

Attachment C
Foundation Draft FS

Fitchburg State University Foundation, Inc.

**Consolidated Financial Statements
(With Supplementary Information)
and Independent Auditor's Report**

June 30, 2020

PRELIMINARY DRAFT -
SUBJECT TO CHANGE

Fitchburg State University Foundation, Inc.

Index

	<u>Page</u>
Independent Auditor's Report	2
Consolidated Financial Statements	
Consolidated Statement of Financial Position	4
Consolidated Statement of Activities	5
Consolidated Statement of Functional Expenses	6
Consolidated Statement of Cash Flows	7
Notes to Consolidated Financial Statements	9
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 <i>Government Auditing Standards</i>	45

Independent Auditor's Report

The Board of Directors
Fitchburg State University Foundation, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Fitchburg State University Foundation, Inc. ("Foundation"), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the consolidated 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 Foundation'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fitchburg State University Foundation, Inc. as of June 30, 2020, and changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the consolidated financial statements of Fitchburg State University Foundation, Inc., and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 5, 2019. In our opinion, the summarized comparative consolidated information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated DATE, on our consideration of Fitchburg State University Foundation, Inc.'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 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 Fitchburg State University Foundation, 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 Fitchburg State University Foundation, Inc.'s internal control over financial reporting and compliance.

Boston, Massachusetts
DATE

PRELIMINARY DRAFT
SUBJECT TO CHANGE

Fitchburg State University Foundation, Inc.

Consolidated Statement of Financial Position

June 30, 2020

(With Comparative Totals for the Year Ended June 30, 2019)

	<u>Assets</u>	
	<u>2020</u>	<u>2019</u>
Cash and equivalents	\$ 1,866,947	\$ 1,236,311
Investments	21,254,142	20,061,150
Accrued investment income receivable	32,495	35,794
Accounts receivable	21,195	7,645
Contributions receivable, net	751,904	273,985
Prepaid expenses and other current assets	100,160	30,318
Property and equipment, net of accumulated depreciation	6,737,875	6,561,694
Other assets	146,788	103,636
	<u>30,911,506</u>	<u>28,310,533</u>
Total assets	\$ 30,911,506	\$ 28,310,533
	<u>Liabilities and Net Assets</u>	
Liabilities		
Bank lines of credit	\$ 250,000	\$ 250,000
Accounts payable, trade	96,412	326,418
Accrued expenses	-	825
Environmental liability	100,000	
Accrued interest payable	6,293	7,988
Agency fund	31,080	53,901
Deferred revenue	32,500	58,519
Notes payable - bank	474,685	494,807
First mortgage notes payable	3,324,303	3,545,519
	<u>4,315,273</u>	<u>4,737,977</u>
Total liabilities	4,315,273	4,737,977
Net assets		
Without donor restriction	5,624,938	5,049,474
With donor restrictions	20,971,295	18,523,082
	<u>26,596,233</u>	<u>23,572,556</u>
Total net assets	26,596,233	23,572,556
Total liabilities and net assets	\$ 30,911,506	\$ 28,310,533

See Notes to Consolidated Financial Statements.

Fitchburg State University Foundation, Inc.

**Consolidated Statement of Activities
Year Ended June 30, 2020
(With Comparative Totals for the Year Ended June 30, 2019)**

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>2020 Total</u>	<u>2019 Total</u>
Revenue and support				
Program revenues				
Gifts and donations	\$ 125,882	\$ 1,786,021	\$ 1,911,903	\$ 899,301
State matching donation	-	277,778	277,778	-
Grants and contracts	-	45,000	45,000	510
Sales and services	76,099	3,238	79,337	85,068
Rental income	189,330		189,330	190,614
Residence hall income	263,623		263,623	270,854
License fee income	545,661		545,661	205,427
Contribution in kind income	163,626	-	163,626	179,787
Other revenue				
Interest and dividends	98,106	259,707	357,813	347,761
Gain (loss) on investments, net	198,635	863,817	1,062,452	1,271,373
Net assets released from restrictions	787,348	(787,348)	-	-
Total revenue and support	<u>2,448,310</u>	<u>2,448,213</u>	<u>4,896,523</u>	<u>3,450,695</u>
Expenses				
Program services	1,522,297	-	1,522,297	1,738,698
Management and general	251,489	-	251,489	262,673
Fundraising	99,060	-	99,060	99,180
Total expenses	<u>1,872,846</u>	<u>-</u>	<u>1,872,846</u>	<u>2,100,551</u>
Increase in net assets	575,464	2,448,213	3,023,677	1,350,144
Net assets at beginning of year	<u>5,049,474</u>	<u>18,523,082</u>	<u>23,572,556</u>	<u>22,222,412</u>
Net assets at end of year	<u>\$ 5,624,938</u>	<u>\$ 20,971,295</u>	<u>\$ 26,596,233</u>	<u>\$ 23,572,556</u>

See Notes to Consolidated Financial Statements.

Fitchburg State University Foundation, Inc.

**Consolidated Statement of Functional Expenses
Year Ended June 30, 2020
(With Comparative Totals for the Year Ended June 30, 2019)**

	2020			2019
	Program services	Management and general	Fundraising	Total
Scholarships	\$ 355,106	\$ -	\$ -	\$ 355,106
Community services	22,791	-	-	22,791
Speakers and cultural programs	11,126	-	-	11,126
Outside services	12,753	-	3,000	15,753
Accounting and audit	-	23,352	-	23,352
Insurance	95,332	31,267	-	126,599
Affiliate personnel costs	-	102,837	58,689	161,526
Supplies	-	-	3,715	3,715
Postage	-	-	-	-
Equipment and maintenance	14,041	50,101	-	64,142
Printing and publications	4,584	74	5,702	10,360
Travel	3,699	-	3,218	6,917
Meetings and conferences	3,764	-	24,736	28,500
Professional and consulting services	-	-	-	-
Awards and grants	331,030	-	-	331,030
Contribution made to University	266,000	-	-	266,000
Fees, fines, licenses, permits	309	-	-	309
Repairs and maintenance	7,700	-	-	7,700
Property management	21,740	-	-	21,740
Rent	36,328	-	-	36,328
Utilities	23,130	-	-	23,130
Interest	156,010	15,267	-	171,277
Miscellaneous	30	-	-	30
Other financial fees	1,401	16,213	-	17,614
Credit card fees	-	868	-	868
Real estate and other taxes	-	-	-	-
Landscaping	-	-	-	-
Bad debt expense	-	240	-	240
Depreciation	155,423	11,270	-	166,693
Total expenses	\$ 1,522,297	\$ 251,489	\$ 99,060	\$ 1,872,846
				\$ 2,100,551

See Notes to Consolidated Financial Statements.

Fitchburg State University Foundation, Inc.

Consolidated Statement of Cash Flow
Year Ended June 30, 2020
(With Comparative Totals for the Year Ended June 30, 2019)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Increase in net assets	\$ 3,023,677	\$ 1,350,144
Adjustments to reconcile increase in net assets to net cash used in operating activities		
Loss on investments	(1,180,612)	(1,384,921)
Contribution of property and equipment	(2,100)	(3,000)
Depreciation	166,693	165,666
Discount on pledges	(21,471)	(1,900)
Amortization of debt issuance costs	2,404	3,114
Contributions restricted for long-term purposes	(1,727,298)	(255,475)
Changes in assets and liabilities		
(Increase) decrease in assets		
Accounts receivable	(13,550)	(7,681)
Accrued investment income receivable	3,299	(1,615)
Contributions receivable, net	361,222	(244,796)
Prepaid expenses and other current assets	(69,842)	(18,317)
Other assets	(43,152)	53,901
Increase (decrease) in liabilities		
Accounts payable, trade	(207,185)	163,615
Accrued expenses	(825)	-
Due to affiliate	(3,249)	79,683
Accrued interest payable	(1,695)	1,083
Agency fund	(22,821)	
Deferred revenue	(26,019)	15,869
	<u>237,476</u>	<u>(80,691)</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities		
Payments for property and equipment	(240,775)	(690,378)
Proceeds from sale of investments	2,699,673	3,148,457
Purchase of investments	<u>(2,712,053)</u>	<u>(3,035,182)</u>
Net cash used in investing activities	<u>(253,155)</u>	<u>(577,103)</u>

Fitchburg State University Foundation, Inc.

Consolidated Statement of Cash Flow
Year Ended June 30, 2020
(With Comparative Totals for the Year Ended June 30, 2019)

	<u>2020</u>	<u>2019</u>
Cash flows from financing activities		
Proceeds of first mortgage notes payable	-	688,400
Proceeds of bank lines of credit	250,000	100,000
Payments on bank lines of credit	(250,000)	
Payments on first mortgage notes payable	(223,620)	(190,443)
Payments on notes payable - bank	(20,122)	(19,469)
Advances from affiliate	-	830
Advances to affiliate	-	(260,895)
Proceeds from sale of donated securities restricted for permanent endowment	890,057	271,065
	<u>646,315</u>	<u>589,488</u>
Net cash provided by financing activities		
	630,636	(68,306)
Net increase (decrease) in cash and equivalents		
Cash and equivalents, beginning of year	<u>1,236,311</u>	<u>1,304,617</u>
Cash and equivalents, end of year	<u>\$ 1,866,947</u>	<u>\$ 1,236,311</u>

See Notes to Consolidated Financial Statements.

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

Note 1 - Organization and summary of significant accounting policies

Organization

Fitchburg State University Foundation, Inc. (the "Foundation") was organized on June 6, 1978, exclusively for the benefit of Fitchburg State University (the "University"), to establish scholarships and make awards to educationally talented and needy students; to establish a Distinguished Professor award within the faculty of the University; to subsidize inter-collegiate athletic programs; to subsidize budgets of departments of the University as needed for particular purposes; to encourage public use and support of functions and activities which further the mission of the University; and to encourage other activities necessary for, or incidental to, any or all of the foregoing. The following programs are supported under the auspices of the Foundation: Center Stage, Alumni Association, Women in Today's Society, Amelia V. Gallucci-Cirio endowment and the University's Booster Clubs.

FSU Foundation Supporting Organization, Inc. (the "Supporting Organization") was organized on October 29, 1999 to be a supporting organization operated, supervised and controlled for the exclusive benefit of the Foundation and all of its educational and charitable activities. As of June 30, 2020, the Supporting 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 University.

The Foundation and the Supporting Organization are collectively referred to hereinafter as the Organization.

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.

Note 2 - Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of the Foundation and the Supporting Organization. All significant intercompany accounts and transactions have been eliminated in consolidation.

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

Professional standards require that a not-for-profit organization consolidate another not-for-profit organization if the reporting not-for-profit ("Foundation") has both control and an economic interest in the other not-for-profit organization ("Supporting Organization"). The Supporting Organization's Articles of Organization limit its activities to those that are for the exclusive benefit of the Foundation.

Use of estimates

The preparation of consolidated 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 consolidated 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 consolidated 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 consolidated financial statements of the Organization are presented in accordance with guidance issued by the 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 Foundation's functions and operations that are not externally restricted for identified purposes by donors. Net 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 Foundation has been limited by donors to a specific period or purpose. Some 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. Programs supported by the Organization operate under budgetary restrictions except for the Women in Today's Society program. Income earned from support derived by the Women in Today's Society program is restricted; ninety percent (90%) of such income is available for the Women in Today's Society program with ten percent (10%) available for general Organization expenses. Other donor-imposed restrictions on net assets are permanent in nature. These net assets have been restricted by donors to be maintained in perpetuity.

Risks and uncertainties

The Organization maintains an investment portfolio consisting of a combination of U.S. Treasury securities and other government obligations, corporate bonds, equity securities and mutual funds

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

that are invested in equity securities, bonds and other investment securities. The Organization's investments in equity securities, corporate bonds and mutual funds include both domestic and foreign investments. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the value of these investments will occur in the near term and such changes could materially affect the Organization's investment account balances.

Revenue recognition

Contributions and bequests

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. An allowance for uncollectible contributions receivable is provided based on management's judgement, including such factors as prior collection history, type of contribution, and nature of fund-raising activity. 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 available for general use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions. 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.

Sales and services

Sales and services revenue primarily consists of revenue generated from various cultural programs, functions and events organized by the Organization. Revenue is recognized when the programs, functions and events have taken place and as services are performed. Revenues received for future programs, functions and events are deferred to the applicable year in which they are earned.

Rental and license fee income

Renting and leasing operations currently 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 the University. In addition, the Organization granted the 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.

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

Cash and equivalents

The Organization maintains operating cash at three financial institutions in Massachusetts. In addition, the Organization maintains money market funds at four different financial institutions. Short-term investments with original maturities of three months or less are considered cash equivalents.

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.

Investments

Investments consist of debt, marketable equity securities, mutual funds and other investments, which are carried at their fair values. Unrealized gains and losses are included in revenue. Restricted investment income and gains are reported as increases in without donor restricted net assets, unless a donor or law temporarily or permanently restricts their use. Gains and losses on the disposition of investments are principally determined based on the first-in, first-out method or specific identification of securities sold. Investment income is recognized when earned. Dividends are recorded on the ex-dividend date.

The Organization's investment policy consists of a target asset allocation range of 50% to 70% equity securities, 30% to 50% fixed income securities and up to 10% in cash and equivalents.

Endowments

The Organization's endowments consist of approximately 113 and 109 individual funds at June 30, 2020 and 2019, respectively, that are restricted by donors to function as endowments primarily for the granting of scholarships and to fund other academic and cultural programs. During 2018, the Board of Directors voted to earmark a board-designated fund entitled The Fund for Fitchburg State to function as an endowment fund. The fund will be invested and generate earnings which will be used to fill the gap for students with financial need. During fiscal 2018, \$25,000 of without donor restricted net assets were board-designated to function as an endowment (Note 5). In accordance with accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

The Board of Directors of the Organization has interpreted the Massachusetts Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as assets with donor restriction (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The funds will remain in net assets with donor restriction until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate restricted endowment funds: (i) the duration and preservation of the fund, (ii) the purposes of the Organization and the donor-restricted endowment fund, (iii) general economic conditions, (iv) the possible effect of inflation and deflation, (v) the expected total return from income and the appreciation of investments, (vi) other resources of the Organization, and (vii) the investment policies of the Organization.

Investment and spending policies

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for donor-specified periods as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a variety of investments that aim to preserve principal, generate income and provide the opportunity for conservative growth.

The Organization's performance goals are to provide an average annual total rate of return, net of fees, that equals or exceeds its spending rate plus inflation ("CPI") over a rolling five-year period. Additionally, the endowment assets are invested in a manner that is intended to produce results that equal or exceed the average return of appropriate capital market indices weighted by the Organization's asset allocation target percentages over a rolling five-year period. The Organization's performance goals are also intended to produce results that equal or exceed the average return of a universe of similarly managed funds. The Organization's performance goals are based upon a long-term investment horizon. Accordingly, actual returns in any given year may vary from these amounts.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Organization has a spending policy of appropriating for distribution each year a percentage of its endowment fund's average fair value over the preceding three years. The amount to be appropriated for distribution shall not exceed 5%. In establishing this policy, the Organization considered the long-term expected return on its endowment fund assets. Accordingly, over the long-term, the Organization expects the current spending policy to be consistent with the Organization's objective of seeking to maintain the purchasing power of the endowment fund assets held in perpetuity or for a specified term as well as to provide additional real growth through investment return.

Funds with deficiencies

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Massachusetts General Laws requires the Organization to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in net assets with donor restrictions. As of June 30, 2020 and 2019, there were no deficiencies of this nature.

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

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, seven and 10 years for furniture and fixtures, five years for equipment and three years for computer software and equipment. 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 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.

Consolidated statement of cash flows

For purposes of the consolidated statement 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 Foundation and the Supporting Organization are classified by the Internal Revenue Service as "publicly supported organizations" 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 Foundation or Supporting Organization's tax-exempt purposes are subject to taxation as unrelated business income. The Foundation has unrelated business income for the years ended June 30, 2020 and 2019. The income and related income taxes thereon, which are not material, are included in the accompanying consolidated financial statements. The Supporting 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 for the Supporting Organization in the accompanying consolidated 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 consolidated 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, if any, are recognized as a part of interest expense and miscellaneous other expenses, respectively, in the accompanying consolidated statements of activities. The Foundation and Supporting Organization have no accrued interest and penalties associated with

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

uncertain tax positions at June 30, 2020 and 2019 and none were incurred during the years then ended. The Foundation and Supporting Organization's income tax returns are subject to examination by taxing authorities generally for the years ended June 30, 2017, 2018, and 2019.

Functional allocation of 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, printing and publications, meetings and conferences, and other costs, which have been allocated among the program and supporting services benefited based on specific identification.

Summarized comparative financial information

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Subsequent events

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

Note 3 - Cash and equivalents

Cash and equivalents consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Cash and other demand deposits	\$ 1,188,810	\$ 437,419
Money market funds	<u>678,137</u>	<u>798,892</u>
	<u>\$ 1,866,947</u>	<u>\$ 1,236,311</u>

Money market funds include the SSGA US Government Money Market Fund in the aggregate amount of \$26,532 and \$252,979 at June 30, 2020 and June 30, 2019, respectively. The SSGA US Government Money Market Fund invests in obligations of the U.S. Government, or its instrumentalities with remaining maturities of one year or less. The fund seeks to maximize current income to the extent consistent with the preservation of capital and liquidity, and the maintenance of a stable \$1.00 per share net asset value. At June 30, 2020 and 2019, the fund's investment securities had a weighted average maturity of 37 days and 34 days, respectively. The fund had an average credit quality rating of AAAM at June 30, 2020 and 2019, respectively.

Money market funds include the Goldman Sachs Financial Square Government Fund in the aggregate amount of \$52,419 and \$29,894 at June 30, 2020 and June 30, 2019, respectively. The Goldman Sachs Financial Square Government Fund invests in U.S. Government securities and repurchase agreements. The fund seeks to maximize current income to the extent consistent with the preservation of capital and liquidity, and the maintenance of a stable \$1.00 per share net asset

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

value. At June 30, 2020 and 2019, the fund's investment securities had a weighted average maturity of 51 days and 30 days, respectively. The fund had an average credit quality rating of AAAM at June 30, 2020 and June 30, 2019, respectively.

Money market funds include the RWM Cash Management Money Market account in the aggregate amount of \$127,633 and \$45,676 at June 30, 2020 and 2019, respectively.

Money market funds also include the Fidelity Bank LifeDesign Business Cash Management Money Market account with a balance of \$471,553 and \$470,343 at June 30, 2020 and 2019, respectively.

The Organization maintains its operating cash balances in financial institutions located in Massachusetts. The balances are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000.

The Organization's cash balances fluctuate throughout the year and may exceed insured limits from time-to-time. The Organization has not experienced any losses on its accounts, and monitors the credit-worthiness of the financial institutions with which it conducts business. Management believes that the Organization is not exposed to any significant credit risk with respect to its cash and cash equivalent balances.

Note 4 - Liquidity and availability

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

Financial assets at year end	2020	2019
Cash and equivalents (excluding agency fund)	\$ 1,835,867	\$ 1,182,410
Accounts receivable	21,195	7,645
Contributions receivable	751,904	273,985
Investments (net of donor-restricted endowment)	9,033,514	9,584,736
Total financial assets	<u>11,642,480</u>	<u>11,048,776</u>
Financial assets available to meet general expenditures within one year	<u>\$ 11,642,480</u>	<u>\$ 11,048,776</u>

The Organization regularly monitors liquidity required to meet its 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 Foundation operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted sources.

The Organization has various sources of liquidity at its disposal including cash, investments and a steady revenue stream from gifts and donations.

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

Note 5 - Investments

Investments are included at their fair values in the accompanying consolidated financial statements and consist of the following at June 30:

	2020		2019	
	Cost	Fair value	Cost	Fair value
Equities	\$ 5,965,766	\$ 11,071,121	\$ 5,808,658	\$ 10,081,587
Preferred stocks	50,683	49,820	72,338	72,879
Mutual funds	4,496,953	5,063,054	4,750,849	5,369,109
Corporate bonds	2,209,464	2,327,811	1,904,978	1,939,586
U.S. government securities	2,638,105	2,742,336	2,581,185	2,597,989
	<u>\$ 15,360,971</u>	<u>\$ 21,254,142</u>	<u>\$ 15,118,008</u>	<u>\$ 20,061,150</u>

At June 30, 2020 and 2019, net unrealized gains in the Organization's investment portfolio amounted to \$5,893,171 and \$4,943,142, respectively.

At June 30, 2020 and 2019, equities include securities in the consumer goods sector which represent 12% and 15% of the fair value of the Organization's investment portfolio, respectively.

At June 30, 2020 and 2019, equities include securities in the technology sector which represent 10% and 9%, respectively, of the fair value of the Organization's investment portfolio, respectively.

At June 30, 2020 and 2019, 4% and 5% of the fair value, respectively, of the Organization's investment portfolio represents foreign investments, respectively.

Investments with an equivalent fair value of \$12,216,536 at June 30, 2020 collateralize certain debt agreements (see Notes 11 and 13).

At June 30, 2020, the fair value of investments in debt securities by contractual maturities is as follows:

	Maturity				Total
	Within 1 year	1 - 5 years	6 - 10 years	More than 10 years	
Corporate bonds	\$ 303,239	\$ 1,415,539	\$ 609,034	\$ -	\$ 2,327,812
U.S. government securities	1,513,793	802,690	425,852	-	2,742,335
	<u>\$ 1,817,032</u>	<u>\$ 2,218,229</u>	<u>\$ 1,034,886</u>	<u>\$ -</u>	<u>\$ 5,070,147</u>

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

The following table presents the gross unrealized losses and fair values of the Organization's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that the investments have been in a continuous unrealized loss position at June 30, 2020.

Description of investments	Less than 12 months		12 months or greater		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Equities	\$ 654,244	\$ 54,879	\$ 320,866	\$ 40,097	\$ 975,110	\$ 94,976
Preferred stocks	24,503	818	12,605	245	37,108	1,063
Mutual funds	1,037,034	62,424	1,230,002	99,153	2,267,036	161,577
Corporate bonds	-	-	51,018	173	51,018	173
U.S. government securities	-	-	581,838	4,223	581,838	4,223
Total	\$ 1,715,781	\$ 118,121	\$ 2,196,329	\$ 143,891	\$ 3,912,110	\$ 262,012

The following table presents the gross unrealized losses and fair values of the Organization's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that the investments have been in a continuous unrealized loss position at June 30, 2019.

Description of Investments	Less than 12 months		12 months or greater		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Equities	\$ 479,398	\$ 53,380	\$ 260,254	\$ 111,981	\$ 739,652	\$ 165,361
Preferred stocks	12,675	63	15,414	238	28,089	301
Mutual funds	1,071,428	27,669	782,044	32,857	1,853,472	60,526
Corporate bonds	50,164	219	357,759	2,521	407,923	2,740
U.S. government securities	-	-	1,075,662	20,447	1,075,662	20,447
Total	\$ 1,613,665	\$ 81,331	\$ 2,491,133	\$ 168,044	\$ 4,104,798	\$ 249,375

Equities and preferred stocks

The Organization has 92 investments in equities, of which 12 were in an unrealized loss position at June 30, 2020. The Organization also has 12 investments in preferred stocks, of which five were in an unrealized loss position at June 30, 2020. The fluctuation in the equity securities and preferred stocks reflects general economic conditions and current changes in the industries of the companies in which the securities are held. The Organization has evaluated the severity and duration of the impairments. Based on that evaluation and the Organization's ability and intent to hold these investments for a reasonable period of time sufficient for a recovery of fair value, the Organization does not consider these investments to be other-than-temporarily impaired at June 30, 2020.

Mutual funds

The Organization has 21 mutual fund investments, of which 10 were in an unrealized loss position at June 30, 2020. The mutual funds are invested in equities and debt securities of companies in diverse industries and reflect current general economic conditions. The Organization has evaluated the severity and duration of the impairments. Based on that evaluation and the Organization's ability and intent to hold the investments for a reasonable period of time sufficient for a recovery of fair value, the Organization does not consider these investments to be other-than-temporarily impaired at June 30, 2020.

Corporate bonds

At June 30, 2020, the Organization's investments in corporate debt securities were in the form of interest-bearing securities of top-rated corporate issuers. The Organization has 42 corporate debt

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

security investments, of which one was in an unrealized loss position at June 30, 2020. The securities in an unrealized loss position are comprised of fixed-rate debt securities of varying maturities. The value of fixed income securities is sensitive to interest rate fluctuations and the credit rating of the issuer.

There have been no indications of default on interest or principal payments by the issuers. The Organization does not intend to sell nor does it believe it would be required to sell the corporate bonds before their anticipated market value recovery. Accordingly, the Organization does not consider these investments to be other-than-temporarily impaired at June 30, 2020.

U.S. government obligations

The Organization has 34 U.S. government investment securities at June 30, 2020, of which 10 were in an unrealized loss position as a result of interest rate fluctuations. The contractual terms of the investments do not allow the issuer to settle the securities at a price less than the amortized cost of the investment. The Organization does not intend to sell nor does it believe it would be required to sell these investment securities before their anticipated market value recovery. Accordingly, the Organization does not consider the investments to be other-than-temporarily impaired at June 30, 2020.

The following table represents the composition of the Organization's endowment net asset by type of fund at June 30, 2020:

<u>Fund type</u>	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted funds	\$ -	\$ 7,665,838	\$ 7,665,838
Donor restricted amounts required to be held in perpetuity		12,220,628	12,220,628
Board-designated for endowment fund	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Total funds	<u>\$ 25,000</u>	<u>\$ 19,886,466</u>	<u>\$ 19,911,466</u>

The Board-designated endowment as of June 30, 2020 and 2019, represents funds designated for students with financial needs to be awarded financial aid scholarships.

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

Changes in the endowment net assets for the year ended June 30, 2020 are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 25,000	\$ 17,499,346	\$ 17,524,346
Investment return			
Investment income	-	259,267	259,267
Appreciation (depreciation), realized and unrealized	-	862,344	862,344
Total investment return	-	1,121,611	1,121,611
Contributions	-	1,731,167	1,731,167
Appropriation of endowment assets for expenditure	-	(368,354)	(368,354)
Investment management fees	-	(84,994)	(84,994)
Reclassification of net assets	-	(11,222)	(11,222)
Other changes			
Transfer upon removal of donor restrictions	-	(240)	(240)
Other interdepartmental transfers	-	(848)	(848)
Endowment net assets, end of year	<u>\$ 25,000</u>	<u>\$ 19,886,466</u>	<u>\$ 19,911,466</u>

The endowment net asset composition by type of fund at June 30, 2019 is as follows:

<u>Fund type</u>	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted funds	\$ -	\$ 7,022,932	\$ 7,022,932
Donor restricted amounts required to be held in perpetuity		10,476,414	10,476,414
Board-designated for endowment fund	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Total funds	<u>\$ 25,000</u>	<u>\$ 17,499,346</u>	<u>\$ 17,524,346</u>

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

Changes in the endowment net assets for the year ended June 30, 2019 are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 25,000	\$ 16,403,604	\$ 16,428,604
Investment return			
Investment income	-	247,759	247,759
Appreciation (depreciation), realized and unrealized	-	992,765	992,765
Total investment return	-	1,240,524	1,240,524
Contributions	-	275,315	275,315
Appropriation of endowment assets for expenditure	-	(298,417)	(298,417)
Investment management fees	-	(81,179)	(81,179)
Reclassification of net assets	-	(38,601)	(38,601)
Other changes			
Transfer upon removal of donor restrictions	-	(1,900)	(1,900)
Endowment net assets, end of year	<u>\$ 25,000</u>	<u>\$ 17,499,346</u>	<u>\$ 17,524,346</u>

Note 6 - Contributions receivable, net

Contributions receivable consist of the unpaid balances (net of discount and any allowance for uncollectible contributions) made on behalf of the Organization. The majority of the contributions receivable are generally pledged from North Central Massachusetts area contributors. The year-end balances are exclusive of potential contributions to be received as part of corporate matching gift programs. Unpaid Alumni Association telethon contributions from the previous fall and spring telethon campaigns are written off at the end of each fiscal year.

Contributions receivable consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Receivable in less than one year	\$ 403,375	\$ 80,240
Receivable in one to five years	370,000	195,645
Receivable in more than five years	-	-
	773,375	275,885
Discount on pledges	<u>(21,471)</u>	<u>(1,900)</u>
	<u>\$ 751,904</u>	<u>\$ 273,985</u>

Contributions which are to be received in more than one year are reflected net of a discount determined at the time of the contribution ranging from 1% to 2%.

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

Note 7 - Fair value measurements

FASB's guidance on fair value measurements established a framework for measuring fair value of assets and liabilities and expanded related disclosures. FASB's guidance requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants. The guidance established a three-level valuation hierarchy based upon observable and non-observable inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities ("Level 1") and the lowest priority to unobservable inputs ("Level 3").

Fair value is the price the Organization would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. In the absence of active markets for the identical assets or liabilities, such measurements involve developing assumptions based on market observable data and, in the absence of such data, internal information that is consistent with what market participants would use in a hypothetical transaction that occurs at the measurement date.

Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Organization's market assumptions. Preference is given to observable inputs.

The fair value hierarchy under the guidance is as follows:

- Level 1: Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2: Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly; and
- Level 3: Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The guidance requires the use of observable data if such data is available without undue costs and effort.

When available, the Organization uses unadjusted quoted market prices to measure the fair value and classifies such items within Level 1. Level 1 securities primarily include publicly-traded equity securities and mutual funds.

When quoted market prices are unobservable, the Organization uses quotes from independent pricing vendors based on recent trading activity and other relevant information including market interest rate curves, referenced credit spreads and estimated prepayment rates where applicable. At June 30, 2020 and 2019, Level 2 securities consist primarily of corporate fixed income securities, U.S. government securities and preferred stocks.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

The fair value of assets measured on a recurring basis at June 30, 2020 is as follows:

Investments	Fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Equities	\$ 11,071,121	\$ 11,071,121	\$ -	\$ -
Preferred stocks	49,820	-	49,820	-
Mutual funds	5,063,054	5,063,054	-	-
Corporate bonds	2,327,811	-	2,327,811	-
U.S. government securities	2,742,336	-	2,742,336	-
Total	\$ 21,254,142	\$ 16,134,175	\$ 5,119,967	\$ -

The fair value of assets measured on a recurring basis at June 30, 2019 is as follows:

Investments	Fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Equities	\$ 10,081,587	\$ 10,081,587	\$ -	\$ -
Preferred stocks	72,879	-	72,879	-
Mutual funds	5,369,109	5,369,109	-	-
Corporate bonds	1,939,586	-	1,939,586	-
U.S. government securities	2,597,989	-	2,597,989	-
Total	\$ 20,061,150	\$ 15,450,696	\$ 4,610,454	\$ -

Fitchburg State University Foundation, Inc.

Notes to Consolidated Financial Statements
June 30, 2020

Note 8 - Property and equipment

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

	2020	2019
Real estate under lease		
Land	\$ 402,663	\$ 402,663
Building	1,557,724	1,557,724
Building improvements	100,452	100,452
	<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	28,600	28,600
	<u>716,380</u>	<u>716,380</u>
Real estate used for faculty and staff housing		
Land	133,619	133,619
Building	533,508	533,508
	<u>667,127</u>	<u>667,127</u>
Other		
Land	1,939,111	1,815,705
Land improvements	158,127	158,127
Buildings	1,517,286	1,297,818
Building improvements	1,109,006	1,109,006
Equipment	117,429	117,429
Computer software	641,878	641,878
Furniture and fixtures	60,773	60,773
Library materials	6,570	6,570
	<u>5,550,180</u>	<u>5,207,306</u>
	8,994,526	8,651,652
Less accumulated depreciation	<u>2,256,651</u>	<u>2,089,958</u>
Property and equipment, net	<u>\$ 6,737,875</u>	<u>\$ 6,561,694</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.

At June 30, 2020 and 2019, property and equipment with a cost of approximately \$849,000 were fully depreciated and still in service.

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

On June 24, 2020, the Supporting 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 Supporting Organization intends to use this property for open green space.

On June 2, 2020, the Supporting 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 Supporting 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.

On November 13, 2019, the Supporting 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 Supporting Organization obtained an insurance policy to cover the costs of remediation needed. For the year ended June 30, 2020, the Supporting 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 Supporting 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 Supporting 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.

On July 4, 2018, the Supporting 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 Supporting 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.

On December 6, 2018, the Supporting 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 Supporting Organization intends to use this property for faculty/staff housing.

On March 12, 2019, the Supporting 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 Supporting 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.

In fiscal 2017, the Supporting Organization acquired a property in close proximity to the Fitchburg State University campus consistent with the Supporting 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 12). The Supporting 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

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

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 Supporting Organization. Funding for the project is expected to come from a variety of sources including, but not limited to, New Market 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 Supporting Organization will pay for certain legal services incurred in connection with the project which the Supporting Organization currently estimates to be approximately \$148,000 for the entire project. The Supporting Organization expects to fund these costs through operating cash. For the year ended June 30, 2020, the Organization has incurred \$73,491 of legal costs related to the project which have been recorded in prepaid expenses and other current assets and in the accompanying 2020 statement of financial position.

Note 9 - Other assets

Other assets at June 30, 2020 and 2019 consist of the cash surrender value of life insurance in the amount of \$34,272 and \$39,075, respectively, an art collection in the amount of \$39,025 in both years, and legal costs related to a development project in the amount of \$73,491 and \$16,194, respectively.

Note 10 - Agency fund

The Supporting 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 them 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 Supporting Organization was holding \$31,080 and \$53,901, respectively, of funds that is to be used exclusively by the members of the coalition.

Note 11 - Lines of credit

Foundation

On August 23, 2017, the Foundation renewed, under substantially the same terms, its existing demand revolving working capital line of credit agreement with Workers' Credit Union which permits the Foundation to borrow up to \$250,000. The line of credit agreement, which expired on March 17, 2017, provided for interest at the Wall Street Journal Prime Rate, but in no event, less than 6% per annum. Pursuant to the provisions of the line of credit agreement, maximum advances under the line are limited to 70% of the pledged investment collateral unless otherwise approved by the lender. The renewed line of credit provides for interest at 5.25% through September 1, 2017 and, thereafter, at the Wall Street Journal Prime Rate plus 1%. The interest rate charged to the Foundation may not exceed a rate of 18%. On January 31, 2019, the line of credit agreement was modified to change the interest rate to Wall Street Journal Prime Rate plus 0%. At June 30, 2020 and 2019, the effective interest rate was 3.00% and 5.25%, respectively, per annum. In fiscal 2019, the line of credit was repaid in full. Accordingly, as of June 30, 2020 and 2019, there were no outstanding liability under the line of credit. For the years ended June 30, 2020 and 2019, interest

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

expense incurred on borrowings under this line of credit amounted to \$0 and \$10,339, respectively. The interest expense incurred on the borrowings has been reflected as an expense on the books of the Supporting Organization.

Borrowings under the line are secured by investments with an equivalent fair value of approximately \$9,916,000 at June 30, 2020. The line is also collateralized by all funds held by the lender. At June 30, 2020, the Foundation has total cash balances of approximately \$59,000 held by the lender. The Foundation may prepay outstanding revolving loans under the agreement in whole or in part without premium or penalty. The line of credit agreement expires on March 25, 2022.

Supporting Organization

On August 18, 2016, the Supporting 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 Supporting 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 Supporting 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 Supporting 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. For the year ended June 30, 2020 and 2019, interest expense amounted to \$2,036 and \$3,500, respectively.

Note 12 - First mortgage notes payable

Foundation

The Foundation has a mortgage note payable in the original amount of \$550,000, dated April 16, 2008, with Fidelity Cooperative Bank. The proceeds of the note were used to acquire certain real estate properties on the Fitchburg State University campus. The note is secured by a first mortgage interest in the real estate and related personal property located thereon, and an assignment of leases and rents. Furthermore, any and all deposits held by the lender serve as additional collateral for the loan.

The loan agreement has a term of 20 years and provided for a fixed rate of interest of 5.75% per annum for the first 10 years of the loan term. Thereafter, the interest rate was to be fixed at the Federal Home Loan Bank Ten Year Cost of Funds Rate in effect as of the first day of the final 10 years of the term of the loan plus 118 basis points. The interest rate was adjusted to 4.27% per annum for the remainder of the loan term pursuant to the provisions of a Change in Terms Agreement dated October 19, 2016. The loan required monthly installments of principal and interest of \$3,862 through October 16, 2016. Thereafter, the loan requires monthly installments of principal and interest of \$2,454 commencing on November 16, 2016 with a final principal payment due in the amount of \$210,752 at the loan's maturity date of April 16, 2028. The note may be prepaid at any time, in whole or in part, without premium or penalty.

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

At June 30, 2020 and 2019, the outstanding principal balance of this mortgage note payable amounted to \$344,440 and \$358,636, respectively.

For the years ended June 30, 2020 and 2019, interest expense on this mortgage note payable amounted to \$15,267 and \$15,820, respectively.

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

<u>Year</u>	<u>Amount</u>
2021	\$ 14,833
2022	15,488
2023	16,172
2024	16,886
2025	17,632
Thereafter	<u>263,429</u>
Total balance due	<u>\$ 344,440</u>

Supporting Organization

In August 2006, the Supporting 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. 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 Supporting 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

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

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.

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.

For the years ended June 30, 2020 and 2019, interest expense (including amortization of issuance costs) on the mortgage note payable amounted to \$32,294 and \$36,788, 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:

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

Workers' Credit Union ("WCU") provided financing to the Supporting 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 Supporting 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 Supporting 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

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

adjusted to the FHLB five-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.

For the years ended June 30, 2020 and 2019, interest expense on this mortgage note amounted to \$28,374 and \$28,740, respectively.

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

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

Rollstone Bank & Trust provided financing to the Supporting 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 Supporting 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.

For the years ended June 30, 2020 and 2019, interest expense on this mortgage note amounted to \$6,422 and \$6,728, respectively.

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

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

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

Fidelity Co-Operative Bank provided financing to the Supporting 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 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 Supporting Organization.

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

For the years ended June 30, 2020 and 2019, interest expense on this mortgage note amounted to \$3,845 and \$3,692, respectively.

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

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:

<u>Year</u>	<u>Amount</u>
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>

In October 2016, Fidelity Co-Operative Bank provided financing to the Supporting 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 Supporting 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 Supporting Organization.

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

For the years ended June 30, 2020 and 2019, interest expense on this mortgage note amounted to \$4,404 and \$4,568, respectively.

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

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

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

In January 2017, Fidelity Co-Operative Bank provided financing to the Supporting 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 Supporting 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 Supporting Organization.

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

For the years ended June 30, 2020 and 2019, interest expense on this mortgage note amounted to \$9,430 and \$9,712, respectively.

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

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

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

In June, 2019, Hometown Bank provided financing to the Supporting 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. 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 Supporting 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.

For the years ended June 30, 2020 and 2019, interest expense on this mortgage note amounted to \$14,168 and \$0, respectively.

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

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

<u>Year</u>	<u>Amount</u>
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 Supporting 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. 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 Supporting 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 Supporting 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.

For the years ended June 30, 2020 and 2019, interest expense on this mortgage note amounted to \$6,285 and \$0, respectively.

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

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

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

In April, 2019, Fitchburg Historical Society provided financing to the Supporting 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 five-year, 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 five-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.

For the years ended June 30, 2020 and 2019, interest expense on this mortgage note amounted to \$3,995 and \$744, respectively.

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

<u>Year</u>	<u>Amount</u>
2021	\$ 17,224
2022	18,105
2023	19,031
2024	16,602
2025	-
Thereafter	<u>-</u>
Total balance due	<u>\$ 70,962</u>

In November 2016, Enterprise Bank and Trust Company provided financing to the Supporting 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. The note is secured by a first mortgage interest in the property and an assignment or rents on the property.

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

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 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.

For the years ended June 30, 2020 and 2019, interest expense on this mortgage note amounted to \$11,700 and \$11,888, 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:

Year	Amount
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 Supporting 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.

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

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

For the years ended June 30, 2020 and 2019, interest expense on this mortgage note amounted to \$7,310 and \$4,253, 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:

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

In September 2017, Webster First Federal Credit Union provided financing to the Supporting 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 Supporting 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 five 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.

For the years ended June 30, 2020 and 2019, interest expense on this mortgage note amounted to \$8,487 and \$8,964, respectively.

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

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:

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

Note 13 - Note payable - bank

Supporting Organization

In May 2007, the Supporting Organization acquired land and a building consisting of six apartment units at a total cost of \$504,479, including related acquisition costs. The Supporting 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 Supporting 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 Supporting 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.

For the years ended June 30, 2020 and 2019, interest expense on the note amounted to \$17,260 and \$18,032, respectively.

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

Aggregate principal maturities on the loan for each of the next five years and thereafter, using the interest rate in effect at June 30, 2019, are estimated to be as follows:

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

Note 14 - Lease and license agreements

As disclosed in Note 12, the Supporting 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 Supporting 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:

<u>Year</u>	<u>Amount</u>
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 Supporting 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 expires 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

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

in monthly installments of \$1,579. On July 1, 2014, the Supporting 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 extending 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 shall increase by 7.5% to \$30,632 (biannual installments of \$15,316). The Supporting 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 Supporting Organization may cancel the lease at any time with the payment of two months' base rent as a termination charge. The Supporting 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.

On February 1, 2013, the Supporting 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 Supporting 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 Supporting 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 Supporting 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:

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

The Supporting Organization and the University are parties to License Agreements whereby the Supporting Organization granted to the University irrevocable and exclusive licenses to occupy, manage, maintain and operate certain property owned by the Supporting 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 four 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

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

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 Supporting Organization entered into a 3-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 years ended June 30, 2020 and 2019, rental income amounted to \$21,255 and \$16,614, respectively

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

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

Note 15 - Net assets with donor restrictions

Net assets with donor restrictions in the amount of \$8,750,667, as of June 30, 2020, are available for scholarships to qualified students and to promote cultural programs within Fitchburg State University. Net asset with donor restrictions in the amount of \$8,046,668, as of June 30, 2019, are available as follows: equipment which use is restricted in the amount of \$689; and scholarships to qualified students and to promote cultural programs within Fitchburg State University in the amount of \$8,045,979.

Remaining net assets with donor restrictions in the amounts of \$12,220,628 and \$10,476,414 as of June 30, 2020 and 2019, respectively, are invested in perpetuity. Income from the investments is expendable for the program services of the Organization, including the granting of scholarships and to fund other academic and cultural programs.

Net assets released from restrictions during 2020 represent the satisfaction of program restrictions in the amount of \$432,242 and the satisfaction of scholarship-related restrictions in the amount of \$355,106.

Note 16 - Transactions with a related party

Fitchburg State University renders certain administrative services to the Foundation and Supporting Organization. These services, with a value of \$160,831 and \$179,787, respectively, have been recognized as contribution in kind income in the accompanying consolidated statement of activities in accordance with FASB guidance for the years ended June 30, 2020 and 2019.

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

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

During fiscal 2020 and 2019, the Foundation made a contribution without donor restrictions to Fitchburg State University in the amount of \$266,000 each year to support the activities and further the mission of the University. The Foundation currently expects to make contributions without donor restrictions to the University in future years in amounts that shall be determined each year.

As of June 30, 2020 and 2019, the Supporting Organization had miscellaneous accounts receivable totaling \$21,195 and \$0 from the Fitchburg State University, respectively, which are reflected as accounts receivable in the accompanying consolidated statements of financial position.

As of June 30, 2020 and 2019, the Supporting Organization has miscellaneous payables in the amount of \$16,194 each year to the Fitchburg State University, which are included in accounts payable, trade in the accompanying 2020 consolidated statement of financial position.

At June 30, 2020 and 2019, the Foundation has miscellaneous payables to Fitchburg State University in the amounts of \$49,963 and \$109,522, respectively, which are included in accounts payable, trade in the accompanying consolidated statements of financial position.

Note 17 - Major donors

During fiscal 2020, the Organization received restricted gift and grant donations totaling \$777,778 from two donors which represents approximately 35% of total gifts, donations and grant revenue during 2020.

During fiscal 2019, the Organization received restricted grant donations totaling \$100,000 from one donor which represents approximately 11% of total gifts, donations and grant revenue during 2019.

Note 18 - Supplemental cash flow information

	<u>2020</u>	<u>2019</u>
Cash paid for interest during the year	<u>\$ 170,568</u>	<u>\$ 163,763</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 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>
	<u>\$ 240,775</u>	<u>\$ 690,378</u>

Note 19 - 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

Fitchburg State University Foundation, Inc.

**Notes to Consolidated Financial Statements
June 30, 2020**

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 flows.

Note 20 - Subsequent events

Effective on August 9, 2019, the Supporting 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 Supporting 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 Supporting 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 Supporting Organization is currently planning to utilize the building for additional classroom space.

PRELIMINARY DRAFT
SUBJECT TO CHANGE

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
Fitchburg State University Foundation, 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 consolidated financial statements of Fitchburg State University Foundation, Inc., which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated DATE.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Fitchburg State University Foundation, 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Fitchburg State University Foundation, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Fitchburg State University Foundation, 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 Fitchburg State University Foundation, Inc.'s consolidated 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 Fitchburg State University Foundation, Inc.'s consolidated 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 consolidated 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 Fitchburg State University Foundation, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fitchburg State University Foundation, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Boston, Massachusetts
DATE

PRELIMINARY DRAFT -
SUBJECT TO CHANGE