

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2017

SAGINAW VALLEY STATE UNIVERSITY

UNIVERSITY CENTER, MICHIGAN

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AND BUSINESS AFFAIRS ADMINISTRATION**

JUNE 30, 2017

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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 2.9% from June 30, 2016 to June 30, 2017; 4.5% from June 30, 2015 to June 30, 2016; and 5.5% from June 30, 2014 to June 30, 2015.
- In fiscal year 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. In fiscal 2015, there was an increase in operating revenues, which was primarily due to an increase in sales and services revenue.

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

- Applications decreased by 8.0% from Fall 2015 to Fall 2016; increased by 18.3% from Fall 2014 to Fall 2015; and increased 1.9% from Fall 2013 to Fall 2014.
- Headcount decreased in Fall 2016 to 9,165 from Fall 2015 of 9,766 and from Fall 2014 of 9,829. Credit hours also decreased to 233,497 in 2017 from 245,618 in 2016 and 251,820 in 2015.

FINANCIAL STATEMENT SUMMARIES

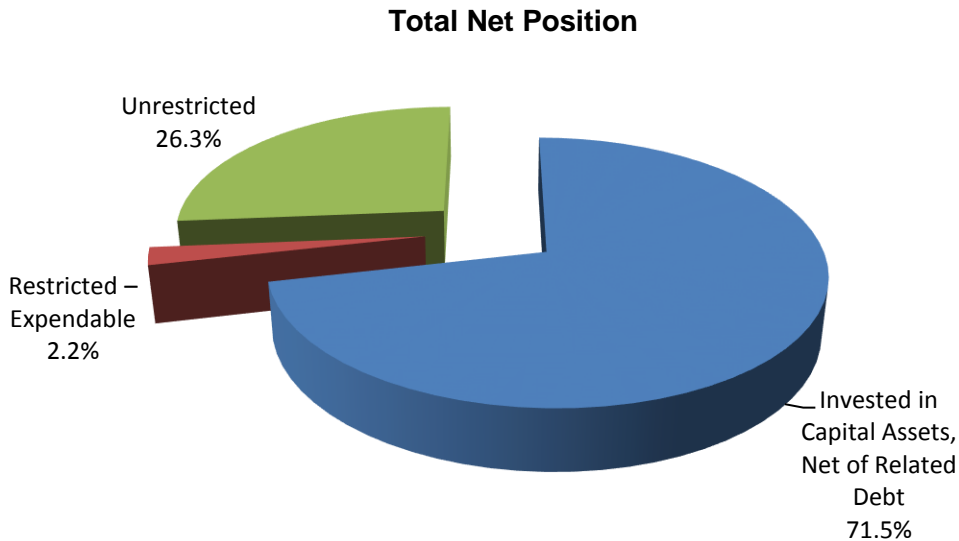
The net position of the University is summarized in the table below as of June 30:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	(in thousands of dollars)		
Assets			
Current Assets	\$ 75,903	\$ 89,874	\$ 66,598
Noncurrent Assets:			
Other	31,367	15,689	17,259
Capital	304,773	306,589	312,188
Total Assets	<u>412,043</u>	<u>412,152</u>	<u>396,045</u>
Deferred Outflows	<u>4,473</u>	<u>4,715</u>	<u>1,275</u>
Liabilities			
Current Liabilities	31,314	31,226	33,407
Noncurrent Liabilities	118,309	126,394	115,947
Total Liabilities	<u>149,623</u>	<u>157,620</u>	<u>149,354</u>
Net Position			
Net Investment in Capital Assets	190,801	191,954	194,259
Restricted	5,863	5,410	4,067
Unrestricted	70,229	61,883	49,640
Total Net Position	<u>\$ 266,893</u>	<u>\$ 259,247</u>	<u>\$ 247,966</u>

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

The University’s largest asset is its investment in capital assets, including land, land improvements and infrastructure, buildings, equipment, library acquisitions, construction in progress, and works of fine art. Capital assets represent 74% of the University’s total assets. Notes and bonds payable totaled \$110.2 million at June 30, 2017. This represents 74% of the University’s total liabilities.

A graphic illustration of the University’s net position at June 30, 2017 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, 2017.

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

	June 30,		
	2017	2016	2015
	(in thousands of dollars)		
Capital Projects and Repair Reserve	\$ 48,354	\$ 40,928	\$ 29,404
Auxiliary Enterprises	1,362	1,362	1,362
Designated for Departmental Use	17,852	17,138	16,757
Amount Obligated by Contractual Commitments	57	51	116
Undesignated	2,604	2,404	2,001
Total Unrestricted Net Position	\$ 70,229	\$ 61,883	\$ 49,640

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

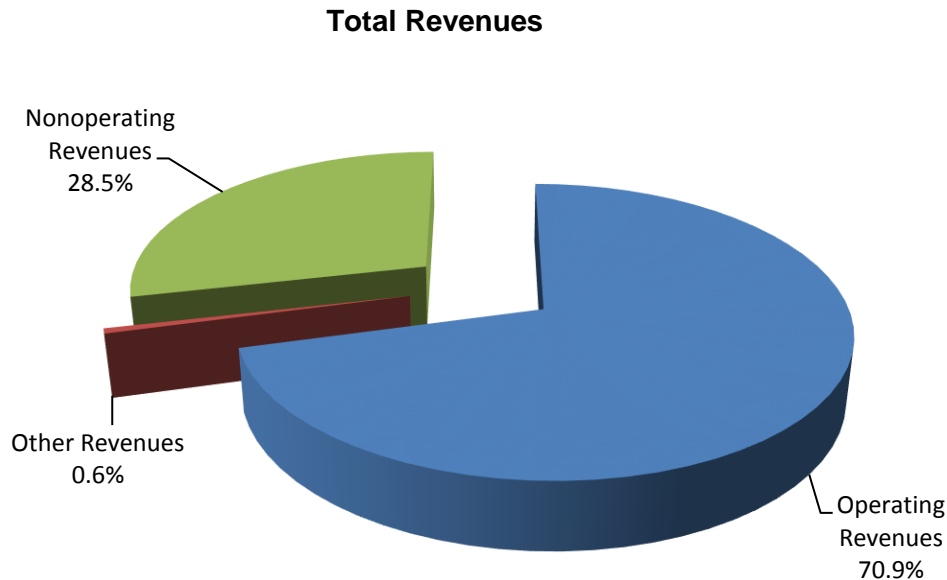
The following table summarizes the University's revenues, expenses, and change in net position for the years ended June 30:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	(in thousands of dollars)		
Operating Revenues			
Student Tuition and Fees, net	\$ 69,423	\$ 72,125	\$ 69,837
Federal Grants and Contracts	2,718	2,258	2,595
State and Local Grants and Contracts	1,216	2,161	1,372
Sales and Services of Educational Departments	5,967	5,208	5,400
Auxiliary Enterprises, net	19,414	19,511	19,853
Other Operating Revenues	<u>3,196</u>	<u>2,510</u>	<u>3,147</u>
Total Operating Revenues	101,934	103,773	102,204
Operating Expenses	<u>136,216</u>	<u>137,177</u>	<u>133,948</u>
Operating Loss	(34,282)	(33,404)	(31,744)
Nonoperating Revenues (Expenses)			
State Appropriations	29,114	28,181	27,619
Federal Pell Grant Program	12,243	13,216	14,328
Gifts	4,111	4,511	3,666
Investment Income, net	322	380	237
Interest on Capital Asset-Related Debt	<u>(4,686)</u>	<u>(4,835)</u>	<u>(5,058)</u>
Net Nonoperating Revenues	41,104	41,453	40,792
Income Before Other Revenues	6,822	8,049	9,048
Other Revenues			
Capital Appropriations	83	2,128	3,789
Capital Grants and Gifts	<u>741</u>	<u>1,104</u>	<u>64</u>
Total Other Revenues	824	3,232	3,853
Change in Net Position	7,646	11,281	12,901
Net Position - Beginning of Year	<u>259,247</u>	<u>247,966</u>	<u>235,065</u>
Net Position - End of Year	<u>\$ 266,893</u>	<u>\$ 259,247</u>	<u>\$ 247,966</u>

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

Capital appropriations during the current and prior years represent the State of Michigan contribution to the renovations of Wickes Hall. Capital grants and gifts relate primarily to gifts received for Zahnow Library renovations in 2017 and 2016. During 2015, the capital grants and gifts were received primarily for the weight room, MFMS gardens, and pool renovations.

A graphic illustration of each University revenue source for the year ended June 30, 2017 follows:



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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	(in thousands of dollars)		
Cash Provided (Used) By:			
Operating Activities	\$ (21,238)	\$ (17,640)	\$ (18,743)
Noncapital Financing Activities	45,323	46,072	44,990
Capital Financing Activities	(23,712)	(2,297)	(34,156)
Investing Activities	<u>(15,366)</u>	<u>1,950</u>	<u>(1,243)</u>
Net Change	(14,993)	28,085	(9,152)
Cash and Cash Equivalents - Beginning of Year	<u>66,560</u>	<u>38,475</u>	<u>47,627</u>
Cash and Cash Equivalents - End of Year	<u>\$ 51,567</u>	<u>\$ 66,560</u>	<u>\$ 38,475</u>

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

OPERATING EXPENSES

The University reports expenses on a functional basis. Operating expenses were \$136,215,741 in fiscal 2017, a decrease of 0.7% from the prior year. The following summarizes the University's operating expenses for the years ended June 30:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	(in thousands of dollars)		
Educational and General:			
Instruction	\$ 43,039	\$ 43,506	\$ 42,963
Research	934	1,122	1,086
Public Service	4,132	3,514	3,771
Academic Support	15,122	15,271	14,471
Student Services	8,761	8,289	7,930
Institutional Support	12,920	13,160	13,035
Operations and Maintenance of Plant	12,494	13,282	12,744
Depreciation	15,305	15,189	14,286
Student Aid	7,959	8,626	8,349
Auxiliary Enterprises	<u>15,550</u>	<u>15,218</u>	<u>15,313</u>
Total Operating Expenses	<u>\$ 136,216</u>	<u>\$ 137,177</u>	<u>\$ 133,948</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 2017 and 2016, expenditures for capital projects approximated \$12.5 million and \$10.5 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:

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

State appropriations increased by approximately 3.3% in fiscal 2017. The State implemented performance funding for a portion of the State appropriations allocation beginning in fiscal 2013. The University received \$544,500 in fiscal 2017 and \$496,100 in fiscal 2016 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 \$762,150 of administrative support to the Foundation during fiscal 2017. 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 \$4,930,004 in fiscal 2017 from the Foundation.

As of June 30, 2017, the Foundation had 327 endowments, with two below their gift value. At June 30, 2016, of the 316 endowments, there were 23 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 2017.

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

	2017	2016	2015
	(in thousands of dollars)		
Unrestricted	\$ 10,202	\$ 9,207	\$ 9,796
Temporarily Restricted	16,036	12,009	13,957
Permanently Restricted	53,910	52,692	51,219
	\$ 80,148	\$ 73,908	\$ 74,972

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, 2017 and 2016, 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, 2017 and 2016, 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 25, 2017, on our consideration of Saginaw Valley State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 25, 2017

SAGINAW VALLEY STATE UNIVERSITY

STATEMENTS OF NET POSITION

	June 30,	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 51,567,055	\$ 66,560,064
Accounts receivable, net	5,412,430	4,916,500
State appropriations receivable - operations	5,293,456	5,123,856
State appropriations receivable - charter schools	11,914,755	11,714,210
Inventories and prepaid expenses	1,715,350	1,558,974
Total current assets	75,903,046	89,873,604
Noncurrent Assets		
Notes receivable, net		10,155
Other long-term investments	31,367,629	15,679,417
Capital assets, net	304,772,665	306,588,911
Total noncurrent assets	336,140,294	322,278,483
Total assets	412,043,340	412,152,087
DEFERRED OUTFLOWS		
Refunding of debt	4,473,195	4,714,844
Total deferred outflows	4,473,195	4,714,844
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	5,825,418	5,208,609
Unearned revenues	5,333,826	5,950,939
Charter schools payable and deposits	12,775,210	12,865,975
Long-term liabilities - current portion	7,380,000	7,200,000
Total current liabilities	31,314,454	31,225,523
Noncurrent Liabilities		
Unearned revenues	11,184,436	12,067,607
Long-term liabilities, net of current portion	107,124,152	114,326,851
Total noncurrent liabilities	118,308,588	126,394,458
Total liabilities	149,623,042	157,619,981
NET POSITION		
Net investment in capital assets	190,801,115	191,953,580
Restricted for:		
Expendable Restricted		
Scholarships and fellowships	1,543,419	1,420,219
Research	681,700	513,391
Instructional department use	1,040,763	1,283,589
Loans		3,122
Other	2,597,298	2,190,071
Unrestricted	70,229,198	61,882,978
Total net position	\$ 266,893,493	\$ 259,246,950

SAGINAW VALLEY STATE UNIVERSITY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2017	2016
ASSETS		
Cash and cash equivalents	\$ 1,972,190	\$ 3,938,097
Accounts receivable, net	13,228	13,865
Contributions receivable, net	1,873,206	2,610,148
Investments	72,399,746	63,192,457
Cash value of life insurance	144,554	128,178
Beneficial interest trusts	5,307,264	4,993,709
Total assets	\$ 81,710,188	\$ 74,876,454
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 1,296,926	\$ 692,572
Charitable gift annuities payable	265,007	275,474
Total liabilities	1,561,933	968,046
Net assets		
Unrestricted	10,201,807	9,207,026
Temporarily restricted	16,036,138	12,008,741
Permanently restricted	53,910,310	52,692,641
Total net assets	80,148,255	73,908,408
Total liabilities and net assets	\$ 81,710,188	\$ 74,876,454

SAGINAW VALLEY STATE UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION

	For the year ended June 30,	
REVENUES	2017	2016
Operating revenues		
Student tuition and fees	\$ 91,404,775	\$ 92,938,201
Less: Scholarship allowances	<u>(21,981,916)</u>	<u>(20,813,513)</u>
	69,422,859	72,124,688
Federal grants and contracts	2,718,441	2,257,625
State and local grants and contracts	1,216,479	2,161,023
Sales and services of educational departments	5,966,718	5,208,234
Auxiliary enterprises	23,576,083	23,926,545
Less: Scholarship allowances	<u>(4,162,043)</u>	<u>(4,415,110)</u>
	19,414,040	19,511,435
Other operating revenues	<u>3,195,574</u>	<u>2,509,686</u>
Total operating revenues	101,934,111	103,772,691
 EXPENSES		
Operating expenses		
Educational and general		
Instruction	43,039,156	43,505,573
Research	933,586	1,121,499
Public service	4,131,839	3,513,826
Academic support	15,121,663	15,270,614
Student services	8,761,430	8,288,828
Institutional support	12,919,910	13,160,703
Operations and maintenance of plant	12,493,661	13,282,091
Depreciation	15,305,296	15,189,300
Student aid	7,958,954	8,626,442
Auxiliary enterprises	<u>15,550,246</u>	<u>15,218,373</u>
Total operating expenses	<u>136,215,741</u>	<u>137,177,249</u>
Operating loss	(34,281,630)	(33,404,558)
 NONOPERATING REVENUES (EXPENSES)		
State appropriations	29,114,000	28,181,200
Federal Pell Grant Program	12,242,408	13,216,249
Gifts	4,110,565	4,511,349
Investment income, net	322,063	380,114
Interest on capital asset-related debt	<u>(4,685,577)</u>	<u>(4,835,304)</u>
Net nonoperating revenues	<u>41,103,459</u>	<u>41,453,608</u>
Income before other revenues	6,821,829	8,049,050
Other Revenues		
Capital appropriations	83,274	2,127,786
Capital grants and gifts	<u>741,440</u>	<u>1,104,623</u>
Net other revenues	<u>824,714</u>	<u>3,232,409</u>
Change in net position	7,646,543	11,281,459
Net position - beginning of year	<u>259,246,950</u>	<u>247,965,491</u>
Net position - end of year	<u><u>\$ 266,893,493</u></u>	<u><u>\$ 259,246,950</u></u>

SAGINAW VALLEY STATE UNIVERSITY FOUNDATION

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

	For the year ended June 30, 2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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 gain 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

	For the year ended June 30, 2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE, GAINS AND OTHER SUPPORT				
Gifts and contributions	\$ 1,134,504	\$ 4,340,140	\$ 1,564,875	\$ 7,039,519
Change in beneficial interest trusts			(172,851)	(172,851)
Change in cash value of life insurance		19,095		19,095
Income from investments	272,602	1,421,697	82,014	1,776,313
Net realized and unrealized loss on investments	(485,216)	(2,930,660)		(3,415,876)
Net assets released from restrictions	4,798,432	(4,798,432)		-
Total revenue, gains and other support	5,720,322	(1,948,160)	1,474,038	5,246,200
EXPENSES				
Disbursements to Saginaw Valley State University	5,372,767			5,372,767
Student organizations	7,308			7,308
Investment expenses	126,652			126,652
Charitable gift annuity payments	37,899			37,899
Administrative expenses	765,193			765,193
Total expenses	6,309,819	-	-	6,309,819
Change in net assets	(589,497)	(1,948,160)	1,474,038	(1,063,619)
Net assets - beginning of year	9,796,523	13,956,901	51,218,603	74,972,027
Net assets - end of year	\$ 9,207,026	\$ 12,008,741	\$ 52,692,641	\$ 73,908,408

SAGINAW VALLEY STATE UNIVERSITY

STATEMENTS OF CASH FLOWS

	For the years ended June 30,	
	2017	2016
Cash Flows from Operating Activities		
Student tuition and fees	\$ 68,567,635	\$ 74,369,362
Grants and contracts	3,658,460	3,826,608
Payments to suppliers	(26,515,115)	(27,786,958)
Payments for utilities	(3,416,442)	(3,100,113)
Payments to employees	(63,467,939)	(61,393,544)
Payments for benefits	(20,103,199)	(21,336,587)
Payments for scholarships and fellowships	(7,686,824)	(8,386,820)
Collection of loans to students, net	10,155	
Federal share of Perkins and Nurse Faculty loans		39
Return of Nurse Faculty loans	(28,721)	
Auxiliary enterprises charges	18,579,935	18,896,347
Sales and services	5,968,844	4,761,866
Other receipts	3,195,574	2,509,686
Net cash from operating activities	(21,237,637)	(17,640,114)
Cash Flows from Noncapital Financing Activities		
State appropriations	28,944,400	28,077,382
Federal Pell Grant Program	12,250,346	13,448,680
Federal Direct Lending receipts	48,473,012	51,290,255
Federal Direct Lending disbursements	(48,473,012)	(51,290,255)
Gifts	4,127,906	4,546,141
Net cash from noncapital financing activities	45,322,652	46,072,203
Cash Flows from Capital Financing Activities		
Capital grants and gifts received	1,057,913	6,788,150
Proceeds from capital debt		62,280,000
Proceeds from capital debt premium		8,712,909
Principal paid on capital debt	(7,100,000)	(60,420,000)
Interest paid on capital debt and related costs	(5,182,867)	(9,131,923)
Purchase of capital assets	(12,486,921)	(10,526,024)
Net cash from capital financing activities	(23,711,875)	(2,296,888)
Cash Flows from Investing Activities		
Investment income, net	322,063	380,114
Purchase of investments	(15,688,212)	
Proceeds from redemption of investments		1,569,274
Net cash from investing activities	(15,366,149)	1,949,388
Net change in cash and cash equivalents	(14,993,009)	28,084,589
Cash and cash equivalents - beginning of year	66,560,064	38,475,475
Cash and cash equivalents - end of year	\$ 51,567,055	\$ 66,560,064

SAGINAW VALLEY STATE UNIVERSITY
STATEMENTS OF CASH FLOWS - CONTINUED

	For the years ended June 30,	
	2017	2016
Reconciliation of operating loss to net cash from operating activities		
Operating loss	\$ (34,281,630)	\$ (33,404,558)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	15,305,296	15,189,300
Changes in assets and liabilities:		
Accounts receivable, net	(954,953)	1,752,847
Loans to Students	10,155	
Inventories and prepaid expenses	(156,376)	(663,233)
Notes receivable, net	(28,721)	
Accounts payable and accrued liabilities	(228,720)	572,571
Unearned revenues	(917,945)	(1,101,046)
Deposits	(90,765)	(60,623)
Compensated absences	106,022	74,589
Student loans - federal		39
	<u>\$ (21,237,637)</u>	<u>\$ (17,640,114)</u>
Net cash from operating activities		

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements have been prepared to incorporate all fund groups utilized internally by Saginaw Valley State University (University) and include Saginaw Valley State University Foundation (Foundation), a discretely presented component unit of the University. The University's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The Foundation's financial information has been prepared on the accrual basis following accounting policies established by the Financial Accounting Standards Board (FASB).

Reporting Entity

The University's financial statements are presented discretely in the State of Michigan Comprehensive Annual Financial Report. Public universities with governing boards appointed by the Governor are considered component units of the State. Transactions with the State relate primarily to appropriations for operations and capital projects and grants from various state agencies.

The Foundation, a component unit of the University, is a not-for-profit corporation with a separate board of directors. Although the Foundation approves their own disbursements, their support is predominately for the objectives and purposes of the University.

Basis of Accounting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting whereby all revenues are recorded when earned and all expenses are recorded when they have been incurred.

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

Revenue Recognition

Operating revenues of the University consist of tuition and fees, grants and contracts, sales and services, and auxiliary enterprises revenue. These revenues represent revenue earned from exchange transactions and are reported net of discounts. The University's nonoperating revenues include State appropriations, Federal PELL Grant Program, gifts, investment income, capital appropriations and capital grants and gifts. When both restricted and unrestricted resources are available for expenses, the University applies the restricted and unrestricted resources at its discretion.

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE A - SIGNIFICANT ACCOUNTING POLICIES
(continued)

Revenue Recognition - Continued

Funds are appropriated to the University for operations by the State of Michigan covering the State's fiscal year, October 1 through September 30. The sums appropriated are for the University's fiscal year ending June 30 and are generally paid in eleven monthly installments from October through August.

The Foundation recognizes a gift when the donor makes a pledge that is, in substance, unconditional. The Foundation uses the allowance method to determine uncollectible, unconditional pledges receivable. The allowance is based on prior years' experience and management's analysis of specific promises.

Accounts Receivable

Accounts receivable are stated at the outstanding principal balance adjusted for the allowance for doubtful accounts.

The University determines the allowance for doubtful accounts based on an evaluation of accounts receivable, past and recent experience, current economic conditions, and other pertinent factors. The allowance for doubtful accounts is increased by the provision charged to expense and reduced by the receipt of payment for items previously included in the allowance and delinquent receivables that have been charged off. The University considers receivables past due when they have not been paid within their contractual terms.

Investments

Investments are reported at fair value. Investment income includes realized and unrealized gains and losses on investments, interest, and dividends.

Inventories

Inventories are stated at lower of average cost or market.

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE A - SIGNIFICANT ACCOUNTING POLICIES
(continued)

Institutional Physical Properties

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

<u>Classification</u>	<u>Life</u>
Land improvements and infrastructure	15 years
Buildings	20 - 50 years
Equipment	4 - 15 years
Library acquisitions	7 years

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

Reclassifications

In fiscal year 2016, expenses that were functionally categorized as Institutional Support, should have been classified as Student Services. An amount of \$491,504 was reclassified from Institutional Support to Student Services. The expenses were recorded in the appropriate functional category in fiscal year 2017.

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, 2017 or 2016.

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

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

Credit Risk

The University's investment policy requires that investments shall be in marketable securities of the following types and with the noted credit ratings:

Short-term Pool

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

Intermediate-term Pool

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

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

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

Interest Rate Risk

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

Concentration of Credit Risk

Cash and cash equivalents consist primarily of funds invested with either a bank short-term investment pool or Treasury Money Market Funds. The yield was 2.17% for 2017 and 0.08% for 2016. The Investment Policy requires that for the intermediate-term pool, diversification must be maintained and, with the exception of securities guaranteed by the U.S. Government, the securities of a single issuer should not exceed 10% of the market value of the manager's portfolio responsibility. No more than 10% of the fixed-income investments, at market, shall be invested in securities of any one issuer, except Government and Agency obligations.

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

<u>Rating</u>	<u>% of Pool</u>
AAA	50 %
AA+	1
AA	2
AA-	4
A+	8
A	13
A-	13
BBB+	4
NR (Cash)	5

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>2017</u>	<u>2016</u>
Short-term Pool:			
<u>Deposits:</u>			
Bank of America	N/A	\$ 800,478	\$ 618,334
Chemical Bank	N/A	2,028,851	2,026,527
PNC Bank	N/A	47,173,531	46,752,921
Fidelity Institutional Money Market	AAA	2,539	14,897,461
<u>Investments:</u>			
U. S. Treasury Strips		2,142,896	2,153,170
Intermediate-term Pool:			
Chemical Bank Intermediate Fund		15,632,662	15,582,399
Johnson Intermediate Fund		15,081,293	
		82,862,250	82,030,812
Less Investments Reported as “Cash and Cash Equivalents” on Statements of Net Position		(51,494,621)	(66,351,395)
Total Investments		\$ 31,367,629	\$ 15,679,417
<u>As reported on the Statements of Net Position</u>			
Noncurrent Investments		\$ 31,367,629	\$ 15,679,417
Total Investments		\$ 31,367,629	\$ 15,679,417
Investments Reported as Cash and Cash Equivalents		\$ 51,494,621	\$ 66,351,395
Cash		72,434	208,669
Total Cash and Cash Equivalents		\$ 51,567,055	\$ 66,560,064

Cash and Cash Equivalents included \$2,884,186 at June 30, 2017 and \$9,707,586 at June 20, 2016 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, 2017 and 2016, the University had approximately \$1,121,000 and \$510,000, 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, 2017, were \$51,552,395. Of that balance, \$50,781,600 was uninsured and uncollateralized. Cash and cash equivalents as reflected in the accounts of the investment institutions at June 30, 2016, were \$66,258,997. Of that balance, \$65,331,979 was uninsured and uncollateralized.

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, 2017 or 2016.

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>2017</u>	<u>2016</u>
Equities	\$ 41,223	\$ 10,770
Mutual Fund - Equities	31,427,789	27,451,247
Mutual Fund - International Equities	14,958,780	12,163,664
Mutual Fund - Debt	14,514,243	13,504,336
Alternative Investments	11,457,711	10,062,440
Cash and Cash Equivalents	678,972	220,446
	<u>73,078,718</u>	<u>63,412,903</u>
Less Investments included in "Cash and Cash Equivalents" on Statements of Financial Position	<u>(678,972)</u>	<u>(220,446)</u>
Total Investments	<u>\$ 72,399,746</u>	<u>\$ 63,192,457</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, 2017:

- Dodge & Cox Income Fund – 53.10% AAA, 3.80% AA, 3.40% A, 31.40% BBB, 6.80% BB, 1.50% below B;
- Loomis Sayles Global Bond Instl – 20.91% AAA, 12.77% AA, 27.88% A, 28.46% BBB, 7.03% BB, 1.45% B, 1.50% no rating;
- Credit Suisse Floating RT High Inc Instl – 0.04% AAA, 0.37% AA, 0.69% A, 9.07% BBB, 33.68% BB, 47.42% B, 5.13% below B, 3.60% no rating;
- Vanguard Short-term Bond Index Signal – 70.65% AAA, 4.99% AA, 12.05% A, 12.31% 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	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, 2017, the Foundation's investments that exceeded 5% of the investment portfolio included the Dodge & Cox Income Fund (\$7,484,274), Vanguard 500 Index Fund (\$13,261,103), DFA US Large Cap Value Portfolio (\$3,646,937), William Blair Funds International Growth Fund Class I (\$4,489,808), Wells Fargo Fds Tr Advantage Absolute Return Fund (\$4,582,782), and Transamerica Invs Income International Equity I (\$4,241,183).

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, 2017, and 2016 are listed below in the table:

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
Tuition and fees	\$ 4,738,328	\$ 3,664,493
Auxiliary enterprises	1,675,446	1,875,888
Contracts and grants	1,537,917	1,447,630
Sales and services	897,159	1,530,800
Agency accounts	1,938,068	1,135,357
Allowance for uncollectible accounts	<u>(5,374,488)</u>	<u>(4,737,668)</u>
Total accounts receivable	<u>\$ 5,412,430</u>	<u>\$ 4,916,500</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 \$5,293,456 at June 30, 2017 and \$5,123,856 at June 30, 2016. Charter school appropriations receivable were recorded at June 30, 2017 of \$11,914,755 and at June 30, 2016 of \$11,714,210. 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 \$66,631,441 to be forwarded to 18 charter schools for fiscal 2017 and \$65,641,268 to 18 charter schools for fiscal 2016.

The detail of the Foundation's contributions and accounts receivable for June 30, 2017 and 2016 are listed below in the table:

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
Contributions receivable	\$ 2,109,637	\$ 2,966,738
Less: allowance for uncollectible pledges	127,513	167,228
Less: discount to reflect promise to give at fair value	<u>108,918</u>	<u>189,362</u>
	1,873,206	2,610,148
Other	<u>13,228</u>	<u>13,865</u>
Total receivables	<u>\$ 1,886,434</u>	<u>\$ 2,624,013</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, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2017</u>
Land	\$ 1,898,683			\$ 1,898,683
Land improvements and infrastructure	36,001,448	\$ 2,474,085	\$ (4,538,686)	33,936,847
Buildings	396,303,892	2,108,021	(787,168)	397,624,745
Equipment	33,848,806	1,517,995	(3,217,678)	32,149,123
Library acquisitions	10,796,650	341,805	(726,030)	10,412,425
Construction in progress	5,937,501	6,977,750		12,915,251
Works of fine art	607,085			607,085
Accumulated depreciation:				
Land improvements and infrastructure	(19,975,819)	(1,877,979)	4,538,686	(17,315,112)
Buildings	(127,757,400)	(10,033,517)	787,168	(137,003,749)
Equipment	(23,141,274)	(2,708,345)	3,217,678	(22,631,941)
Library acquisitions	(7,930,661)	(616,061)	726,030	(7,820,692)
Total capital assets, net	<u>\$ 306,588,911</u>	<u>\$ (1,816,246)</u>	<u>\$ -</u>	<u>\$ 304,772,665</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>2017</u>	<u>2016</u>
Compensation	\$ 1,002,914	\$ 2,218,875
Supplies and construction related expenditures	4,822,504	2,989,734
Total accounts payable and accrued liabilities	<u>\$ 5,825,418</u>	<u>\$ 5,208,609</u>

NOTE G - NOTES AND BONDS PAYABLE

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

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE G – NOTES AND BONDS PAYABLE
(continued)

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

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

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

The University issued General Revenue Bonds, Series 2010A, in the amount of \$29,590,000, in May 2010. Proceeds from the bonds were used to refund all of the remaining Series 1998 and 2001A Bonds and to fund various capital projects. The refunded bonds were called for redemption on their respective first call date, July 1, 2010, for both refunded bond series. The bonds were refunded in order to reduce the University's debt service. The Series 2010A bonds were issued at a premium of \$1,471,071.

The University issued General Revenue Bonds, Series 2008B, in the amount of \$12,555,000, in August 2008. Proceeds from the bonds were used to finance construction of new student housing. The Series 2008B Bonds were partially refunded with the Series 2016A Bonds previously discussed.

The University issued General Revenue Refunding Bonds, Series 2008, in the amount of \$26,845,000 in March 2008 to refund all of the Series 2001B General Revenue Bonds and to pay the related 2001B Bonds swap termination fee of \$1,486,000. The Series 2008 Bonds were partially refunded with the Series 2016A Bonds previously discussed.

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

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE G - NOTES AND BONDS PAYABLE
(continued)

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

	<u>Interest Rates</u>	<u>Maturity</u>	<u>2017</u>	<u>2016</u>
General Revenue & Refunding Bonds, Series 2016A	3.25% to 5.00%	2018-2038	\$ 60,115,000	\$ 62,280,000
General Revenue & Refunding Bonds, Series 2015A	2.79%	2018-2035	14,495,000	16,540,000
General Revenue & Refunding Bonds, Series 2013A	3.125% to 5.00%	2018-2034	15,880,000	17,070,000
General Revenue Bonds, Series 2010A	3.375% to 5.00%	2018-2030	18,640,000	18,765,000
General Revenue Bonds, Series 2008B	4.50%	2018	300,000	585,000
General Revenue Refunding Bonds, Series 2008	4.00%	2018	770,000	1,340,000
General Revenue Bonds, Series 2007	4.00%			720,000
Total			<u>\$ 110,200,000</u>	<u>\$ 117,300,000</u>

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

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 7,280,000	\$ 4,933,586	\$ 12,213,586
2019	7,470,000	4,626,235	12,096,235
2020	7,795,000	4,302,107	12,097,107
2021	5,570,000	3,941,529	9,511,529
2022	5,845,000	3,678,719	9,523,719
2023-2027	30,855,000	14,066,032	44,921,032
2028-2032	29,410,000	6,878,246	36,288,246
2033-2037	15,240,000	1,903,280	17,143,280
2038	735,000	25,725	760,725
	<u>\$ 110,200,000</u>	<u>\$ 44,355,459</u>	<u>\$ 154,555,459</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, 2017 was \$4,473,195. The deferred outflow for Series 2016A, 2015A and Series 2013A at June 30, 2016 was \$4,714,844.

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, 2017 or 2016. The letter of credit is secured by general revenues.

The University elected to not renew its \$10.0 million line of credit with Chemical Bank; therefore, it expired December 31, 2016. The terms of the line of credit allowed the University to select the interest rate to be either prime minus one-half percent (however, the rate payable could never have been less than 2.75% per annum) or the London Interbank Offer Rate (LIBOR) plus 225 basis points. The line's revolving loan agreement required the University and Foundation to maintain aggregate deposits with the lender of not less than \$2,500,000. No amounts were drawn against this line of credit during fiscal years 2017 and 2016.

NOTE H - LONG-TERM LIABILITIES

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

	<u>Balance at June 30, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2017</u>	<u>Current Portion</u>
Notes and bonds payable:					
General revenue bonds	\$ 117,300,000		\$ 7,100,000	\$ 110,200,000	\$ 7,280,000
Other long-term liabilities:					
Compensated absences	4,198,130	\$ 106,022		4,304,152	100,000
Student loans - federal	28,721		28,721	-	
Total other liabilities	<u>4,226,851</u>	<u>106,022</u>	<u>28,721</u>	<u>4,304,152</u>	<u>100,000</u>
Total long-term liabilities	<u>\$ 121,526,851</u>	<u>\$ 106,022</u>	<u>\$ 7,128,721</u>	<u>\$ 114,504,152</u>	<u>\$ 7,380,000</u>

As of June 30, 2017 and 2016, employees had earned but not taken annual vacation leave of approximately \$3,222,000, and \$3,211,000, respectively. The University had a commitment for accumulated sick leave of approximately \$1,082,000 as of June 30, 2017 and \$987,000 as of June 30, 2016. 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,	
	2017	2016
Capital projects and repair reserves	\$ 48,354,330	\$ 40,927,560
Auxiliary enterprises	1,361,891	1,361,891
Designated for departmental use	17,851,833	17,138,033
Amount obligated by contractual commitments	56,602	50,952
Undesignated	2,604,542	2,404,542
Total unrestricted net position	\$ 70,229,198	\$ 61,882,978

NOTE J – COMMITMENTS AND CONTINGENCIES

The amount of funding required to complete construction in progress will come from the General Revenue Bond proceeds, institutional resources, and gifts. The costs to complete significant construction in progress at June 30, 2017 approximate \$6,550,000.

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, Zahn 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 \$762,150 of administrative support to the Foundation during fiscal 2017 and \$765,193 of support during fiscal 2016. The Foundation recorded these amounts as gifts and expenses in the Statements of Activities and Change in Net Assets. The University received \$4,930,004 during fiscal 2017 and \$5,372,767 during fiscal 2016 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, 2017, of the Foundation's 327 endowments, two were under their gift value as compared to 23 of the 316 endowments below their gift value at June 30, 2016. There were however, endowments that did not distribute for one or more of the quarters during fiscal 2017 and 2016 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, 2017 and 2016 approximated \$6,329,000 and \$6,260,000, respectively, with annual covered payroll for participants of the plan approximating \$52,745,000 in 2017 and \$52,168,000 in 2016. 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, 2017 and 2016 and the valuation techniques used to determine fair values.

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

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

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

In instances where inputs used to measure fair value fall into 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, 2017 and 2016, 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, 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>

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE N – FAIR MARKET MEASUREMENT
(continued)

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

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

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, 2017:

Function	Salary & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Total
Instruction	\$ 30,401,386	\$ 9,958,289			\$ 2,679,481		\$ 43,039,156
Research	576,126	53,553			303,907		933,586
Public service	1,299,890	355,703			2,476,246		4,131,839
Academic support	8,021,661	2,321,208			4,778,794		15,121,663
Student services	4,564,825	1,461,198		\$ 16,602	2,718,805		8,761,430
Institutional support	7,211,684	2,271,901			3,436,325		12,919,910
Operations and maintenance of plant	4,706,761	1,932,775		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	5,385,364	1,595,384		1,126,315	7,443,183		15,550,246
Total	\$ 62,408,012	\$ 19,950,011	\$ 7,686,824	\$ 3,416,442	\$ 27,449,156	\$ 15,305,296	\$ 136,215,741

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

Function	Salary & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Total
Instruction	\$ 30,600,891	\$ 10,072,162			\$ 2,832,520		\$ 43,505,573
Research	614,432	96,387			410,680		1,121,499
Public service	1,226,356	378,716			1,908,754		3,513,826
Academic support	7,795,799	2,620,052			4,854,763		15,270,614
Student services	4,044,521	1,744,482		\$ 14,760	2,485,065		8,288,828
Institutional support	7,115,035	2,667,188			3,378,480		13,160,703
Operations and maintenance of plant	4,719,191	2,212,032		2,142,532	4,208,336		13,282,091
Depreciation						\$ 15,189,300	15,189,300
Student aid	232,660		\$ 8,386,820		6,962		8,626,442
Auxiliary enterprises	5,109,041	1,538,873		942,821	7,627,638		15,218,373
Total	\$ 61,457,926	\$ 21,329,892	\$ 8,386,820	\$ 3,100,113	\$ 27,713,198	\$ 15,189,300	\$ 137,177,249