

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2018

SAGINAW VALLEY STATE UNIVERSITY

UNIVERSITY CENTER, MICHIGAN

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AND BUSINESS AFFAIRS ADMINISTRATION**

JUNE 30, 2018

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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 3.4% from June 30, 2017 to June 30, 2018; 2.9% from June 30, 2016 to June 30, 2017; and 4.5% from June 30, 2015 to June 30, 2016.
- In fiscal year 2018 and 2017, operating revenues decreased due to a decrease in tuition and fees and an increase in scholarship allowances. In fiscal 2016, operating revenue increased due to an increase in tuition and fees.

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

- Applications decreased by 5.6% from Fall 2016 to Fall 2017; decreased by 8.0% from Fall 2015 to Fall 2016; and increased by 18.3% from Fall 2014 to Fall 2015.
- Headcount decreased in Fall 2017 to 8,662 from Fall 2016 of 9,165 and from Fall 2015 of 9,766. Credit hours also decreased to 219,367 in 2018 from 233,497 in 2017 and 245,618 in 2016.

FINANCIAL STATEMENT SUMMARIES

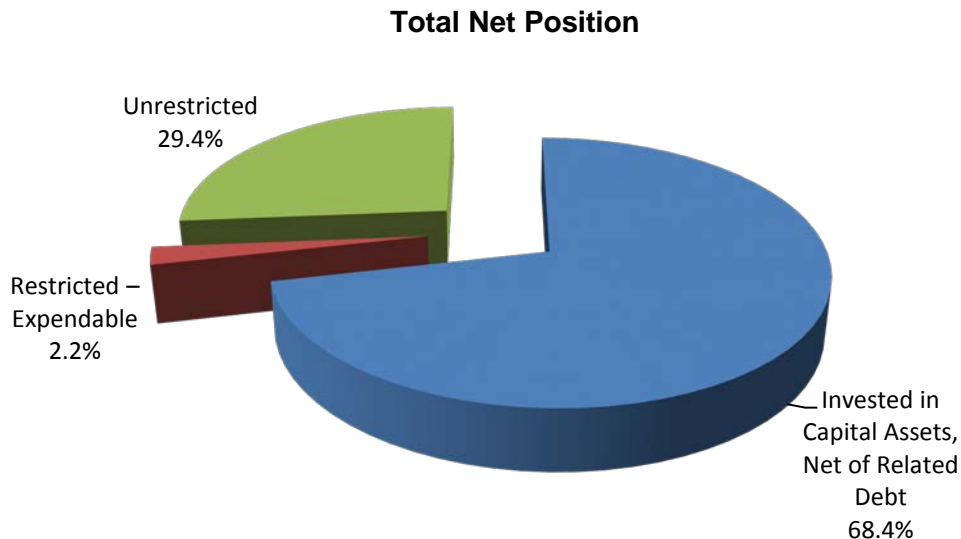
The net position of the University is summarized in the table below as of June 30:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
	(in thousands of dollars)		
Assets			
Current Assets	\$ 69,494	\$ 75,903	\$ 89,874
Noncurrent Assets:			
Other	46,555	31,367	15,689
Capital	298,100	304,773	306,589
Total Assets	<u>414,149</u>	<u>412,043</u>	<u>412,152</u>
Deferred Outflows	<u>4,231</u>	<u>4,473</u>	<u>4,715</u>
Liabilities			
Current Liabilities	32,318	31,314	31,226
Noncurrent Liabilities	110,091	118,309	126,394
Total Liabilities	<u>142,409</u>	<u>149,623</u>	<u>157,620</u>
Net Position			
Net Investment in Capital Assets	188,816	190,801	191,954
Restricted	6,142	5,863	5,410
Unrestricted	81,013	70,229	61,883
Total Net Position	<u>\$ 275,971</u>	<u>\$ 266,893</u>	<u>\$ 259,247</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 72% of the University’s total assets. Notes and bonds payable totaled \$113.5 million at June 30, 2018. This represents 80% of the University’s total liabilities.

A graphic illustration of the University’s net position at June 30, 2018 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, 2018.

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

	June 30,		
	2018	2017	2016
	(in thousands of dollars)		
Capital Projects and Repair Reserve	\$ 59,268	\$ 48,354	\$ 40,928
Auxiliary Enterprises	1,362	1,362	1,362
Designated for Departmental Use	17,386	17,852	17,138
Amount Obligated by Contractual Commitments	192	57	51
Undesignated	2,805	2,604	2,404
Total Unrestricted Net Position	\$ 81,013	\$ 70,229	\$ 61,883

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

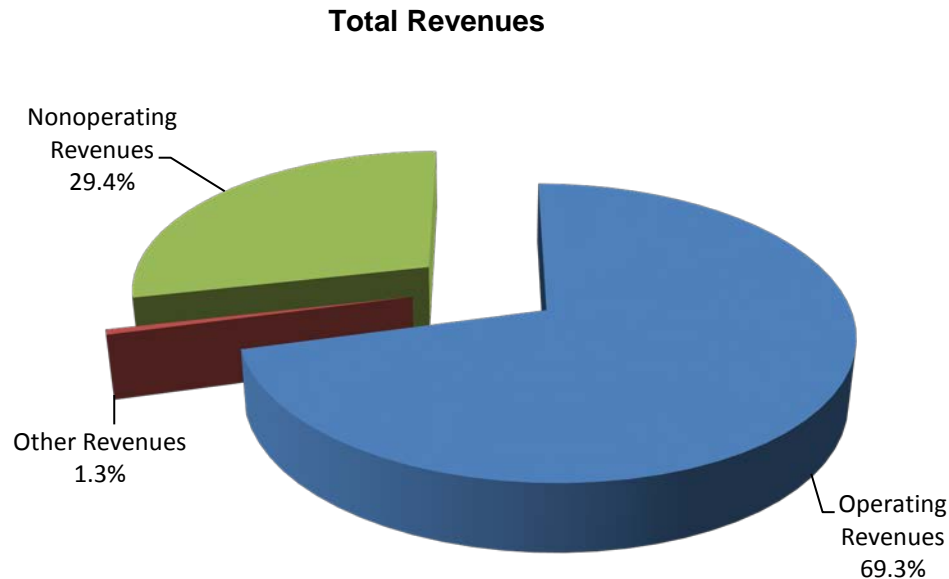
The following table summarizes the University's revenues, expenses, and change in net position for the years ended June 30:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
	(in thousands of dollars)		
Operating Revenues			
Student Tuition and Fees, net	\$ 68,417	\$ 69,871	\$ 72,125
Federal Grants and Contracts	2,901	2,718	2,258
State and Local Grants and Contracts	1,187	1,216	2,161
Sales and Services of Educational Departments	6,277	5,967	5,208
Auxiliary Enterprises, net	18,353	18,966	19,511
Other Operating Revenues	<u>3,300</u>	<u>3,196</u>	<u>2,510</u>
Total Operating Revenues	100,435	101,934	103,773
Operating Expenses	<u>135,785</u>	<u>136,216</u>	<u>137,177</u>
Operating Loss	(35,350)	(34,282)	(33,404)
Nonoperating Revenues (Expenses)			
State Appropriations	29,779	29,114	28,181
Federal Pell Grant Program	12,394	12,243	13,216
Gifts	4,242	4,111	4,511
Investment Income, net	635	322	380
Interest on Capital Asset-Related Debt	<u>(4,428)</u>	<u>(4,686)</u>	<u>(4,835)</u>
Net Nonoperating Revenues	<u>42,622</u>	<u>41,104</u>	<u>41,453</u>
Income Before Other Revenues	7,272	6,822	8,049
Other Revenues			
Capital Appropriations		83	2,128
Capital Grants and Gifts	<u>1,806</u>	<u>741</u>	<u>1,104</u>
Total Other Revenues	<u>1,806</u>	<u>824</u>	<u>3,232</u>
Change in Net Position	9,078	7,646	11,281
Net Position - Beginning of Year	<u>266,893</u>	<u>259,247</u>	<u>247,966</u>
Net Position - End of Year	<u>\$ 275,971</u>	<u>\$ 266,893</u>	<u>\$ 259,247</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 2018 and 2017.

A graphic illustration of each University revenue source for the year ended June 30, 2018 follows:



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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
	(in thousands of dollars)		
Cash Provided (Used) By:			
Operating Activities	\$ (19,064)	\$ (21,238)	\$ (17,640)
Noncapital Financing Activities	46,206	45,323	46,072
Capital Financing Activities	(19,606)	(23,712)	(2,297)
Investing Activities	<u>(14,553)</u>	<u>(15,366)</u>	<u>1,950</u>
Net Change	(7,017)	(14,993)	28,085
Cash and Cash Equivalents - Beginning of Year	<u>51,567</u>	<u>66,560</u>	<u>38,475</u>
Cash and Cash Equivalents - End of Year	<u>\$ 44,550</u>	<u>\$ 51,567</u>	<u>\$ 66,560</u>

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

OPERATING EXPENSES

The University reports expenses on a functional basis. Operating expenses were \$135,785,040 in fiscal 2018, a decrease of 0.3% from the prior year. The following summarizes the University's operating expenses for the years ended June 30:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
	(in thousands of dollars)		
Educational and General:			
Instruction	\$ 43,147	\$ 43,039	\$ 43,506
Research	1,275	934	1,122
Public Service	3,943	4,132	3,514
Academic Support	14,665	15,122	15,271
Student Services	8,776	8,761	8,289
Institutional Support	12,955	12,920	13,160
Operations and Maintenance of Plant	12,404	12,494	13,282
Depreciation	15,378	15,305	15,189
Student Aid	7,601	7,959	8,626
Auxiliary Enterprises	<u>15,641</u>	<u>15,550</u>	<u>15,218</u>
 Total Operating Expenses	 <u>\$ 135,785</u>	 <u>\$ 136,216</u>	 <u>\$ 137,177</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 2018 and 2017, expenditures for capital projects approximated \$9.2 million and \$12.5 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:

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

State appropriations increased by approximately 2.3% in fiscal 2018. The State implemented performance funding for a portion of the State appropriations allocation beginning in fiscal 2013. The University received \$652,100 in fiscal 2018 and \$544,500 in fiscal 2017 related to the performance funding criteria.

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 \$749,457 of administrative support to the Foundation during fiscal 2018. 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 \$6,047,894 in fiscal 2018 from the Foundation.

As of June 30, 2018, the Foundation had 333 endowments, with none below their gift value. At June 30, 2017, of the 327 endowments, there were two 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 2018.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
	(in thousands of dollars)		
Unrestricted	\$ 10,858	\$ 10,202	\$ 9,207
Temporarily Restricted	21,349	16,036	12,009
Permanently Restricted	55,000	53,910	52,692
	<u>\$ 87,207</u>	<u>\$ 80,148</u>	<u>\$ 73,908</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, 2018 and 2017, 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, 2018 and 2017, 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 24, 2018, 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 24, 2018

SAGINAW VALLEY STATE UNIVERSITY

STATEMENTS OF NET POSITION

	June 30,	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 44,550,333	\$ 51,567,055
Accounts receivable, net	5,648,587	5,412,430
State appropriations receivable - operations	5,412,016	5,293,456
State appropriations receivable - charter schools	12,039,919	11,914,755
Inventories and prepaid expenses	1,843,107	1,715,350
Total current assets	69,493,962	75,903,046
Noncurrent Assets		
Other long-term investments	46,554,789	31,367,629
Capital assets, net	298,100,095	304,772,665
Total noncurrent assets	344,654,884	336,140,294
Total assets	414,148,846	412,043,340
DEFERRED OUTFLOWS		
Refunding of debt	4,231,546	4,473,195
Total deferred outflows	4,231,546	4,473,195
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	5,552,154	5,825,418
Unearned revenues	5,353,188	4,752,200
Charter schools payable and deposits	13,261,495	12,775,210
Long-term liabilities - current portion	8,151,626	7,961,626
Total current liabilities	32,318,463	31,314,454
Noncurrent Liabilities		
Unearned revenues	287,502	588,336
Long-term liabilities, net of current portion	109,803,866	117,720,252
Total noncurrent liabilities	110,091,368	118,308,588
Total liabilities	142,409,831	149,623,042
NET POSITION		
Net investment in capital assets	188,815,541	190,801,115
Restricted for:		
Expendable Restricted		
Scholarships and fellowships	1,787,941	1,543,419
Research	643,398	681,700
Instructional department use	1,127,921	1,040,763
Other	2,582,826	2,597,298
Unrestricted	81,012,934	70,229,198
Total net position	\$ 275,970,561	\$ 266,893,493

SAGINAW VALLEY STATE UNIVERSITY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2018	2017
ASSETS		
Cash and cash equivalents	\$ 3,409,599	\$ 1,972,190
Accounts receivable, net	20,627	13,228
Contributions receivable, net	3,553,141	1,873,206
Investments	76,473,282	72,399,746
Cash value of life insurance	160,353	144,554
Beneficial interest trusts	5,321,002	5,307,264
Total assets	\$ 88,938,004	\$ 81,710,188
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 1,505,395	\$ 1,296,926
Charitable gift annuities payable	225,465	265,007
Total liabilities	1,730,860	1,561,933
Net assets		
Unrestricted	10,858,243	10,201,807
Temporarily restricted	21,348,457	16,036,138
Permanently restricted	55,000,444	53,910,310
Total net assets	87,207,144	80,148,255
Total liabilities and net assets	\$ 88,938,004	\$ 81,710,188

SAGINAW VALLEY STATE UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION

REVENUES	For the year ended June 30,	
	2018	2017
Operating revenues		
Student tuition and fees	\$ 90,964,776	\$ 91,404,775
Less: Scholarship allowances	(22,547,881)	(21,533,718)
	68,416,895	69,871,057
Federal grants and contracts	2,900,941	2,718,441
State and local grants and contracts	1,186,981	1,216,479
Sales and services of educational departments	6,277,143	5,966,718
Auxiliary enterprises	23,095,733	23,576,083
Less: Scholarship allowances	(4,742,281)	(4,610,241)
	18,353,452	18,965,842
Other operating revenues	3,299,503	3,195,574
Total operating revenues	100,434,915	101,934,111
EXPENSES		
Operating expenses		
Educational and general		
Instruction	43,146,958	43,039,156
Research	1,275,297	933,586
Public service	3,943,067	4,131,839
Academic support	14,664,453	15,121,663
Student services	8,776,090	8,761,430
Institutional support	12,955,079	12,919,910
Operations and maintenance of plant	12,404,076	12,493,661
Depreciation	15,377,692	15,305,296
Student aid	7,600,969	7,958,954
Auxiliary enterprises	15,641,359	15,550,246
Total operating expenses	135,785,040	136,215,741
Operating loss	(35,350,125)	(34,281,630)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	29,779,000	29,114,000
Federal Pell Grant Program	12,394,137	12,242,408
Gifts	4,241,907	4,110,565
Investment income, net	634,270	322,063
Interest on capital asset-related debt	(4,428,108)	(4,685,577)
Net nonoperating revenues	42,621,206	41,103,459
Income before other revenues	7,271,081	6,821,829
Other Revenues		
Capital appropriations		83,274
Capital grants and gifts	1,805,987	741,440
Net other revenues	1,805,987	824,714
Change in net position	9,077,068	7,646,543
Net position - beginning of year	266,893,493	259,246,950
Net position - end of year	\$ 275,970,561	\$ 266,893,493

SAGINAW VALLEY STATE UNIVERSITY FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

	For the year ended June 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS AND OTHER SUPPORT				
Gifts and contributions	\$ 910,848	\$ 5,537,927	\$ 1,824,491	\$ 8,273,266
Change in beneficial interest trusts			13,738	13,738
Change in cash value of life insurance		15,799		15,799
Income (loss) from investments	374,426	3,063,981	(748,095)	2,690,312
Net realized and unrealized gain on investments	515,757	3,307,658		3,823,415
Net assets released from restrictions	6,613,046	(6,613,046)		-
Total revenue, gains and other support	8,414,077	5,312,319	1,090,134	14,816,530
EXPENSES				
Disbursements to Saginaw Valley State University	6,047,894			6,047,894
Student organizations	4,336			4,336
Investment expenses	917,656			917,656
Charitable gift annuity payments	38,298			38,298
Administrative expenses	749,457			749,457
Total expenses	7,757,641	-	-	7,757,641
Change in net assets	656,436	5,312,319	1,090,134	7,058,889
Net assets - beginning of year	10,201,807	16,036,138	53,910,310	80,148,255
Net assets - end of year	\$ 10,858,243	\$ 21,348,457	\$ 55,000,444	\$ 87,207,144

	For the year ended June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS AND OTHER SUPPORT				
Gifts and contributions	\$ 1,097,242	\$ 1,697,622	\$ 1,479,479	\$ 4,274,343
Change in beneficial interest trusts			313,555	313,555
Change in cash value of life insurance		16,376		16,376
Income (loss) from investments	89,867	2,089,991	(575,365)	1,604,493
Net realized and unrealized loss on investments	899,405	5,636,548		6,535,953
Net assets released from restrictions	5,413,140	(5,413,140)		-
Total revenue, gains and other support	7,499,654	4,027,397	1,217,669	12,744,720
EXPENSES				
Disbursements to Saginaw Valley State University	4,930,004			4,930,004
Student organizations	8,566			8,566
Investment expenses	763,557			763,557
Charitable gift annuity payments	40,596			40,596
Administrative expenses	762,150			762,150
Total expenses	6,504,873	-	-	6,504,873
Change in net assets	994,781	4,027,397	1,217,669	6,239,847
Net assets - beginning of year	9,207,026	12,008,741	52,692,641	73,908,408
Net assets - end of year	\$ 10,201,807	\$ 16,036,138	\$ 53,910,310	\$ 80,148,255

SAGINAW VALLEY STATE UNIVERSITY

STATEMENTS OF CASH FLOWS

	For the years ended June 30,	
	2018	2017
Cash Flows from Operating Activities		
Student tuition and fees	\$ 68,739,113	\$ 69,015,833
Grants and contracts	3,932,155	3,658,460
Payments to suppliers	(26,993,635)	(26,618,291)
Payments for utilities	(3,468,525)	(3,416,442)
Payments to employees	(60,932,649)	(63,467,939)
Payments for benefits	(21,289,674)	(20,000,023)
Payments for scholarships and fellowships	(7,330,213)	(7,686,824)
Collection of loans to students, net		10,155
Return of Nurse Faculty loans		(28,721)
Auxiliary enterprises charges	19,088,574	18,131,737
Sales and services	5,891,676	5,968,844
Other receipts	3,299,503	3,195,574
Net cash from operating activities	(19,063,675)	(21,237,637)
Cash Flows from Noncapital Financing Activities		
State appropriations	29,660,440	28,944,400
Federal Pell Grant Program	12,351,946	12,250,346
Federal Direct Lending receipts	45,448,459	48,473,012
Federal Direct Lending disbursements	(45,448,459)	(48,473,012)
Gifts	4,193,109	4,127,906
Net cash from noncapital financing activities	46,205,495	45,322,652
Cash Flows from Capital Financing Activities		
Capital grants and gifts received	1,805,987	1,057,913
Principal paid on capital debt	(7,280,000)	(7,100,000)
Interest paid on capital debt and related costs	(4,933,585)	(5,182,867)
Purchase of capital assets	(9,198,054)	(12,486,921)
Net cash from capital financing activities	(19,605,652)	(23,711,875)
Cash Flows from Investing Activities		
Investment income, net	634,270	322,063
Purchase of investments	(15,187,160)	(15,688,212)
Net cash from investing activities	(14,552,890)	(15,366,149)
Net change in cash and cash equivalents	(7,016,722)	(14,993,009)
Cash and cash equivalents - beginning of year	51,567,055	66,560,064
Cash and cash equivalents - end of year	\$ 44,550,333	\$ 51,567,055

SAGINAW VALLEY STATE UNIVERSITY
STATEMENTS OF CASH FLOWS - CONTINUED

	For the years ended June 30,	
	2018	2017
Reconciliation of operating loss to net cash from operating activities		
Operating loss	\$ (35,350,125)	\$ (34,281,630)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	15,377,692	15,305,296
Changes in assets and liabilities:		
Accounts receivable, net	(270,332)	(954,953)
Loans to Students		10,155
Inventories and prepaid expenses	(127,757)	(156,376)
Notes receivable, net		(28,721)
Accounts payable and accrued liabilities	385,168	(228,720)
Unearned revenues	300,154	(917,945)
Charter schools payable and deposits	486,285	(90,765)
Compensated absences	135,240	106,022
	\$ (19,063,675)	\$ (21,237,637)
Net cash from operating activities	\$ (19,063,675)	\$ (21,237,637)

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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 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.

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, 2018 or 2017.

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 laddered 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 2.91% for 2018 and 2.17% for 2017. 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	58 %
AA+	1
AA	1
A+	6
A	10
A-	8
BBB+	12
BBB	2
NR (Cash)	2

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>2018</u>	<u>2017</u>
Short-term Pool:			
<u>Deposits:</u>			
Bank of America	N/A	\$ 38,054	\$ 800,478
Chemical Bank	N/A	32,519	2,028,851
PNC Bank	N/A	32,943,767	47,173,531
Chemical Bank - Certificate of Deposits	N/A	10,009,041	
Fidelity Institutional Money Market	AAA		2,539
<u>Investments:</u>			
U. S. Treasury Strips		2,157,020	2,142,896
Intermediate-term Pool:			
Chemical Bank Intermediate Fund		23,189,985	15,632,662
Johnson Intermediate Fund		22,690,391	15,081,293
		91,060,777	82,862,250
Less Investments Reported as “Cash and Cash Equivalents” on Statements of Net Position		(44,505,988)	(51,494,621)
Total Investments		\$ 46,554,789	\$ 31,367,629
<u>As reported on the Statements of Net Position</u>			
Noncurrent Investments		\$ 46,554,789	\$ 31,367,629
Total Investments		\$ 46,554,789	\$ 31,367,629
Investments Reported as Cash and Cash Equivalents		\$ 44,505,988	\$ 51,494,621
Cash		44,345	72,434
Total Cash and Cash Equivalents		\$ 44,550,333	\$ 51,567,055

Cash and Cash Equivalents included \$0 at June 30, 2018 and \$2,884,186 at June 20, 2017 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, 2018 and 2017, the University had approximately \$962,000 and \$1,121,000, 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, 2018, were \$32,739,947. Of that balance, \$32,366,696 was uninsured and uncollateralized. Cash and cash equivalents as reflected in the accounts of the investment institutions at June 30, 2017, were \$51,552,395. Of that balance, \$50,781,600 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, Fidelity 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, 2018 or 2017.

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>2018</u>	<u>2017</u>
Equities	\$ 59,418	\$ 41,223
Mutual Fund - Equities	32,276,022	31,427,789
Mutual Fund - International Equities	16,676,352	14,958,780
Mutual Fund - Debt	15,417,304	14,514,243
Alternative Investments	12,044,186	11,457,711
Cash and Cash Equivalents	639,470	678,972
	<u>77,112,752</u>	<u>73,078,718</u>
Less Investments included in "Cash and Cash Equivalents" on Statements of Financial Position	<u>(639,470)</u>	<u>(678,972)</u>
Total Investments	<u>\$ 76,473,282</u>	<u>\$ 72,399,746</u>

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, 2018:

- Dodge & Cox Income Fund – 56.60% AAA, 5.30% AA, 4.10% A, 27.50% BBB, 6.49% BB, 0.01% below B;
- Loomis Sayles Global Bond Instl – 30.21% AAA, 12.83% AA, 22.61% A, 22.93% BBB, 6.03% BB, 0.46% B, 4.93% no rating;
- Credit Suisse Floating RT High Inc Instl – 0.75% AAA, 0.95% A, 11.24% BBB, 35.15% BB, 43.86% B, 4.85% below B, 3.20% no rating;
- Vanguard Short-term Bond Index Signal – 70.28% AAA, 4.70% AA, 12.78% A, 12.24% 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:

	Minimum	Maximum
Domestic Equities	25%	45%
International Equities	15%	25%
Fixed Income	12%	32%
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, 2018, the Foundation's investments that exceeded 5% of the investment portfolio included the Dodge & Cox Income Fund (\$8,008,401), Vanguard 500 Index Fund (\$13,099,596), The Weatherlow Offshore Fund I (\$6,187,900), William Blair Funds International Growth Fund Class I (\$4,685,414), and Transamerica Invs Income International Equity I (\$5,046,703).

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, 2018, and 2017 are listed below in the table:

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Tuition and fees	\$ 5,282,160	\$ 4,738,328
Auxiliary enterprises	1,993,606	1,675,446
Contracts and grants	1,816,420	1,537,917
Sales and services	1,036,079	897,159
Agency accounts	1,456,714	1,938,068
Allowance for uncollectible student accounts	<u>(5,936,392)</u>	<u>(5,374,488)</u>
Total accounts receivable	<u>\$ 5,648,587</u>	<u>\$ 5,412,430</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 \$5,412,016 at June 30, 2018 and \$5,293,456 at June 30, 2017. Charter school appropriations receivable were recorded at June 30, 2018 of \$12,039,919 and at June 30, 2017 of \$11,914,755. 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 \$67,478,806 to be forwarded to 18 charter schools for fiscal 2018 and \$66,631,441 to 18 charter schools for fiscal 2017.

The detail of the Foundation's contributions and accounts receivable for June 30, 2018 and 2017 are listed below in the table:

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Contributions receivable	\$ 4,723,968	\$ 2,109,637
Less: allowance for uncollectible pledges	255,786	127,513
Less: discount to reflect promise to give at fair value	<u>915,041</u>	<u>108,918</u>
	3,553,141	1,873,206
Other	<u>20,627</u>	<u>13,228</u>
Total receivables	<u>\$ 3,573,768</u>	<u>\$ 1,886,434</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, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2018</u>
Land	\$ 1,898,683			\$ 1,898,683
Land improvements and infrastructure	33,936,847	\$ 1,576,257	\$ (551,493)	34,961,611
Buildings	397,624,745	10,807,000		408,431,745
Equipment	32,149,123	2,064,267	(3,606,053)	30,607,337
Library acquisitions	10,412,425	469,276	(760,723)	10,120,978
Construction in progress	12,915,251	(6,211,678)		6,703,573
Works of fine art	607,085			607,085
Accumulated depreciation:				
Land improvements and infrastructure	(17,315,112)	(1,843,319)	551,493	(18,606,938)
Buildings	(137,003,749)	(10,278,325)		(147,282,074)
Equipment	(22,631,941)	(2,598,595)	3,606,053	(21,624,483)
Library acquisitions	(7,820,692)	(657,453)	760,723	(7,717,422)
Total capital assets, net	<u>\$ 304,772,665</u>	<u>\$ (6,672,570)</u>	<u>\$ -</u>	<u>\$ 298,100,095</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>2018</u>	<u>2017</u>
Compensation and benefits	\$ 1,305,149	\$ 1,386,238
Supplies and construction related expenditures	4,247,005	4,439,180
Total accounts payable and accrued liabilities	<u>\$ 5,552,154</u>	<u>\$ 5,825,418</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. The deferred amount on refunding is being amortized over the remaining life of the oldest bonds and is reported as a

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE G – NOTES AND BONDS PAYABLE
(continued)

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.

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>2018</u>	<u>2017</u>
General Revenue & Refunding Bonds, Series 2016A	3.25% to 5.00%	2019-2038	\$ 57,375,000	\$ 60,115,000
General Revenue & Refunding Bonds, Series 2015A	2.79%	2019-2035	12,400,000	14,495,000
General Revenue & Refunding Bonds, Series 2013A	3.125% to 5.00%	2019-2034	14,635,000	15,880,000
General Revenue Bonds, Series 2010A	3.625% to 5.00%	2019-2030	18,510,000	18,640,000
General Revenue Bonds, Series 2008B				300,000
General Revenue Refunding Bonds, Series 2008				770,000
Unamortized premiums			10,596,100	11,177,726
Total			<u>\$ 113,516,100</u>	<u>\$ 121,377,726</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>
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	5,845,000	3,678,719	9,523,719
2023	6,120,000	3,402,823	9,522,823
2024-2028	30,995,000	12,651,468	43,646,468
2029-2033	25,850,000	5,501,805	31,351,805
2034-2038	13,275,000	1,317,187	14,592,187
Unamortized premiums	10,596,100		10,596,100
	<u>\$ 113,516,100</u>	<u>\$ 39,421,873</u>	<u>\$ 152,937,973</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, 2018 in the amount of \$4,231,546. The deferred outflow for Series 2016A, 2015A and Series 2013A at June 30, 2017 was \$4,473,195.

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, 2018 or 2017. 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, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2018</u>	<u>Current Portion</u>
Notes and bonds payable:					
General revenue bonds	\$ 110,200,000		\$ 7,280,000	\$ 102,920,000	\$ 7,470,000
Unamortized premiums	11,177,726		581,626	10,596,100	581,626
Total notes and bonds payable	121,377,726		7,861,626	113,516,100	8,051,626
Other long-term liabilities:					
Compensated absences	4,304,152	\$ 135,240		4,439,392	100,000
Total long-term liabilities	<u>\$ 125,681,878</u>	<u>\$ 135,240</u>	<u>\$ 7,861,626</u>	<u>\$ 117,955,492</u>	<u>\$ 8,151,626</u>

As of June 30, 2018 and 2017, employees had earned but not taken annual vacation leave of approximately \$3,346,000, and \$3,222,000, respectively. The University had a commitment for accumulated sick leave of approximately \$1,093,000 as of June 30, 2018 and \$1,082,000 as of June 30, 2017. 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:

	June 30,	
	2018	2017
Capital projects and repair reserves	\$ 59,267,904	\$ 48,354,330
Auxiliary enterprises	1,361,891	1,361,891
Designated for departmental use	17,386,167	17,851,833
Amount obligated by contractual commitments	192,430	56,602
Undesignated	2,804,542	2,604,542
Total unrestricted net position	\$ 81,012,934	\$ 70,229,198

NOTE J – COMMITMENTS AND CONTINGENCIES

The University is self-insured for health insurance for individual contracts up to \$75,000. The University purchases coverage for amounts exceeding \$75,000 for individual contracts. At June 30, 2018 the University has recorded a liability of approximately \$1,200,000 which includes approximately \$360,000 of incurred but not reported claims and approximately \$840,000 of a reserve for claims exceeding the employee contributions.

The amount of funding required to complete construction in progress will come from institutional resources and gifts. The costs to complete significant construction in progress at June 30, 2018 approximate \$27,000,000.

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 \$749,457 of administrative support to the Foundation during fiscal 2018 and \$762,150 of support during fiscal 2017. The Foundation recorded these amounts as gifts and expenses in the Statements of Activities and Change in Net Assets. The University received \$6,047,894 during fiscal 2018 and \$4,930,004 during fiscal 2017 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, 2018, of the Foundation's 333 endowments, none were under their gift value as compared to two of the 327 endowments below their gift value at June 30, 2017. There were however, endowments that did not distribute for one or more of the quarters during fiscal 2018 and 2017 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, 2018 and 2017 approximated \$6,220,000 and \$6,329,000, respectively, with annual covered payroll for participants of the plan approximating \$51,835,000 in 2018 and \$52,745,000 in 2017. 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, 2018 and 2017 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.

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, 2018 and 2017, 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, 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 Placement	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
Alternative Investments	3,374,155	\$ 6,184,003	\$ 2,486,028	12,044,186
	<u>\$ 67,803,251</u>	<u>\$ 6,184,003</u>	<u>\$ 2,486,028</u>	<u>\$ 76,473,282</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, 2017 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, 2017
University				
U.S. Treasury Strips	\$ 2,142,896			\$ 2,142,896
U.S. Federal Agencies	11,544,370			11,544,370
U.S. Government Obligations	3,338,301			3,338,301
Corporate Bonds	12,862,840			12,862,840
Foreign Bonds and Notes	1,121,500			1,121,500
Municipal Obligations	357,722			357,722
	<u>\$ 31,367,629</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,367,629</u>
Foundation				
Equities	\$ 41,223			\$ 41,223
Mutual Fund - Equities	31,427,789			31,427,789
Mutual Fund - Int'l Equities	14,958,780			14,958,780
Mutual Fund - Debt	14,514,243			14,514,243
Alternative Investments	3,276,522	\$ 6,470,400	\$ 1,710,789	11,457,711
	<u>\$ 64,218,557</u>	<u>\$ 6,470,400</u>	<u>\$ 1,710,789</u>	<u>\$ 72,399,746</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 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, 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

The table below lists expenditures by natural classification by function for the fiscal year ending June 30, 2017:

Function	Salary & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Total
Instruction	\$ 30,322,569	\$ 10,037,106			\$ 2,679,481		\$ 43,039,156
Research	544,686	84,993			303,907		933,586
Public service	1,257,407	398,186			2,476,246		4,131,839
Academic support	7,752,754	2,590,115			4,778,794		15,121,663
Student services	4,431,771	1,594,252		\$ 16,602	2,718,805		8,761,430
Institutional support	6,991,904	2,491,681			3,436,325		12,919,910
Operations and maintenance of plant	4,543,248	2,096,288		2,273,525	3,580,600		12,493,661
Depreciation						\$ 15,305,296	15,305,296
Student aid	240,315		\$ 7,686,824		31,815		7,958,954
Auxiliary enterprises	5,219,445	1,761,303		1,126,315	7,443,183		15,550,246
Total	\$ 61,304,099	\$ 21,053,924	\$ 7,686,824	\$ 3,416,442	\$ 27,449,156	\$ 15,305,296	\$ 136,215,741