

**Attachment E**  
**FSU Supporting Org.**  
**Financial Statements**  
**and Independent Auditor's Report**

**FSU Foundation Supporting Organization, Inc.**

**Financial Statements  
and Independent Auditor's Report**

**June 30, 2020 and 2019**

PRELIMINARY DRAFT -  
SUBJECT TO CHANGE

FSU Foundation Supporting Organization, Inc.

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PRELIMINARY DRAFT -  
SUBJECT TO CHANGE

## Independent Auditor's Report

To the Board of Directors  
FSU Foundation Supporting Organization, Inc.

### Report on the Financial Statements

We have audited the accompanying financial statements of FSU Foundation Supporting Organization, Inc. (a not-for-profit organization), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

#### *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.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 Organization'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 Organization'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 opinion.

#### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FSU Foundation Supporting Organization, Inc. as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated (**Report Date**), on our consideration of FSU Foundation Supporting Organization, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended June 30, 2020. 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 FSU Foundation Supporting Organization, Inc.'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 FSU Foundation Supporting Organization, Inc.'s internal control over financial reporting and compliance.

Boston, Massachusetts  
(**Report Date**)

PRELIMINARY DRAFT  
SUBJECT TO CHANGE

**FSU Foundation Supporting Organization, Inc.**

**Statements of Financial Position  
June 30, 2020 and 2019**

	<u>Assets</u>	
	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 176,467	\$ 125,913
Due from affiliate	24,445	7,646
Prepaid expenses and other assets	135,177	32,762
Property and equipment, net of accumulated depreciation	<u>6,287,094</u>	<u>6,096,696</u>
<b>Total assets</b>	<u><u>\$ 6,623,183</u></u>	<u><u>\$ 6,263,017</u></u>
	<u>Liabilities and Net Assets</u>	
<b>Liabilities</b>		
Accounts payable, trade	\$ 5,049	\$ 3,584
Due to affiliates	16,194	16,194
Deposits received	-	825
Agency fund	31,080	53,901
Accrued interest payable	5,721	7,435
Bank line of credit	250,000	250,000
Note payable - bank	474,685	494,807
First mortgage notes payable	2,979,863	3,186,883
Environmental remediation liability	100,000	-
Deferred revenue	<u>30,000</u>	<u>-</u>
<b>Total liabilities</b>	<u>3,892,592</u>	<u>4,013,629</u>
<b>Net assets</b>		
Without donor restriction	<u>2,730,591</u>	<u>2,249,388</u>
<b>Total net assets</b>	<u>2,730,591</u>	<u>2,249,388</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 6,623,183</u></u>	<u><u>\$ 6,263,017</u></u>

See Notes to Financial Statements.

**FSU Foundation Supporting Organization, Inc.**

**Statements of Activities  
Years Ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Revenue and support		
Program revenues		
Rental income	\$ 189,330	\$ 190,614
Residence hall income	263,623	270,854
License fee income	545,661	205,427
Contribution in kind income	11,750	13,537
Contribution income	-	11,196
Other income		
Interest income	<u>1,104</u>	<u>978</u>
Total revenue, gain and support	<u>1,011,468</u>	<u>692,606</u>
Expenses and losses		
Program services	506,658	498,208
Management and general	<u>23,607</u>	<u>24,036</u>
Total expenses	<u>530,265</u>	<u>522,244</u>
Increase in net assets	481,203	170,362
Net assets at beginning	<u>2,249,388</u>	<u>2,079,026</u>
Net assets at end	<u><u>\$ 2,730,591</u></u>	<u><u>\$ 2,249,388</u></u>

See Notes to Financial Statements.

**FSU Foundation Supporting Organization, Inc.**

**Statements of Functional Expenses  
Year Ended June 30, 2020**

	2020			
	Program services	Management and general	Fundraising	Total
Affiliate personnel costs	\$ -	\$ 9,650	\$ -	\$ 9,650
Insurance	94,432	-	-	94,432
Rent	36,328	-	-	36,328
Professional services	-	7,015	-	7,015
Landscaping	7,700	-	-	7,700
Other costs	1,401	6,942	-	8,343
Supplies and equipment	-	-	-	-
Utilities	23,130	-	-	23,130
Real estate and other taxes	309	-	-	309
Depreciation	152,477	-	-	152,477
Repairs and maintenance	34,871	-	-	34,871
Interest	156,010	-	-	156,010
	<u>\$ 506,658</u>	<u>\$ 23,607</u>	<u>\$ -</u>	<u>\$ 530,265</u>

See Notes to Financial Statements.



**FSU Foundation Supporting Organization, Inc.**

**Statements of Functional Expenses  
Year Ended June 30, 2019**

	2019			
	Program services	Management and general	Fundraising	Total
Affiliate personnel costs	\$ -	\$ 10,612	\$ -	\$ 10,612
Insurance	78,189	-	-	78,189
Rent	36,328	-	-	36,328
Professional services	6,733	6,324	-	13,057
Landscaping	9,886	-	-	9,886
Other costs	2,194	7,100	-	9,294
Supplies and equipment	99	-	-	99
Utilities	24,568	-	-	24,568
Real estate and other taxes	1,080	-	-	1,080
Depreciation	143,423	-	-	143,423
Repairs and maintenance	44,381	-	-	44,381
Interest	151,327	-	-	151,327
	<u>\$ 498,208</u>	<u>\$ 24,036</u>	<u>\$ -</u>	<u>\$ 522,244</u>

See Notes to Financial Statements.

**FSU Foundation Supporting Organization, Inc.**

**Statements of Cash Flows  
Years Ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Increase in net assets	\$ 481,203	\$ 170,362
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	152,477	143,423
Amortization of debt issuance costs	2,404	3,114
Donation of fixed assets	(2,100)	(3,000)
Changes in assets and liabilities		
Increase in assets		
Due from affiliate	(16,799)	(4,665)
Prepaid expenses and other assets	(102,415)	(14,921)
Increase (decrease) in liabilities		
Accounts payable, trade	1,465	(1,932)
Agency fund	(22,821)	53,901
Deposits received	(825)	825
Due to affiliate	-	13,077
Accrued interest payable	(1,714)	1,083
Deferred revenue	30,000	-
Net cash provided by operating activities	<u>520,875</u>	<u>361,267</u>
Cash flows from investing activities		
Payments for property and equipment	<u>(240,775)</u>	<u>(690,378)</u>
Net cash used in investing activities	<u>(240,775)</u>	<u>(690,378)</u>
Cash flows from financing activities		
Proceeds of first mortgage notes payable	-	688,400
Payments on first mortgage notes payable	(209,424)	(176,801)
Payments on note payable - bank	(20,122)	(19,469)
Proceeds on bank line of credit	250,000	100,000
Payments on bank line of credit	(250,000)	-
Payments on advances from affiliates	-	(170,000)
Net cash (used in) provided by financing activities	<u>(229,546)</u>	<u>422,130</u>
Net increase in cash and cash equivalents	50,554	93,019
Cash and cash equivalents, beginning	<u>125,913</u>	<u>32,894</u>
Cash and cash equivalents, end	<u>\$ 176,467</u>	<u>\$ 125,913</u>

See Notes to Financial Statements.

## FSU Foundation Supporting Organization, Inc.

### Notes to Financial Statements June 30, 2020 and 2019

#### Note 1 - Organization and summary of significant accounting policies

##### Organization

FSU Foundation Supporting Organization, Inc. (the "Organization") was organized on October 29, 1999 to be a supporting organization operated, supervised and controlled for the exclusive benefit of Fitchburg State University Foundation, Inc. (the "Foundation") and all of its educational and charitable activities. As of June 30, 2020, the Organization's sole program activity has been to acquire, hold, operate and lease real estate and related improvements for the benefit of the Foundation and Fitchburg State University (the "University").

##### Accounting pronouncements adopted

During the year ended June 30, 2020, the Organization adopted the provisions of Accounting Standards Update 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Organization adopted the provisions of ASU 2018-08 on July 1, 2019 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. There is no effect on the net assets in connection with the implementation of ASU 2018-08.

In June, 2020, the Financial Accounting Standards Board ("FASB") issued *Accounting Standards Update No. 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, which provides for the elective deferrals of the effective dates of Topic 606 and Topic 842 for certain entities.

The Organization has elected to apply the deferrals provided by ASU 2020-05 and therefore expects to adopt (i) Topic 606 for annual reporting periods beginning after December 15, 2019; and (ii) Topic 842 for fiscal years beginning after December 15, 2021 on a modified retrospective basis.

##### Summary of significant accounting policies

###### Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

###### Method of accounting

The financial statements of the Organization have been prepared on the accrual basis, whereby income is recorded when earned and expenses recorded when incurred in the appropriate accounting period.

###### Basis of presentation

The financial statements of the Organization are presented in accordance with guidance issued by the Financial Accounting Standards Board ("FASB") for the presentation of financial statements of not-for-profit entities. Under this guidance, the Organization is required to report information regarding its financial position and activities according to two classes of net assets based on the existence or absence of donor-imposed restrictions. The two categories are differentiated as follows:

###### Without donor restrictions

Net assets without donor restrictions represent funds available for support of the Organization's functions and operations that are not externally restricted for identified purposes by donors. Net

## FSU Foundation Supporting Organization, Inc.

### Notes to Financial Statements June 30, 2020 and 2019

assets without donor restrictions include resources that the governing board may use for any designated purposes and resources whose use is limited by agreement between the Foundation and outside party other than a donor.

#### **With donor restrictions**

Net assets with donor restrictions are those whose use by the Organization has been limited by donors to a specific period or purpose. Donor imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions, or when the stipulated time has passed. Other donor restrictions are perpetual in nature, whereby the donor stipulates the funds be maintained in perpetuity.

As of June 30, 2020 and 2019, the Organization's net assets are not subject to donor-imposed restrictions; accordingly, all of the net assets are accounted for as net assets without donor restrictions.

#### **Revenue recognition**

##### **Contributions**

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Unconditional promises to give are reported at net realizable value if at the time the promise is made, collection is expected to be received in one year or less. Unconditional promises to give that are expected to be collected in more than one year are reported at fair value using present value techniques and a discount rate determined by management of the Organization. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are recognized only when the conditions on which they depend are substantially met. Contributions in the form of property and equipment and other assets are recorded at fair value on the date the donation is received.

Contributions received are recorded as contributions with donor restrictions or contributions without donor restrictions, depending on the existence and/or nature of any donor restrictions.

All contributions are considered to be without donor restrictions unless specifically restricted by the donor. All donor-restricted contributions are recorded as increases in donor restricted net assets. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions expire during the same fiscal year are recognized as revenue without donor restrictions.

##### **Rental and license fee income**

Renting and leasing operations consist of leasing commercial space under a long-term lease agreement with the Commonwealth of Massachusetts acting by and through its Division of Capital Asset Management and Maintenance ("DCAM") on behalf of Fitchburg State University. In addition, the Organization granted Fitchburg State University an exclusive license to occupy, manage, maintain and operate certain other property owned by the Organization pursuant to License Agreements with initial terms of one year and automatic annual renewals thereafter. Rental and license fee income are recognized under the operating method as the rentals and license fees become due. Rental and license fee payments received in advance are deferred until earned.

##### **Residence hall income**

Residence hall fees are recognized when earned.

## FSU Foundation Supporting Organization, Inc.

### Notes to Financial Statements June 30, 2020 and 2019

#### **Accounts receivable**

Accounts receivable are stated at the amount the Organization expects to collect from outstanding balances. The Organization provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual account balances. Balances that are still outstanding after the Organization has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

#### **Property and equipment**

Property and equipment are recorded at cost if purchased or constructed and, if donated, at fair value at the time of the donation. Property and equipment are depreciated on the straight-line method over their estimated useful lives of 40 years for buildings, 20 years for building and land improvements, and 10 years for furniture and fixtures. Depreciation commences when the asset is placed in service.

Generally, all additions and improvements with an individual cost or, if donated, fair value in excess of \$5,000 are capitalized to property and equipment.

#### **Impairment of long-lived assets**

The Organization's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that such assets may be impaired. An evaluation is performed by obtaining a market appraisal, property assessment value or by measuring the estimated future undiscounted cash flows (without interest charges) associated with the asset to the asset's carrying amount to determine if a write-down to fair value is required. If an impairment is present, the assets are reported at the lower of carrying value or fair value.

#### **Debt issuance costs**

Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the first mortgage notes payable to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed using an imputed interest rate on the related loan.

#### **Statement of cash flows**

For purposes of the statements of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

#### **Income taxes**

The Organization is classified by the Internal Revenue Service as a "publicly supported organization" exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. The Organization did not have any material unrelated business income for the years ended June 30, 2020 and 2019. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Management has evaluated significant tax positions against the criteria established by professional standards and believes there are no such tax positions requiring accounting recognition in the financial statements. Management does not believe its evaluation of tax positions will significantly change within 12 months of June 30, 2020. Any changes in tax positions will be recorded when the ultimate outcome becomes known. Accrued interest and penalties associated with uncertain tax positions are recognized as a part of interest expense and miscellaneous other expenses, respectively, in the accompanying statements of activities. The Organization has no accrued interest and penalties associated with uncertain tax positions at June 30, 2020 and 2019 and none were incurred during the years then

## FSU Foundation Supporting Organization, Inc.

### Notes to Financial Statements June 30, 2020 and 2019

ended. The Organization's income tax returns are subject to examination by taxing authorities generally for the years ended June 30, 2017, 2018 and 2019.

#### Functional expenses

The costs related to various activities of the Organization have been summarized on a functional basis in the accompanying statements of activities and functional expenses. The financial statements report certain categories of expense that are attributed to more than one supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include affiliate personnel costs, professional services, and other costs, which have been allocated among the program and supporting services benefited based on specific identification.

#### Subsequent events

The Organization has evaluated subsequent events through (REPORT DATE), which is the date these financial statements were available to be issued.

#### Note 2 - Cash and cash equivalents

The Organization maintains its operating cash and cash equivalent balances in several accounts in various banks. The cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each bank. At times, these balances may exceed the federal insurance limits; however, the Organization has not experienced any losses with respect to these cash and cash equivalent balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash and cash equivalent balances at June 30, 2020 and 2019.

#### Note 3 - Liquidity and availability

Financial assets available for general expenditure within one year as of June 30, 2020 and 2019 consist of the following:

	2020	2019
Financial assets at year end		
Cash (excluding agency fund)	\$ 145,387	\$ 72,012
Due from affiliate	24,445	7,646
Total financial assets	<u>169,832</u>	<u>79,658</u>
Financial assets available to meet general expenditures within one year	<u>\$ 169,832</u>	<u>\$ 79,658</u>

The Organization regularly monitors liquidity required to meet operating needs and other contractual commitments, while also striving to maximize the investment of its available funds.

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

The Organization has various sources of liquidity at its disposal including cash and a steady revenue stream from license fee and residence hall revenues. In addition, the Organization has access to a line of credit of \$250,000 (See Note 9).

**FSU Foundation Supporting Organization, Inc.**

**Notes to Financial Statements  
June 30, 2020 and 2019**

**Note 4 - Property and equipment**

Property and equipment at June 30, 2020 and 2019 consist of the following:

	<u>2020</u>	<u>2019</u>
Real estate under lease		
Land	\$ 402,663	\$ 402,663
Building	1,557,724	1,557,724
Building improvements	<u>100,452</u>	<u>100,452</u>
	<u>2,060,839</u>	<u>2,060,839</u>
Real estate used for student housing		
Land	253,555	253,555
Building	434,225	434,225
Building improvements	<u>28,600</u>	<u>28,600</u>
	<u>716,380</u>	<u>716,380</u>
Real estate used for faculty and staff housing		
Land	133,619	133,619
Building	<u>533,508</u>	<u>533,508</u>
	<u>667,127</u>	<u>667,127</u>
Other		
Land	2,024,292	1,681,415
Building	870,442	870,443
Land improvements	158,127	158,127
Building improvements	1,069,436	1,069,437
Furniture and fixtures	<u>28,446</u>	<u>28,446</u>
	<u>4,150,743</u>	<u>3,807,868</u>
	7,595,089	7,252,214
Less accumulated depreciation	<u>1,307,995</u>	<u>1,155,518</u>
Property and equipment, net	<u>\$ 6,287,094</u>	<u>\$ 6,096,696</u>

Accumulated depreciation on real estate under lease amounted to \$604,843 and \$560,878 at June 30, 2020 and 2019, respectively. Accumulated depreciation on real estate used for student housing amounted to \$157,520 and \$145,234 at June 30, 2020 and 2019, respectively. Accumulated depreciation on real estate used for faculty and staff housing amounted to \$23,514 and \$9,236 at June 30, 2020 and 2019, respectively.

## FSU Foundation Supporting Organization, Inc.

### Notes to Financial Statements June 30, 2020 and 2019

On June 24, 2020, the Organization received a donation of property in close proximity to the Fitchburg State University campus. The property, which includes land only, was recorded at fair market value of \$2,100 at the time of the donation. The Organization intends to use this property for open green space.

On June 2, 2020, the Organization acquired a property in close proximity to the Fitchburg State University campus. The property which includes land and a building was purchased for a total cost of \$240,775. The Organization intends to use this property for open green space. The acquisition was funded, in part, through the proceeds of an advance \$250,000 on a letter of credit (see Note 9).

On November 13, 2019, the Organization acquired a property in close proximity to the Fitchburg State University campus. The property, which consists of land and a building, was purchased for \$1 as current environmental remediation is needed before the property is usable. The Organization intends to raze the building and convert it to a parking lot. The Organization obtained an insurance policy to cover the costs of remediation needed. For the year ended June 30, 2020, the Organization has determined a probable liability for these costs equal to \$100,000, which has been capitalized into the land.

On August 24, 2018, the Organization acquired a property in close proximity to the Fitchburg State University campus. The property, which includes land and a building, was purchased for a total cost of \$393,780. The Organization intends to use this property for faculty/staff housing. The acquisition was financed, in part, with a mortgage note on the property in the amount of \$312,000 (see Note 6).

On July 4, 2018, the Organization acquired a property in close proximity to the Fitchburg State University campus. The property, which includes land and a building, was purchased for a total cost of \$172,481. The Organization intends to use this property for faculty/staff housing. The acquisition was financed, in part, with a mortgage note on the property in the amount of \$138,400 (see Note 6).

On December 6, 2018, the Organization received donation of a property in close proximity to the Fitchburg State University from the City of Fitchburg. The property, which includes land only, was recorded at fair market value of \$3,000 at the time of the donation. The Organization intends to use this property for faculty/staff housing.

On March 12, 2019, the Organization acquired a property in close proximity to the Fitchburg State University campus. The property, which includes land and a building, was purchased for a total cost of \$114,774. The Organization intends to use this property for parking space. The acquisition was financed, in part, with a mortgage note on the property in the amount of \$90,000 (see Note 6).

In fiscal 2017, the Organization acquired a property in close proximity to the Fitchburg State University campus consistent with the Organization's mission and the University's strategic plan which includes campus expansion. The property, which includes land and a building, was purchased for an aggregate cost of \$360,305. The acquisition was financed, in part, with a mortgage note on the property in the amount of \$280,000 (see Note 6). The Organization is planning a major renovation and expansion of the property which, when completed, is expected to cost approximately \$25,000,000 and consist of a multi-phased project providing academic space, student support services space, retail and community space and a theatre renovation. The space is expected to be used by the University and the Fitchburg and surrounding communities. Fitchburg State University will be responsible for the costs of the project's development and construction pursuant to the terms of the license agreement between the University and the Organization. Funding for the project is expected to come from a variety of sources including, but not limited to, New Markets Tax Credits, Historic Tax Credits, bonds, grants and philanthropy. The project is in the very early stages of development and is estimated to require four years to completion. At some point during that period, the property will be transferred to a new entity. The Organization will pay for certain legal services incurred in connection with the project which the



## FSU Foundation Supporting Organization, Inc.

### Notes to Financial Statements June 30, 2020 and 2019

Organization currently estimates to be approximately \$148,000 for the entire project. The Organization expects to fund these costs through operating cash. As of June 30, 2020 and 2019, the Organization has incurred \$73,491 and \$25,536 of legal costs, respectively, related to the project which have been recorded in prepaid expenses and other assets in the accompanying 2020 and 2019 statement of financial position.

#### **Note 5 - Agency fund**

The Organization is part of a collaboration, called Re-imagine North of Main, of local businesses and non-profit organizations located in Fitchburg, Massachusetts committed to making a collective impact and dedicated to improving the quality of life in Fitchburg. The Organization is holding monies for the benefit of North of Main projects and disbursing that as needed to specific vendors identified by the members of the coalition. For the year ended June 30, 2020, the Organization collected \$49,398 of contributions and disbursed \$72,219 in connection with this collaboration. For the year ended June 30, 2019, the Organization collected \$66,401 of contributions and disbursed \$12,500 in connection with this collaboration. At June 30, 2020 and 2019, the Organization is holding \$31,080 and \$53,901, respectively, of funds that is to be used exclusively by the members of the coalition.

#### **Note 6 - First mortgage notes payable**

##### **Massachusetts Development Finance Agency ("MDFA")**

In August 2006, the Organization acquired land and a building consisting of 4,179 square feet of office space and 53,429 square feet of warehouse space located in Fitchburg, Massachusetts near the University campus. The entire property has been leased to DCAM on behalf of the University (see Note 8). The University is currently using the property for its print services, maintenance, shipping and receiving and financial services.

The acquisition and related costs were funded with the proceeds of an offering of tax-exempt revenue bonds, Massachusetts Development Finance Agency Revenue Bonds, FSC Foundation Supporting Organization Issue, Series 2006 (the "bonds"), dated August 1, 2006, in the amount of \$1,900,000, issued by the MDFA, pursuant to a Loan and Trust Agreement. People's United Bank, as successor in interest to Chittenden Trust Company, is the bond Trustee. MDFA assigned all of its rights, title, and interest in and to the loan and related loan documents to the bond Trustee as security for repayment of the bonds. The loan is secured by a first mortgage interest in the real estate and related personal property located thereon, and an assignment of leases and rents. Payment and performance of the Organization's obligations under the loan agreement have been guaranteed by the Foundation.

The loan agreement has a term of 20 years and provides for a fixed rate of interest of 5.5% per annum for the first five years of the loan term. Thereafter, the interest rate will be adjusted at five-year intervals (August 16, 2011, 2016 and 2021) to a fixed rate of interest equal to 80% of the bank's prime rate, but no greater than 1% or less than 1% of the interest rate in effect for the immediately preceding five-year adjustment interval. The interest rate was adjusted to 4.5% per annum on August 16, 2011 pursuant to the provisions of the loan agreement. The loan required monthly installments of principal and interest of \$13,154 through August 16, 2011 and \$12,306 until August 16, 2016. The interest rate was adjusted to 3.5% per annum on August 16, 2016 pursuant to the provisions of the loan agreement. Commencing thereafter, the monthly installments of principal and interest are \$11,739 until the next five-year interval adjustment date of August 16, 2021. The loan matures on August 16, 2026. The loan agreement requires the Organization to maintain a Debt Service Coverage Ratio, as defined, of not less than 1.10 to 1 to be measured annually at the end of its fiscal year.

## FSU Foundation Supporting Organization, Inc.

### Notes to Financial Statements June 30, 2020 and 2019

The mortgage note was issued pursuant to the Loan and Trust Agreement and related loan documents and is subject to and governed by the terms and conditions of those agreements. The loan may be prepaid in accordance with the terms of the Loan and Trust Agreement for prepayment of the bonds as more fully described in the Loan and Trust Agreement.

The loan documents contain cross default provisions with the DCAM lease.

As of June 30, 2020, the outstanding principal balance of the loan of \$779,258, less net debt issuance costs of \$14,813, amounted to \$764,445.

As of June 30, 2019, the outstanding principal balance of the mortgage note payable of \$890,233, less net debt issuance costs of \$17,217, amounted to \$873,016.

Debt issuance costs, net of accumulated amortization, totaled \$14,813 and \$17,217 as of June 30, 2020 and 2019, respectively. Amortization of debt issuance costs on the above loan is being amortized using an imputed interest of 3.64% as of June 30, 2020 and 2019.

Aggregate principal maturities on the loan for each of the next five years and thereafter, using the interest rate in effect at June 30, 2020, are estimated to be as follows:

2021	\$	115,067
2022		119,217
2023		123,518
2024		127,940
2025		132,587
Thereafter		<u>160,929</u>
Total balance due	\$	<u><u>779,258</u></u>

#### **Workers' Credit Union ("WCU")**

Workers' Credit Union ("WCU") provided financing to the Organization in the form of a note, dated February 27, 2009, in the amount of \$750,000. The note is secured by a first mortgage interest in certain real estate owned by the Organization and an assignment of certain related leases and rents. The note is also collateralized by all funds held by the lender. At June 30, 2020 and 2019, the Organization has total cash balances of \$8,097 and \$7,527, respectively, held at WCU which serve as additional collateral for the loan.

The mortgage note had an original term of 10 years, expiring on February 27, 2019, and provided for a fixed rate of interest of 5.74% per annum. The interest rate was adjusted to 4.99% per annum on June 20, 2015 pursuant to the provisions of a loan modification agreement. On February 27, 2019, the interest rate was adjusted to 5.25% per annum expiring on February 27, 2024 pursuant to the provisions of a loan modification agreement. The note requires monthly installments of principal and interest of \$4,517 through February 27, 2024. Commencing thereafter, the interest rate will be adjusted to the FHLB 5-year Classic Advance plus 2.25% until the maturity date of February 27, 2029 and monthly payments for principal and interest will be determined at that point.

As of June 30, 2020 and 2019, the outstanding principal balance of the mortgage loan amounted to \$525,566 and \$551,397, respectively.

**FSU Foundation Supporting Organization, Inc.**

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Aggregate principal maturities on the loan for each of the next five years and thereafter at June 30, 2020, are as follows:

2021	\$	27,261
2022		28,727
2023		30,272
2024		31,839
2025		33,612
Thereafter		<u>373,855</u>
Total balance due	\$	<u><u>525,566</u></u>

**Rollstone Bank & Trust**

Rollstone Bank & Trust provided financing to the Organization in the form of a note, dated December 22, 2014 in the amount of \$240,000. The note is secured by a first mortgage interest in the real estate property located at 131 Highland Avenue in Fitchburg, Massachusetts and an assignment of leases and rents on the property. The note has a term of 20 years, maturing on December 22, 2034, and provides for a fixed rate of interest of 3.25% per annum. The loan requires monthly installments of principal and interest of \$1,367 based on a 20-year principal amortization. The loan agreement requires the Organization to maintain a ratio of Cash Flow (after distributions), as defined, to the Current Maturity of Long-Term Debt plus interest, as defined, of not less than 1.0 to 1 for any fiscal year. The loan agreement also contains, among other covenants, restrictions relating to future borrowings, capital expenditures by lease or purchase, distributions, making of advances or loans to other parties, making of investments, and sale, lease or transfer of assets, except as provided for and as more fully described in the loan agreement.

As of June 30, 2020 and 2019, the outstanding principal balance of the mortgage loan amounted to \$188,898 and \$198,877, respectively.

Aggregate principal maturities on the loan for each of the next five years and thereafter at June 30, 2020, are as follows:

2021	\$	10,331
2022		10,678
2023		11,035
2024		11,389
2025		11,784
Thereafter		<u>133,681</u>
Total balance due	\$	<u><u>188,898</u></u>

**Fidelity Co-Operative Bank**

Fidelity Co-Operative Bank provided financing to the Organization in the form of a note, dated June 26, 2013, in the amount of \$83,200. The note is secured by a first mortgage interest in the real estate property located at 340 Highland Avenue in Fitchburg, Massachusetts and an assignment of leases and rents on the property. The note has a term of 20 years, maturing on June 26, 2033, and provides for a fixed rate of interest of 3.5% per annum for the first five years of the loan term. Thereafter, the interest rate will be adjusted at five-year intervals (June 26, 2018, 2023 and 2028) to the Federal Home Loan Bank Boston Classic Advance Five Year Rate plus 2.75% per annum. The loan required monthly installments of principal and interest of \$376 through June 26, 2018. The interest rate was adjusted to 5.93% per annum on June 26, 2018 pursuant to the provisions of the loan agreement. The July and

## FSU Foundation Supporting Organization, Inc.

### Notes to Financial Statements June 30, 2020 and 2019

August 2018 monthly installments of principal and interest remained at \$376. On August 27, 2018, the Organization entered into a Change in Terms Agreement with the lender in which the interest rate on the note was modified to a fixed rate of 5.20% per annum until June 26, 2023. At that time, the interest rate will be adjusted pursuant to the terms of the original note described above. All other terms, provisions and conditions of the original note agreement remain in full force and effect. Commencing with the September 2018 monthly installment of principal and interest, the monthly installments shall be \$450. The note provides for the payment of a prepayment penalty if the loan is paid prior to maturity. The amount of the penalty shall be a specified percentage of the amount prepaid with such percentage ranging from 5% if paid before the loan's first anniversary and decreasing by 1% per year to 1% if paid before the loan's fifth anniversary. The prepayment penalty will reset as defined above at each five-year anniversary date of the note. The loan agreement contains, among other covenants, restrictions relating to future borrowings, making of advances or loans to other parties, sale, lease or transfer of assets, and the granting of further security interests, except as provided for and as more fully described in the loan agreement. The loan is cross-defaulted and cross-collateralized with any and all other loans made by the lender to the Organization.

As of June 30, 2020 and 2019, the outstanding principal balance of the mortgage loan amounted to \$71,916 and \$73,461, respectively.

Aggregate principal maturities on the loan for each of the next five years and thereafter, using the interest rates in effect at June 30, 2020, are estimated to be as follows:

2021	\$	1,659
2022		1,748
2023		1,843
2024		1,933
2025		2,046
Thereafter		<u>62,687</u>
Total balance due	\$	<u>71,916</u>

#### **Fidelity Co-Operative Bank**

In October 2016, Fidelity Co-Operative Bank provided financing to the Organization in the form of a promissory note, dated October 19, 2016, in the amount of \$118,000. The proceeds of the loan were used to reimburse the Organization for the acquisition, at a cost of \$119,803, of a real estate property located at 198 Pearl Street in Fitchburg, Massachusetts in fiscal 2016. The note is secured by a Negative Pledge Agreement on the property.

The promissory note has a term of 10 years, maturing on October 21, 2026, and provides for a fixed rate of interest of 4.11% per annum. Commencing on November 21, 2016, the loan requires monthly installments of principal and interest of \$726 based on a 20-year principal amortization until the maturity date, at which time the remaining outstanding principal balance and any accrued interest thereon is due and payable. The note provides for the prepayment of all or a portion of the amount owed without penalty. The business loan agreement contains, among other covenants, restrictions relating to future borrowings, making of advances or loans to other parties, sale, lease or transfer of assets, and the granting of further security interests, except as provided for and as more fully described in the business loan agreement. The loan is cross-defaulted and cross-collateralized with any and all other loans made by the lender to the Organization.

As of June 30, 2020 and 2019, the outstanding principal balance of the loan amounted to \$102,826 and \$107,154, respectively.

**FSU Foundation Supporting Organization, Inc.**

**Notes to Financial Statements  
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Aggregate principal maturities on the loan for each of the next five years and thereafter at June 30, 2020 are as follows:

2021	\$	4,501
2022		4,692
2023		4,891
2024		5,089
2025		5,315
Thereafter		<u>78,338</u>
Total balance due	\$	<u><u>102,826</u></u>

In January 2017, Fidelity Co-Operative Bank provided financing to the Organization in the form of a promissory note, dated January 13, 2017, in the amount of \$220,000. The proceeds of the loan were used to reimburse the Organization for the acquisition, at a cost of \$222,472, of two real estate properties in fiscal 2017. The note is secured by a Negative Pledge Agreement on the properties.

The promissory note has a term of 10 years, maturing on January 13, 2027, and provides for a fixed rate of interest of 4.76% per annum. Commencing on February 13, 2017, the loan requires monthly installments of principal and interest of \$1,431 based on a 20-year principal amortization until the maturity date, at which time the remaining outstanding principal balance and any accrued interest thereon is due and payable. The note provides for the payment of a prepayment penalty if the loan is paid prior to maturity. The amount of the penalty shall be a specified percentage of the amount prepaid with such percentage ranging from 5% if paid before the loan's first anniversary and decreasing by 1% per year to 1% if paid before the loan's fifth anniversary. The prepayment penalty will reset as defined above at each five-year anniversary date of the note. The loan agreement contains, among other covenants, restrictions relating to future borrowings, making of advances or loans to other parties, sale, lease or transfer of assets, and the granting of further security interests, except as provided for and as more fully described in the loan agreement. The loan is cross-defaulted and cross collateralized with any and all other loans made by the lender to the Organization.

As of June 30, 2020 and 2019, the outstanding principal balance of the loan amounted to \$195,137 and \$202,616, respectively.

Aggregate principal maturities on the loan for each of the next five years and thereafter at June 30, 2020 are as follows:

2021	\$	7,901
2022		8,291
2023		8,700
2024		9,107
2025		9,578
Thereafter		<u>151,560</u>
Total balance due	\$	<u><u>195,137</u></u>

**Hometown Bank**

In June, 2019, Hometown Bank provided financing to the Organization in the form of a commercial note, dated June 18, 2019, in the amount of \$312,000. The proceeds of the loan were used for the acquisition, at a cost of \$393,780, of a real estate property located at 164 Highland Avenue in Fitchburg, Massachusetts (see Note 4). The note is secured by a first mortgage interest in the property

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and a collateral assignment of rents and leases on the property. In addition, the loan agreement requires the Organization to maintain a Debt Service Coverage Ratio, as defined, of no less than 1.10 to 1 to be measured annually at the end of the fiscal year. The loan agreement also requires the Organization to maintain a Loan-to-Value Ratio of no more than 80% at any time during the term of the loan.

The commercial note has a term of 10 years, maturing on June 18, 2029, and provides for a fixed rate of interest of 4.60% per annum for the first five years of the loan term. Thereafter, the interest rate will be adjusted at five-year intervals (June 18, 2024) to the Federal Home Loan Bank Boston Classic Advance Five Year Rate plus 1.75% per annum. Commencing on July 18, 2019, the loan requires monthly installments of principal and interest of \$1,752 based on a 25-year principal amortization schedule with a final payment of all unpaid principal and accrued interest thereon due at maturity.

As of June 30, 2020 and 2019, the outstanding principal balance of the loan amounted to \$305,145 and \$312,000, respectively.

Aggregate principal maturities on the loan for each of the next five years and thereafter at June 30, 2020 are as follows:

2021	\$	7,136
2022		7,471
2023		7,822
2024		8,190
2025		8,575
Thereafter		<u>265,951</u>
Total balance due	\$	<u>305,145</u>

In June, 2019, Hometown Bank provided financing to the Organization in the form of a commercial note, dated June 18, 2019, in the amount of \$138,400. The proceeds of the loan were used for the acquisition, at a cost of \$172,481, of a real estate property located at 174 Highland Avenue in Fitchburg, Massachusetts (see Note 4). The note is secured by a first mortgage interest in the property and a collateral assignment of rents and leases on the property. In addition, the loan agreement requires the Organization to maintain a Debt Service Coverage Ratio, as defined, of no less than 1.10 to 1 to be measured annually at the end of the fiscal year. The loan agreement also requires the Organization to maintain a Loan-to-Value Ratio of no more than 80% at any time during the term of the loan.

The commercial note has a term of 10 years, maturing on June 18, 2029, and provides for a fixed rate of interest of 4.60% per annum for the first five years of the loan term. Thereafter, the interest rate will be adjusted at five-year intervals (June 18, 2024) to the Federal Home Loan Bank Boston Classic Advance Five Year Rate plus 1.75% per annum. Commencing on July 18, 2019, the loan requires monthly installments of principal and interest of \$777 based on a 25-year principal amortization schedule with a final payment of all unpaid principal and accrued interest thereon due at maturity.

As of June 30, 2020 and 2019, the outstanding principal balance of the loan amounted to \$135,359 and \$138,400 respectively.

**FSU Foundation Supporting Organization, Inc.**

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Aggregate principal maturities on the loan for each of the next five years and thereafter at June 30, 2020 are as follows:

2021	\$	3,165
2022		3,314
2023		3,470
2024		3,633
2025		3,804
Thereafter		<u>117,973</u>
Total balance due	\$	<u><u>135,359</u></u>

**Fitchburg Historical Society**

In April, 2019, Fitchburg Historical Society provided financing to the Organization in the form of a promissory note, dated April 4, 2019, in the amount of \$90,000. The proceeds of the loan were used for the acquisition, at a cost of \$114,774, of a real estate property located at 0 Main Street in Fitchburg, Massachusetts. The note is secured by a first mortgage interest in the property and a collateral assignment of rents and leases on the property.

The commercial note has a term of 5 years, maturing on April 1, 2024, and provides for a fixed rate of interest of 5.00% per annum. Commencing on May 1, 2019, the loan requires monthly installments of principal and interest of \$1,694 based on a 5-year principal amortization schedule with a final payment of all unpaid principal and accrued interest thereon due at maturity.

As of June 30, 2020 and 2019, the outstanding principal balance of the loan amounted to \$70,962 and \$87,348 respectively.

Aggregate principal maturities on the loan for each of the next four years at June 30, 2020 are as follows:

2021	\$	17,224
2022		18,105
2023		19,031
2024		<u>16,602</u>
Total balance due	\$	<u><u>70,962</u></u>

**Enterprise Bank and Trust Company**

In November 2016, Enterprise Bank and Trust Company provided financing to the Organization in the form of a promissory note, dated November 4, 2016, in the amount of \$280,000. The proceeds of the loan were used for the acquisition, at a cost of \$360,305, of a real estate property located at 689 - 717 Main Street in Fitchburg, Massachusetts (see Note 4). The note is secured by a first mortgage interest in the property and an assignment or rents on the property.

The promissory note has a term of 10 years, maturing on November 4, 2026, and thereafter is payable on demand. The note provides for a fixed rate of interest of 4.33% per annum for the first ten years of the loan term. Thereafter, the interest rate will be adjusted at ten-year intervals to the Daily High Federal Home Loan Bank Boston Classic Advance Ten Year Regular Rate plus 1.95% per annum. Commencing on January 1, 2017, the loan requires monthly installments of principal and interest of \$1,401 based on a 30-year principal amortization schedule. If the note is prepaid in whole or in part during the first 117 months of each fixed rate period for the purpose of refinancing the note with another

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financial institution, the note provides for a prepayment penalty equal to 3% of any principal reduction. Except for the forgoing, the note may be prepaid in whole or in part without penalty. The loan is cross-defaulted and cross-collateralized with any and all other loans made by the lender to the Organization.

As of June 30, 2020 and 2019, the outstanding principal balance of the loan amounted to \$262,969 and \$268,081, respectively.

Aggregate principal maturities on the loan for each of the next five years and thereafter, using the interest rate in effect at June 30, 2020, are estimated to be as follows:

2021	\$	5,374
2022		5,614
2023		5,866
2024		6,128
2025		6,403
Thereafter		<u>233,584</u>
Total balance due	\$	<u><u>262,969</u></u>

In November 2018, Enterprise Bank and Trust Company provided financing to the Organization in the form of a promissory note, dated November 5, 2018, in the amount of \$148,000. The note is secured by a first mortgage interest in and an assignment of leases and rents on a real estate property located at 70 - 78 North Street in Fitchburg, Massachusetts.

The promissory note has a term of 20 years, maturing on November 5, 2038. The note provides for a fixed rate of interest of 5% per annum for the first ten years of the loan term. Thereafter, the interest rate will be adjusted at five-year intervals to the Daily High Federal Home Loan Bank Boston Classic Advance Five Year Regular Rate plus 1.95% per annum. The loan will have a minimum floor rate of 5%. Commencing on January 1, 2019, the loan requires monthly installments of principal and interest of \$983 based on a 20-year principal amortization schedule. If the note is prepaid in whole or in part during the term of the loan for the purpose of refinancing the loan with another financial institution, the loan provides for a prepayment penalty equal to 3% of any principal reduction. Except for the forgoing, the note may be prepaid in whole or in part without penalty. The loan is cross-defaulted and cross-collateralized with any and all other loans made by the lender to the Organization.

As of June 30, 2020 and 2019, the outstanding principal balance of the loan amounted to \$141,347 and \$145,829, respectively.

Aggregate principal maturities on the loan for each of the next five years and thereafter, using the interest rate in effect at November 5, 2018, are estimated to be as follows:

2021	\$	4,736
2022		4,982
2023		5,240
2024		5,495
2025		5,797
Thereafter		<u>115,097</u>
Total balance due	\$	<u><u>141,347</u></u>



FSU Foundation Supporting Organization, Inc.

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**Webster First Federal Credit Union**

In September 2017, Webster First Federal Credit Union provided financing to the Organization in the form of a commercial note, dated September 22, 2017, in the amount of \$250,000. The proceeds of the loan were used to reimburse the Organization for the acquisition at a cost of \$50,000, of a real estate property located at 66 Day Street and a property at a cost of \$126,926 located at 721-725 Main Street both in Fitchburg, Massachusetts. The note is secured by a first mortgage interest in the real estate properties located at 66 and 0 Day Street and 721 - 725 Main Street, Fitchburg, Massachusetts, and an assignment of leases and rents on the properties. The note has a term of 15 years, maturing on October 1, 2032, and provides for a fixed rate of interest of 3.75% per annum for the first 10 years of the loan term. Thereafter, the interest rate will be adjusted to the Federal Home Loan Bank Boston Classic Advance Five-Year Rate plus 1.5% per annum for the remaining 5 years of the loan term, but no less than a rate of 3.75% per annum. Commencing on November 1, 2017, the loan requires monthly installments of principal and interest of \$1,825 based on a 15-year principal amortization schedule with a final payment of all unpaid principal and accrued interest thereon due at maturity. The note may be prepaid in whole or in part at any time without penalty.

As of June 30, 2020 and 2019, the outstanding principal balance of the loan amounted to \$215,293 and \$228,704, respectively.

Aggregate principal maturities on the loan for each of the next five years and thereafter, using the interest rate in effect at June 30, 2020, are estimated to be as follows:

2021	\$	14,068
2022		14,605
2023		15,162
2024		15,741
2025		16,341
Thereafter		<u>139,376</u>
Total balance due	\$	<u><u>215,293</u></u>

FSU Foundation Supporting Organization, Inc.

Notes to Financial Statements  
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**Note 7 - Note payable - bank**

In May 2007, the Organization acquired land and a building consisting of six apartment units at a total cost of \$504,479, including related acquisition costs. The Organization also acquired an adjacent parcel of land at a cost of \$183,301. The properties are located in the area surrounding the Fitchburg State University campus. The apartments are being used by the University as additional student housing for which the Organization receives residence hall fees.

The acquisitions were funded with the proceeds of a note payable in the amount of \$680,000, dated April 26, 2007, with Enterprise Bank and Trust Company. The note is secured by investments owned by the Foundation with a fair value of approximately \$2,301,000 and \$2,250,000 at June 30, 2020 and 2019, respectively. In addition, payment and performance of the Organization's obligations under the loan agreement have been guaranteed by the Foundation.

The promissory note has a term of 30 years, expiring on May 5, 2037, and provides for a fixed rate of interest of 6% per annum for the first five years of the loan term. Thereafter, the interest rate will be adjusted at five-year intervals (April 26, 2012, 2017, 2022, 2027 and 2032) to the Federal Home Loan Bank Boston Classic Advance Five Year Rate plus 1.15% per annum. The interest rate was adjusted to 2.62% per annum on April 26, 2012 pursuant to the provisions of the loan agreement. The loan required monthly installments of principal and interest of \$4,122 through May 7, 2012 and \$2,875 until April 26, 2017. The interest rate was adjusted to 3.49% per annum on April 26, 2017 pursuant to the provisions of the loan agreement. Commencing thereafter, the monthly installments of principal and interest are \$3,115 until the next five-year interval adjustment date of April 26, 2022. The note may be prepaid at any time, in whole or in part, without premium or penalty.

As of June 30, 2020 and 2019, the outstanding principal balance of the loan amounted to \$474,685 and \$494,807, respectively.

Aggregate principal maturities on the loan for each of the next five years and thereafter, using the interest rate in effect at June 30, 2020, are estimated to be as follows:

2021	\$	20,924
2022		21,677
2023		22,456
2024		23,226
2025		24,099
Thereafter		<u>362,303</u>
Total balance due	\$	<u><u>474,685</u></u>

## FSU Foundation Supporting Organization, Inc.

### Notes to Financial Statements June 30, 2020 and 2019

#### Note 8 - Lease and license agreements

As disclosed in Note 6, the Organization entered into a long-term operating lease agreement with DCAM on behalf of the University. The lease commenced on August 16, 2006 and expired on August 16, 2016. The lease provided for base rent of \$165,000 per year, payable in monthly installments of \$13,750, for the entire lease term. The University was also responsible for the payment of normal operating, maintenance and repair costs associated with its use of the property. The lease continued in effect, after its expiration, under the same terms and conditions until March 9, 2017 when the Organization signed a new 10-year lease with the same terms and conditions as the previous agreement. The new lease agreement became effective as of August 16, 2016. For the years ended June 30, 2020 and 2019, rental income amounted to \$165,000 in each year.

The following is a schedule of future minimum rental income under the operating lease agreement at June 30, 2020:

2021	\$	165,000
2022		165,000
2023		165,000
2024		165,000
2025		165,000
Later years		<u>185,625</u>
	\$	<u>1,010,625</u>

On August 6, 2008, the Organization entered into a 10-year operating lease agreement with an unrelated third-party for 2,350 square feet of office space located in Fitchburg, Massachusetts. The lease commenced on November 1, 2008 and expired on October 31, 2018. The space is being used by Fitchburg State University as office and classroom space for its Center for Professional Studies. The lease provided for a base annual rent of \$17,625 for each of the first three years of the lease term, payable in monthly installments of \$1,469. Beginning with the fourth year of the lease, there will be a 7.5% increase at the commencement of each three-year period of the lease term, including the continuous period of any extensions thereof. On November 1, 2011, the base annual rent increased to \$18,947 for the next three-year period of the lease term, payable in monthly installments of \$1,579. Effective July 1, 2014, the Organization entered into an amended operating lease agreement with the unrelated third party adding 20 parking spaces for use in conjunction with the above-mentioned office space and extended the lease term through June 30, 2019. The amended lease provides for a base annual rent of \$28,495 for each of the first three years of the lease term, payable biannually in installments of \$14,247. On July 1, 2017, the annual rent on the lease increased by 7.5% to \$30,632 (biannual installments of \$15,316). Effective July 1, 2019, the Organization entered into an operating lease agreement with the unrelated third party for the same space. The new lease provides a base annual rent of \$30,632 per annum and will increase 2% at the end of each year period of the lease term to be effective commencing July 1<sup>st</sup> of the following year, including the continuous period of any extension. The Organization may extend the initial term of the lease, under the same terms and conditions, for successive periods of one year, provided it is not then in default of the lease terms and it gives proper notice. The Organization may cancel the lease at any time with the payment of two months' base rent as a termination charge. The Organization is also responsible for the payment of normal operating, maintenance and repair costs associated with the use of the property. For the years ended June 30, 2020 and 2019, rent expense amounted to \$30,632 in each year.

The future minimum rental payments under this operating lease agreement at June 30, 2020 are \$31,245 and \$31,870 for the fiscal years ending June 30, 2021 and 2022, respectively.

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On February 1, 2013, the Organization entered into a 10-year operating lease agreement with the above noted unrelated third party for an additional 1,424 square feet of office space located in Fitchburg, Massachusetts. The lease commenced on February 1, 2013 and shall expire on January 31, 2023. The space is being used by Fitchburg State University for additional office and classroom space. The lease provides for a base annual rent of \$5,696 payable in monthly installments of \$475. Effective July 1, 2017, the lease agreement was amended to extend the term of the lease until June 30, 2023 and modify the lease payment provisions to be in biannual installments of \$2,848. The Organization may extend the initial term of the lease, under the same terms and conditions, for successive periods of one year, provided it is not then in default of the lease terms and it gives proper notice. The Organization may cancel the lease at any time after February 1, 2014 with the payment of two months' base rent as a termination charge. The Organization is also responsible for the payment of normal operating, maintenance and repair costs associated with the use of the property. For the years ended June 30, 2020 and 2019, rent expense amounted to \$5,696 in each year.

The following is a schedule of future minimum rental payments under this operating lease agreement at June 30, 2020:

2021	\$	5,696
2022		5,696
2023		5,696
		<u>17,088</u>
	\$	<u>17,088</u>

The Organization and the University are parties to License Agreements whereby the Organization granted to the University irrevocable and exclusive licenses to occupy, manage, maintain and operate certain property owned by the Organization. The License Agreements provide for initial terms of one year and automatic annual renewals thereafter. The License Agreements provide for annual license fees payable, in arrears, in 4 equal quarterly installments. All costs to operate and maintain the property, including any capital improvements made thereto, shall be borne by the University. The License Agreements may be terminated by either party upon the expiration of the initial term of the agreements and any subsequent renewal term with the giving of proper notice. In addition, the University may terminate the agreements at any time with the giving of proper notice. For the years ended June 30, 2020 and 2019, license fee income amounted to \$545,661 and \$205,427, respectively.

On June 22, 2018, the Organization entered into a three-year operating lease agreement with an unrelated third party after purchasing a property for a total cost of \$153,096 located in Fitchburg, Massachusetts. The lease agreement provides for monthly lease payment of \$1,600 commencing on July 1, 2018. For the year ended June 30, 2020, rental income amounted to \$21,255.

The following is a schedule of future minimum rental payments under this operating lease agreement at June 30, 2020:

2021	\$	<u>19,200</u>
	\$	<u>19,200</u>

Effective on August 6, 2019, the Organization entered into a lease agreement with Fitchburg Housing Authority ("FHA") to lease the land located at 66 Day Street to be used for parking by FHA employees. The Organization is leasing the property solely for convenience to FHA; no revenue is being generated by this lease agreement.

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June 30, 2020 and 2019**

**Note 9 - Line of credit**

On August 18, 2016, the Organization entered into a demand unsecured revolving line of credit agreement with Rollstone Bank and Trust which permits the Organization to borrow up to \$250,000. The line of credit provides for interest at *The Wall Street Journal* Prime Rate less .25% (effective rates of 3.25% at June 30, 2020 and 5.25% at June 30, 2019). The line of credit agreement expired on August 18, 2017. The line of credit was extended through November 30, 2017, and again through November 30, 2018, under the same terms and conditions of the previous agreement. On November 30, 2018, the line of credit was renewed through November 30, 2019 and again through November 30, 2020. The Organization may prepay outstanding revolving loans under the agreement in whole or in part at any time without premium or penalty. The line of credit agreement contains, among other covenants, the maintenance of a debt service coverage ratio, as defined, of at least 1.00 to 1. In addition, the agreement provides that the line of credit be brought to a zero balance for 30 consecutive days annually during the term of the agreement. As June 30, 2020, the Organization has made payments of \$250,000 and borrowings of \$250,000 under the line of credit agreement. The balance outstanding as of June 30, 2020 is \$250,000. As of June 30, 2019, the Organization has made payments of \$150,000 and borrowings of \$250,000 under the line of credit agreement. The balance outstanding as of June 30, 2019 was \$250,000.

**Note 10 - Transactions with related parties**

Fitchburg State University and the Foundation render certain administrative services to the Organization. For the years ended June 30, 2020 and 2019, these services with a value of \$9,650 and \$10,612, respectively, have been recognized as contribution in kind income in the accompanying statements of activities in accordance with FASB guidance.

Repairs and maintenance expense in the accompanying 2020 and 2019 statements of activities includes \$21,740 and \$21,740, respectively, paid to Fitchburg State University for maintenance services provided to the Organization for the real estate used for student housing. At June 30, 2020 and 2019, none of the balance remained unpaid.

From time to time, the Foundation makes advances to the Organization to assist with the financing of its acquisitions of real estate properties located in Fitchburg, Massachusetts. The advances do not have any specified repayment provisions and due dates and are noninterest-bearing except to the extent that they are funded from the proceeds of draws on the Foundation's working capital line of credit. In those instances, the Foundation charges interest to the Organization at a rate equivalent to the Foundation's borrowing rate on its working capital line of credit agreement. At June 30, 2020 and 2019, the effective interest rate was 0% and 5.50% per annum, respectively. Interest expense incurred by the Organization on advances amounted to \$0 and \$10,339 in fiscal 2020 and 2019, respectively. As of June 30, 2020 and 2019, there was no accrued interest payable to the Foundation. During fiscal 2020, no advances were made to the Organization. During fiscal 2019, the Foundation made advances of \$150,000 to the Organization. As of June 30, 2020 and 2019, there were no outstanding advances payable to the Foundation.

As of June 30, 2020 and June 30, 2019, the Organization has miscellaneous accounts receivable totaling \$24,445 and \$7,646 from the University, respectively, which are reflected as due from affiliate in the accompanying statements of financial position.

**FSU Foundation Supporting Organization, Inc.**

**Notes to Financial Statements  
June 30, 2020 and 2019**

As of June 30, 2020 and 2019, the Organization has miscellaneous payables in the amount of \$16,194 and \$16,194, respectively, to the University, which are included in due to affiliates in the accompanying 2020 statement of financial position.

**Note 11 - Supplemental cash flow information**

	<u>2020</u>	<u>2019</u>
Cash paid for interest during the year	<u>\$ 155,320</u>	<u>\$ 147,130</u>

During the years ended June 30, 2020 and 2019, cash paid for property additions is as follows:

	<u>2020</u>	<u>2019</u>
Costs incurred for the purchase of property	\$ 342,875	\$ 684,036
Amounts funded through contribution income	(2,100)	(3,000)
Amounts included in accounts payable at the beginning of the year	-	9,342
Amounts included in accounts payable at the end of the year	<u>(100,000)</u>	<u>-</u>
Cash paid for property and equipment	<u>\$ 240,775</u>	<u>\$ 690,378</u>

**Note 12 - Contingency**

In early 2020, an outbreak of a novel strain of coronavirus ("COVID-19") emerged globally. As a result, events have occurred including mandates from federal, state, and local authorities leading to an overall decline in economic activity. As of June 30, 2020, there was no significant impact to the Organization's operations. However, the Organization is not able to reliably estimate the length or severity of this outbreak. If the length of the outbreak and related effects on the Organization's operations continues for an extended period of time, there could be a loss of revenue and other material adverse effects on the Organization's financial position, results of operations and cash flow.

**Note 13 - Subsequent events**

Effective on August 9, 2019, the Organization entered into a Purchase and Sale Agreement to acquire a property consisting of land and a building in close proximity to the Fitchburg State University campus at a cost of \$170,000, plus closing costs. The closing on the acquisition occurred September 18, 2020. The Organization is currently planning to raze the building on the property and convert it into a parking lot to support the operations of the adjacent recreation center.

Effective on October 16, 2020, the Organization entered into a Purchase and Sale Agreement to acquire a property consisting of land and building in close proximity to the Fitchburg State University campus at a cost of \$100 plus closing costs. The closing on the acquisition is expected to occur in November, 2020. The Organization is currently planning to utilize the building for additional classroom space.

Independent Auditor's Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*

To the Board of Directors  
FSU Foundation Supporting Organization, Inc.

We have audited, 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, the financial statements of FSU Foundation Supporting Organization, Inc., which comprise the statement of financial position as of June 30, 2020, and the related statement of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated (REPORT DATE).

#### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered FSU Foundation Supporting Organization, Inc.'s internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FSU Foundation Supporting Organization, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of FSU Foundation Supporting Organization, Inc.'s internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether FSU Foundation Supporting Organization, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Boston, Massachusetts  
(REPORT DATE)

PRELIMINARY DRAFT -  
SUBJECT TO CHANGE