93,385,265	87,207,144
Total liabilities and net assets	\$ 96,635,733	\$ 88,938,004

SAGINAW VALLEY STATE UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION

	For the year ended June 30,	
REVENUES	2019	2018
Operating revenues		
Student tuition and fees	\$ 94,354,557	\$ 90,964,776
Less: Scholarship allowances	<u>(25,279,359)</u>	<u>(22,547,881)</u>
	69,075,198	68,416,895
Federal grants and contracts	3,912,187	2,900,941
State and local grants and contracts	1,423,788	1,186,981
Sales and services of educational departments	7,270,495	6,277,143
Auxiliary enterprises	25,326,454	23,095,733
Less: Scholarship allowances	<u>(5,714,802)</u>	<u>(4,742,281)</u>
	19,611,652	18,353,452
Other operating revenues	<u>3,358,398</u>	<u>3,299,503</u>
Total operating revenues	104,651,718	100,434,915
 EXPENSES		
Operating expenses		
Educational and general		
Instruction	43,606,312	43,146,958
Research	2,332,423	1,275,297
Public service	4,740,052	3,943,067
Academic support	14,602,954	14,664,453
Student services	8,961,424	8,776,090
Institutional support	13,265,853	12,955,079
Operations and maintenance of plant	12,726,942	12,404,076
Capital asset impairment loss	917,000	
Depreciation	15,414,202	15,377,692
Student aid	8,051,303	7,600,969
Auxiliary enterprises	<u>16,147,874</u>	<u>15,641,359</u>
Total operating expenses	140,766,339	135,785,040
Operating loss	(36,114,621)	(35,350,125)
 NONOPERATING REVENUES (EXPENSES)		
State appropriations	30,540,900	29,779,000
Federal Pell Grant Program	12,351,209	12,394,137
Gifts	5,000,323	4,241,907
Investment income, net	2,926,964	634,270
Interest on capital asset-related debt	<u>(4,138,117)</u>	<u>(4,428,108)</u>
Net nonoperating revenues	46,681,279	42,621,206
Income before other revenues	10,566,658	7,271,081
Other Revenues		
Capital grants and gifts	<u>2,128,976</u>	<u>1,805,987</u>
Total other revenues	2,128,976	1,805,987
Change in net position	12,695,634	9,077,068
Net position - beginning of year	275,970,561	266,893,493
Net position - end of year	<u>\$ 288,666,195</u>	<u>\$ 275,970,561</u>

SAGINAW VALLEY STATE UNIVERSITY FOUNDATION

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

	For the year ended June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, GAINS AND OTHER SUPPORT			
Gifts and contributions	\$ 1,010,074	\$ 10,436,554	\$ 11,446,628
Change in beneficial interest trusts		614,512	614,512
Change in cash value of life insurance		21,194	21,194
Investment income, net	534,370	2,394,404	2,928,774
Net assets released from restrictions	7,288,678	(7,288,678)	-
Total revenue, gains and other support	8,833,122	6,177,986	15,011,108
EXPENSES			
Program expenses:			
Disbursements to Saginaw Valley State University	7,129,299		7,129,299
Disbursements to student organizations	3,200		3,200
Supporting service expenses:			
Charitable gift annuity payments	34,560		34,560
Fundraising	417,799		417,799
Management and general	1,248,129		1,248,129
Total expenses	8,832,987	-	8,832,987
Change in net assets	135	6,177,986	6,178,121
Net assets - beginning of year	10,858,243	76,348,901	87,207,144
Net assets - end of year	\$ 10,858,378	\$ 82,526,887	\$ 93,385,265

	For the year ended June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, GAINS AND OTHER SUPPORT			
Gifts and contributions	\$ 910,848	\$ 7,362,418	\$ 8,273,266
Change in beneficial interest trusts		13,738	13,738
Change in cash value of life insurance		15,799	15,799
Investment income, net	857,832	5,467,239	6,325,071
Net assets released from restrictions	6,456,741	(6,456,741)	-
Total revenue, gains and other support	8,225,421	6,402,453	14,627,874
EXPENSES			
Program expenses:			
Disbursements to Saginaw Valley State University	6,047,894		6,047,894
Disbursements to student organizations	4,336		4,336
Supporting service expenses:			
Charitable gift annuity payments	38,298		38,298
Fundraising	273,709		273,709
Management and general	1,204,748		1,204,748
Total expenses	7,568,985	-	7,568,985
Change in net assets	656,436	6,402,453	7,058,889
Net assets - beginning of year	10,201,807	69,946,448	80,148,255
Net assets - end of year	\$ 10,858,243	\$ 76,348,901	\$ 87,207,144

SAGINAW VALLEY STATE UNIVERSITY

STATEMENTS OF CASH FLOWS

	For the years ended June 30,	
	2019	2018
Cash Flows from Operating Activities		
Student tuition and fees	\$ 69,018,303	\$ 68,739,113
Grants and contracts	5,108,897	3,932,155
Payments to suppliers	(28,946,511)	(26,993,635)
Payments for utilities	(3,341,665)	(3,468,525)
Payments to employees	(62,240,040)	(60,932,649)
Payments for benefits	(21,685,806)	(21,289,674)
Payments for scholarships and fellowships	(7,778,353)	(7,330,213)
Auxiliary enterprises charges	18,593,448	19,088,574
Sales and services	7,609,188	5,891,676
Other receipts	3,358,398	3,299,503
Net cash from operating activities	(20,304,141)	(19,063,675)
Cash Flows from Noncapital Financing Activities		
State appropriations	30,402,374	29,660,440
Federal Pell Grant Program	12,306,472	12,351,946
Federal Direct Lending receipts	45,064,136	45,448,459
Federal Direct Lending disbursements	(45,064,136)	(45,448,459)
Gifts	3,514,548	4,193,109
Net cash from noncapital financing activities	46,223,394	46,205,495
Cash Flows from Capital Financing Activities		
Capital grants and gifts received	2,128,976	1,805,987
Principal paid on capital debt	(8,051,626)	(7,280,000)
Interest paid on capital debt and related costs	(4,044,568)	(4,933,585)
Purchase of capital assets	(10,460,131)	(9,198,054)
Net cash from capital financing activities	(20,427,349)	(19,605,652)
Cash Flows from Investing Activities		
Investment income, net	2,926,964	634,270
Sale (purchase) of investments	5,850,426	(15,187,160)
Net cash from investing activities	8,777,390	(14,552,890)
Net change in cash and cash equivalents	14,269,294	(7,016,722)
Cash and cash equivalents - beginning of year	44,550,333	51,567,055
Cash and cash equivalents - end of year	\$ 58,819,627	\$ 44,550,333

SAGINAW VALLEY STATE UNIVERSITY
STATEMENTS OF CASH FLOWS - CONTINUED

	For the years ended June 30,	
	2019	2018
Reconciliation of operating loss to net cash from operating activities		
Operating loss	\$ (36,114,621)	\$ (35,350,125)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	15,414,202	15,377,692
Capital asset impairment loss	917,000	
Changes in assets and liabilities:		
Accounts receivable, net	(1,995,842)	(270,332)
Inventories and prepaid expenses	206,420	(127,757)
Accounts payable and accrued liabilities	273,654	385,168
Unearned revenues	638,877	300,154
Charter schools payable and deposits	393,481	486,285
Compensated absences	(37,312)	135,240
Net cash from operating activities	\$ (20,304,141)	\$ (19,063,675)

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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, net of related expenses, 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 the 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.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. In addition, the Foundation adopted FASB ASU 2016-14, Not-For-Profit Entities-Presentation of Financial Statements For Not-For-Profit Entities. The adoption of this ASU, for purposes of these financial statements, resulted in the reclassification of the Foundation's net assets from three classifications to two classifications.

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, 2019 or 2018.

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 on all University investments was 2.71% for 2019 and 0.66% for 2018. 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	67 %
AA	1
A+	3
A	8
A-	6
BBB+	11
BBB	4

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:

Investment Type	Rating	Fair Market Value	
		2019	2018
Short-term Pool:			
Deposits:			
Bank of America	N/A	\$ 107,591	\$ 38,054
Chemical Bank	N/A	238,862	32,519
PNC Bank	N/A	32,822,332	32,943,767
Chemical Bank - Certificate of Deposits	N/A	20,190,616	10,009,041
Investments:			
U.S. Treasury Strips		3,729	2,157,020
Intermediate-term Pool:			
Chemical Bank Intermediate Fund		22,360,113	23,189,985
Johnson Intermediate Fund		23,726,709	22,690,391
Less Investments Reported as			
"Cash and Cash Equivalents" on			
Statements of Net Position			
		(58,745,589)	(44,505,988)
Total Investments		<u>\$ 40,704,363</u>	<u>\$ 46,554,789</u>
As reported on the Statements of Net Position			
Noncurrent Investments		<u>\$ 40,704,363</u>	<u>\$ 46,554,789</u>
Total Investments		<u>\$ 40,704,363</u>	<u>\$ 46,554,789</u>
Investments Reported as Cash and Cash Equivalents			
Cash		74,038	44,345
Total Cash and Cash Equivalents		<u>\$ 58,819,627</u>	<u>\$ 44,550,333</u>

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, 2019 and 2018, the University had approximately \$457,000 and \$962,000, respectively, in foreign investments included in its Chemical Bank and Johnson 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, 2019, were \$35,821,678. Of that balance, \$35,187,852 was uninsured and uncollateralized. Cash and cash equivalents as reflected in the accounts of the investment institutions at June 30, 2018, were \$32,739,947. Of that balance, \$32,366,696 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 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, 2019 or 2018.

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>2019</u>	<u>2018</u>
Equities	\$ 36,295	\$ 59,418
Mutual Fund - Equities	33,011,295	32,276,022
Mutual Fund - International Equities	18,338,795	16,676,352
Mutual Fund - Debt	15,495,821	15,417,304
Alternative Investments	12,873,246	12,044,186
Cash and Cash Equivalents	342,451	639,470
	<u>80,097,903</u>	<u>77,112,752</u>
Less Investments included in "Cash and Cash Equivalents" on Statements of Financial Position	<u>(342,451)</u>	<u>(639,470)</u>
Total Investments	<u>\$ 79,755,452</u>	<u>\$ 76,473,282</u>

As of June 30, 2019, the Foundation's remaining capital commitment on investments in alternative investments was \$2,462,916.

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE C - INVESTMENTS-FOUNDATION
(continued)

Investments in mutual fund – debt have the following quality of investments at June 30, 2019:

- Dodge & Cox Income Fund – 49.00% AAA, 5.90% AA, 6.80% A, 32.30% BBB, 6.00% BB;
- Vanguard Short-Term Bond Adm – 69.93% AAA, 4.56% AA, 11.52% A, 13.99% BBB;
- Credit Suisse Floating RT High Inc Instl – 3.01% AAA, 1.29% A, 4.06% BBB, 29.49% BB, 50.68% B, 8.42% below B, 3.05% no rating;
- Vanguard Total Bond Market Index Adm – 67.83% AAA, 3.50% AA, 11.14% A, 17.53% 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	25%	45%
International Equities	20%	30%
Fixed Income	8%	28%
Alternative Investments	N/A	25%
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, 2019, the Foundation's investments that exceeded 5% of the investment portfolio included the Dodge & Cox Income Fund (\$6,497,607), Vanguard 500 Index Fund (\$13,943,395), The Weatherlow Offshore Fund I (\$6,293,298), William Blair Funds International Growth Fund Class I (\$4,976,024), Transamerica Invs Income International Equity I (\$4,582,185), DFA International Core Fund (\$4,722,043), and Invesco Oppenheimer Developing Markets (\$4,058,542).

Foreign Currency Risk

The Foundation investment policy states that foreign denominated investments should not exceed 30% 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 are listed below in the table:

	<u>2019</u>	<u>2018</u>
Tuition and fees	\$ 5,451,283	\$ 5,282,160
Auxiliary enterprises	2,165,551	1,993,606
Contracts and grants	3,916,888	1,875,150
Sales and services	1,598,768	1,344,704
Agency accounts	2,858,130	1,967,889
Allowance for uncollectible accounts	<u>(7,139,895)</u>	<u>(6,814,922)</u>
Total accounts receivable	<u>\$ 8,850,725</u>	<u>\$ 5,648,587</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 \$5,550,542 at June 30, 2019 and \$5,412,016 at June 30, 2018. Charter school appropriations receivable were recorded at June 30, 2019 of \$12,364,135 and at June 30, 2018 of \$12,039,919. The University has recorded a corresponding amount due to the charter schools which is reported as charter schools payable and deposits. The University received direct State appropriations and other funds in the amount of \$69,855,713 to be forwarded to 18 charter schools for fiscal year 2019 and \$67,478,806 to 18 charter schools for fiscal year 2018.

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

	<u>2019</u>	<u>2018</u>
Contributions receivable	\$ 9,811,294	\$ 4,723,968
Less: allowance for uncollectible pledges	523,444	255,786
Less: discount to reflect promise to give at fair value	<u>1,243,637</u>	<u>915,041</u>
	8,044,213	3,553,141
Other	<u>385,010</u>	<u>20,627</u>
Total receivables	<u>\$ 8,429,223</u>	<u>\$ 3,573,768</u>

As of June 30, 2019, approximately 64% of the Foundation's pledges receivable were from three donors.

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, 2018</u>	<u>Additions</u>	<u>Retirements and Write-downs</u>	<u>Balance at June 30, 2019</u>
Land	\$ 1,898,683			\$ 1,898,683
Land improvements and infrastructure	34,961,611	\$ 1,624,894	\$ (422,819)	36,163,686
Buildings	414,148,571	4,007,231	(4,553,046)	413,602,756
Equipment	30,607,337	1,374,044	(4,224,235)	27,757,146
Library acquisitions	10,120,978	449,918	(786,916)	9,783,980
Construction in progress	986,747	5,596,134		6,582,881
Works of fine art	607,085			607,085
Accumulated depreciation:				
Land improvements and infrastructure	(18,606,938)	(1,917,545)	422,819	(20,101,664)
Buildings	(147,282,074)	(10,425,152)	3,636,046	(154,071,180)
Equipment	(21,624,483)	(2,435,832)	4,224,235	(19,836,080)
Library acquisitions	(7,717,422)	(635,673)	786,916	(7,566,179)
Total capital assets, net	<u>\$ 298,100,095</u>	<u>\$ (2,361,981)</u>	<u>\$ (917,000)</u>	<u>\$ 294,821,114</u>

During the current year, the university determined that the market value of its facility in Macomb Michigan is below its current net book value. As a result, a capital asset impairment loss of \$917,000 has been recorded in the current year financial statements.

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 at June 30:

	<u>2019</u>	<u>2018</u>
Compensation and benefits	\$ 1,522,006	\$ 1,305,149
Supplies and construction related expenditures	6,747,792	4,247,005
Total accounts payable and accrued liabilities	<u>\$ 8,269,798</u>	<u>\$ 5,552,154</u>

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

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 and 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. The deferred amount on refunding is being amortized over the remaining life of the oldest bonds and 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.

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>2019</u>	<u>2018</u>
General Revenue & Refunding Bonds, Series 2016A	3.25% to 5.00%	2020-2038	\$ 53,500,000	\$ 57,375,000
General Revenue & Refunding Bonds, Series 2015A	2.79%	2020-2035	10,250,000	12,400,000
General Revenue & Refunding Bonds, Series 2013A	3.125% to 5.00%	2020-2034	13,325,000	14,635,000
General Revenue Bonds, Series 2010A	4.50% to 5.00%	2020-2030	18,375,000	18,510,000
Unamortized premiums			10,014,474	10,596,100
Total			<u>\$ 105,464,474</u>	<u>\$ 113,516,100</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>
2020	\$ 7,795,000	\$ 4,302,107	\$ 12,097,107
2021	5,570,000	3,941,529	9,511,529
2022	5,845,000	3,678,719	9,523,719
2023	6,120,000	3,402,823	9,522,823
2024	6,410,000	3,113,619	9,523,619
2025-2029	31,135,000	11,235,358	42,370,358
2030-2034	22,125,000	4,296,521	26,421,521
2035-2038	10,450,000	824,962	11,274,962
Unamortized premiums	10,014,474		10,014,474
	<u>\$ 105,464,474</u>	<u>\$ 34,795,638</u>	<u>\$ 140,260,112</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, 2019 in the amount of \$3,989,897. The deferred outflow for Series 2016A, 2015A and Series 2013A at June 30, 2018 was \$4,231,546.

The University has a \$300,000 letter of credit for the Wolverine Power Marketing Cooperative electricity contract at a per annum fee of 1.25%. 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, 2019 or 2018. The letter of credit is secured by general revenues.

NOTE H - LONG-TERM LIABILITIES

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

	<u>Balance at June 30, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2019</u>	<u>Current Portion</u>
Notes and bonds payable:					
General revenue bonds	\$ 102,920,000		\$ 7,470,000	\$ 95,450,000	\$ 7,795,000
Unamortized premiums	10,596,100		581,626	10,014,474	581,626
Total notes and bonds payable	113,516,100	-	8,051,626	105,464,474	8,376,626
Other long-term liabilities:					
Compensated absences	4,439,392		37,312	4,402,080	100,000
Total long-term liabilities	<u>\$ 117,955,492</u>	<u>\$ -</u>	<u>\$ 8,088,938</u>	<u>\$ 109,866,554</u>	<u>\$ 8,476,626</u>

As of June 30, 2019 and 2018, employees had earned but not taken annual vacation leave of approximately \$3,328,000, and \$3,346,000, respectively. The University had a commitment for accumulated sick leave of approximately \$1,074,000 as of June 30, 2019 and \$1,093,000 as of June 30, 2018. 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 at June 30:

	2019	2018
Capital projects and repair reserves	\$ 63,932,450	\$ 59,267,904
Auxiliary enterprises	1,361,891	1,361,891
Designated for departmental use	20,108,235	17,386,167
Amount obligated by contractual commitments	257,151	192,430
Undesignated	2,944,769	2,804,542
Total unrestricted net position	\$ 88,604,496	\$ 81,012,934

NOTE J – COMMITMENTS AND CONTINGENCIES

The University is self-insured for health insurance for individual contracts up to \$100,000. The University purchases coverage for amounts exceeding \$100,000 for individual contracts. At June 30, 2019 the University has recorded a liability of approximately \$1,012,000 which includes approximately \$345,000 of incurred but not reported claims and approximately \$667,000 of a reserve for claims exceeding the employee contributions.

The costs to complete significant construction in progress at June 30, 2019 approximate \$19,000,000. The amount of funding required to complete construction in progress will come from institutional resources and gifts.

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.

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.

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 \$892,928 of administrative support to the Foundation during fiscal 2019 and \$749,457 of support during fiscal 2018. The Foundation recorded these amounts as gifts and expenses in the Statements of Activities and Change in Net Assets. The University received \$7,129,299 during fiscal 2019 and \$6,047,894 during fiscal 2018 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, 2019, of the Foundation's 336 endowments, none were below their gift value. Of the Foundation's 333 endowments at June 30, 2018 none were below their gift value. However, there were endowments that did not distribute for one or more of the quarters during fiscal 2019 and 2018 as the market values were below gift values.

The Foundation classifies the original value of any gifts donated to a permanent endowment as net assets with donor restrictions and any subsequent investment returns, realized or unrealized, as with donor restrictions or without donor restrictions.

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. As of August 2019, the corporation has been dissolved.

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, 2019 and 2018 approximated \$6,315,000 and \$6,220,000, respectively, with annual covered payroll for participants of the plan approximating \$52,621,000 in 2019 and \$51,835,000 in 2018. 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, 2019 and 2018 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 prices for similar assets in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 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 different 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, 2019 and 2018, 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, 2019 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, 2019
University				
U.S. Federal Agencies	\$ 12,147,648			\$ 12,147,648
U.S. Government Obligations	11,550,155			11,550,155
Corporate Bonds	14,537,463			14,537,463
Foreign Bonds and Notes	456,777			456,777
Municipal Obligations	363,010			363,010
Mortgage Backed Securities	1,391,045			1,391,045
Certificates of Deposit	258,265			258,265
	<u>\$ 40,704,363</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,704,363</u>
Foundation				
Equities	\$ 36,295			\$ 36,295
Mutual Fund - Equities	33,011,295			33,011,295
Mutual Fund - Int'l Equities	18,338,795			18,338,795
Mutual Fund - Debt	15,495,821			15,495,821
Beneficial Interest Trusts	5,935,514			5,935,514
	<u>\$ 72,817,720</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 72,817,720</u>
Alternative Investments that calculate net asset value per share				<u>12,873,246</u>
				<u>\$ 85,690,966</u>

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, 2018 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, 2018
University				
U.S. Treasury Strips	\$ 2,157,020			\$ 2,157,020
U.S. Federal Agencies	11,957,237			11,957,237
U.S. Government Obligations	13,112,355			13,112,355
Corporate Bonds	17,653,581			17,653,581
Foreign Bonds and Notes	961,530			961,530
Municipal Obligations	355,558			355,558
Private Placements	357,508			357,508
	<u>\$ 46,554,789</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,554,789</u>
Foundation				
Equities	\$ 59,418			\$ 59,418
Mutual Fund - Equities	32,276,022			32,276,022
Mutual Fund - Int'l Equities	16,676,352			16,676,352
Mutual Fund - Debt	15,417,304			15,417,304
Beneficial Interest Trusts	5,321,002			5,321,002
	<u>\$ 69,750,098</u>	<u>\$ -</u>	<u>\$ -</u>	<u>69,750,098</u>
Alternative Investments that calculate net asset value per share				<u>12,044,186</u>
				<u>\$ 81,794,284</u>

U.S. Treasury Strips, U.S. Federal Agencies, U.S. Government Obligations, Corporate Bonds, Foreign Bonds and Notes, Municipal Obligations, Equities, Mutual Fund-Equities, Mutual Fund-International Equities, Mutual Fund-Debt, Private Placements and Beneficial Interest Trusts classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

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, 2019:

Function	Salary & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Total
Instruction	\$ 30,674,670	\$ 10,330,838			\$ 2,600,804		\$ 43,606,312
Research	1,092,609	206,523			1,033,291		2,332,423
Public service	1,550,715	480,914			2,708,423		4,740,052
Academic support	7,447,576	2,615,452			4,539,926		14,602,954
Student services	4,279,157	1,549,905		\$ 17,445	3,114,917		8,961,424
Institutional support	7,164,298	2,570,950			3,530,605		13,265,853
Operations and maintenance of plant	4,411,079	2,103,488		2,207,447	4,004,928		12,726,942
Capital asset impairment loss					917,000		917,000
Depreciation						\$ 15,414,202	15,414,202
Student aid	264,912		\$ 7,778,353		8,038		8,051,303
Auxiliary enterprises	5,541,323	1,820,982		1,116,773	7,668,796		16,147,874
Total	\$ 62,426,339	\$ 21,679,052	\$ 7,778,353	\$ 3,341,665	\$ 30,126,728	\$ 15,414,202	\$ 140,766,339

The table below lists expenditures by natural classification by function for the fiscal year ending June 30, 2018:

Function	Salary & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Total
Instruction	\$ 30,258,766	\$ 10,219,621			\$ 2,668,571		\$ 43,146,958
Research	599,354	87,415			588,528		1,275,297
Public service	1,302,025	410,271			2,230,771		3,943,067
Academic support	7,666,598	2,580,586			4,417,269		14,664,453
Student services	4,207,493	1,558,674		\$ 17,345	2,992,578		8,776,090
Institutional support	7,031,935	2,513,502			3,409,642		12,955,079
Operations and maintenance of plant	4,456,110	2,089,705		2,305,088	3,553,173		12,404,076
Depreciation						\$ 15,377,692	15,377,692
Student aid	234,276		\$ 7,330,213		36,480		7,600,969
Auxiliary enterprises	5,265,478	1,794,665		1,146,092	7,435,124		15,641,359
Total	\$ 61,022,035	\$ 21,254,439	\$ 7,330,213	\$ 3,468,525	\$ 27,332,136	\$ 15,377,692	\$ 135,785,040