

Attachment D
Fitchburg State Foundation Draft

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

AND

INDEPENDENT AUDITOR'S REPORT

DISCUSSION DRAFT 10/13/23

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Fitchburg State University Foundation, Inc.

Opinion

We have audited the consolidated financial statements of Fitchburg State University Foundation, Inc. (the Foundation), which comprise the consolidated statement of financial position as of June 30, 2023, 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 (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2023, and the 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States (Government Auditing Standards). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT
(Continued)

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated _____, 2023, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Foundation's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2022 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 18, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Worcester, Massachusetts
_____, 2023

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2023
(With Summarized Comparative Information for 2022)

| | 2023 | 2022 |
|---|---------------|---------------|
| Assets | | |
| Cash and equivalents | \$ 3,361,880 | \$ 2,676,130 |
| Investments | 25,615,426 | 23,098,947 |
| Accrued investment income receivable | 57,736 | 45,564 |
| Grants receivable | 207,502 | - |
| Contributions receivable, net | 1,563,577 | 78,404 |
| Prepaid expenses and other assets | 130,850 | 149,330 |
| Property and equipment, net of accumulated depreciation | 7,256,688 | 7,090,912 |
| Total assets | \$ 38,193,659 | \$ 33,139,287 |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable, trade | \$ 64,916 | \$ 107,382 |
| Environmental remediation liability | 161,148 | 198,784 |
| Accrued interest payable | 8,794 | 6,704 |
| Agency fund | 31,080 | 31,080 |
| Due to affiliate | 525,509 | - |
| Bank line of credit | 125,000 | - |
| Notes payable - bank | 411,113 | 432,326 |
| First mortgage notes payable | 3,874,366 | 3,823,385 |
| Total liabilities | 5,201,926 | 4,599,661 |
| Net assets | | |
| Without donor restrictions | 4,943,444 | 4,944,909 |
| With donor restrictions | 28,048,289 | 23,594,717 |
| Total net assets | 32,991,733 | 28,539,626 |
| Total liabilities and net assets | \$ 38,193,659 | \$ 33,139,287 |

See accompanying independent auditor's report and notes to consolidated financial statements.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2023
(With Summarized Comparative Information for 2022)

| | Without Donor | With Donor | Total | |
|--|---------------------|----------------------|----------------------|----------------------|
| | Restrictions | Restrictions | 2023 | 2022 |
| Revenue and support | | | | |
| Program revenues | | | | |
| Gifts and donations | \$ 77,196 | \$ 1,865,319 | \$ 1,942,515 | \$ 1,601,350 |
| Grants and contracts, State | - | 1,111,110 | 1,111,110 | - |
| Grants and contracts, other | 475,000 | 350,000 | 825,000 | 63,050 |
| Sales and services | 45,037 | 93,316 | 138,353 | 253,925 |
| Rental income | 205,016 | - | 205,016 | 188,497 |
| License fee income | 496,350 | - | 496,350 | 450,849 |
| Contribution of nonfinancial assets and services | 212,525 | - | 212,525 | 201,139 |
| Other revenue | | | | |
| Other income | 437,349 | - | 437,349 | - |
| Interest and dividends | 100,992 | 383,023 | 484,015 | 407,879 |
| Gain (loss) on investments, net | 474,526 | 1,614,642 | 2,089,168 | (4,702,391) |
| Net assets released from restriction | 963,838 | (963,838) | - | - |
| Total revenue and support | <u>3,487,829</u> | <u>4,453,572</u> | <u>7,941,401</u> | <u>(1,535,702)</u> |
| Expenses and losses | | | | |
| Program services | 2,989,120 | - | 2,989,120 | 1,958,152 |
| Management and general | 252,866 | - | 252,866 | 283,517 |
| Fundraising | 146,352 | - | 146,352 | 125,681 |
| Total expenses | <u>3,388,338</u> | <u>-</u> | <u>3,388,338</u> | <u>2,367,350</u> |
| Impairment loss on property | 100,956 | - | 100,956 | - |
| Total expenses and losses | <u>3,489,294</u> | <u>-</u> | <u>3,489,294</u> | <u>2,367,350</u> |
| Change in net assets | (1,465) | 4,453,572 | 4,452,107 | (3,903,052) |
| Net assets, beginning of year | <u>4,944,909</u> | <u>23,594,717</u> | <u>28,539,626</u> | <u>32,442,678</u> |
| Net assets, end of year | <u>\$ 4,943,444</u> | <u>\$ 28,048,289</u> | <u>\$ 32,991,733</u> | <u>\$ 28,539,626</u> |

See accompanying independent auditor's report and notes to consolidated financial statements.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2023
(With Summarized Comparative Information for 2022)

| | Program Services | Management and General | Fundraising | Totals | |
|-----------------------------------|---------------------|------------------------------|-------------------|---------------------|---------------------|
| | | | | 2023 | 2022 |
| Scholarships | \$ 569,110 | \$ - | \$ - | \$ 569,110 | \$ 512,712 |
| Community services | 26,820 | - | 1,538 | 28,358 | 27,315 |
| Speakers and cultural programs | 31,114 | - | - | 31,114 | 52,250 |
| Outside services | 34,611 | - | 18,500 | 53,111 | 59,544 |
| Accounting and audit | - | 10,000 | - | 10,000 | 46,412 |
| Insurance | 121,725 | 30,985 | - | 152,710 | 143,070 |
| Affiliated personnel costs | - | 146,999 | 65,525 | 212,524 | 201,138 |
| Supplies | 3,044 | - | - | 3,044 | - |
| Postage | - | - | - | - | 2,285 |
| Equipment and maintenance | 674,191 | 11,988 | - | 686,179 | 286,300 |
| Printing and publications | 8,557 | - | 21,702 | 30,259 | 31,407 |
| Travel | 14,164 | - | - | 14,164 | - |
| Meetings and conferences | 6,964 | - | 33,116 | 40,080 | 15,018 |
| Awards and grants | 760,470 | - | 5,700 | 766,170 | 210,733 |
| Contribution made to University | 326,000 | - | - | 326,000 | 326,000 |
| Fees, fines, licenses and permits | 5,305 | - | 271 | 5,576 | 2,693 |
| Repairs and maintenance | 10,985 | - | - | 10,985 | 9,835 |
| Rent | 37,566 | - | - | 37,566 | 37,588 |
| Interest | 181,023 | 13,277 | - | 194,300 | 180,464 |
| Miscellaneous | - | - | - | - | 2,860 |
| Other financial fees | 10 | 26,676 | - | 26,686 | 30,612 |
| Credit card fees | - | 1,671 | - | 1,671 | 1,754 |
| Depreciation | 177,461 | 11,270 | - | 188,731 | 187,360 |
| | <u>\$ 2,989,120</u> | <u>\$ 252,866</u> | <u>\$ 146,352</u> | <u>\$ 3,388,338</u> | <u>\$ 2,367,350</u> |

See accompanying independent auditor's report and notes to consolidated financial statements.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2023

(With Summarized Comparative Information for 2022)

| | <u>2023</u> | <u>2022</u> |
|---|------------------|------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 4,452,107 | \$ (3,903,052) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Loss (gain) on investments | (2,240,294) | 4,532,505 |
| Depreciation | 188,731 | 187,360 |
| Amortization of debt issuance costs | 2,546 | - |
| Impairment loss on property | 100,956 | - |
| Contributions restricted for long-term investment | (2,405,259) | (1,056,631) |
| Decrease (increase) in operating assets: | | |
| Accrued investment income receivable | (12,172) | (7,715) |
| Grants receivable | (207,502) | - |
| Contributions receivable, net | 58,600 | 28,402 |
| Prepaid expenses and other assets | 18,480 | 63,695 |
| Deposits | - | (10,000) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable, trade | (42,466) | 120,088 |
| Due to affiliate | 525,509 | (19,116) |
| Environmental liability | (37,636) | (338,117) |
| Accrued interest payable | 2,090 | (766) |
| Deferred revenue | - | (30,000) |
| | <u>403,690</u> | <u>(433,347)</u> |
| Net cash provided by (used in) operating activities | | |
| Cash flows from investing activities: | | |
| Payments for property and equipment | (455,463) | (130,716) |
| Proceeds from sale of investments | 4,293,681 | 6,886,928 |
| Purchase of investments | (4,569,866) | (7,303,056) |
| | <u>(731,648)</u> | <u>(546,844)</u> |
| Net cash used in investing activities | | |

See accompanying independent auditor's report and notes to consolidated financial statements.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
(Continued)

YEAR ENDED JUNE 30, 2023
(With Summarized Comparative Information for 2022)

| | <u>2023</u> | <u>2022</u> |
|---|---------------------|---------------------|
| Cash Flows from Financing Activities: | | |
| Proceeds of first mortgage notes payable | 281,200 | 126,724 |
| Payments on first mortgage notes payable | (232,765) | (204,177) |
| Payments on note payable - bank | (21,213) | (21,468) |
| Net borrowings on bank line of credit | 125,000 | - |
| Payments of deferred financing costs | - | (18,954) |
| Advances from affiliates | 550,916 | 250,000 |
| Advances to affiliates | (550,916) | (250,000) |
| Contributions received for long-term investment | 861,486 | 1,274,241 |
| | <u>1,013,708</u> | <u>1,156,366</u> |
| Net cash provided by financing activities | | |
| Net change in cash | 685,750 | 176,175 |
| Cash and equivalents, beginning of year | <u>2,676,130</u> | <u>2,499,955</u> |
| Cash and equivalents, end of year | <u>\$ 3,361,880</u> | <u>\$ 2,676,130</u> |

See accompanying independent auditor's report and notes to consolidated financial statements.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 - DESCRIPTION OF ORGANIZATION

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, 2023, 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, 2023, the Organization adopted FASB Accounting Standards Update 2016-02: *Leases* (ASC 842). The purpose of this update is to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their statements of financial position as a right-of-use (ROU) asset and a lease liability representing the obligation to make lease payments over the lease term. The adoption of ASC 842 did not have a material impact on the Foundation's financial statements.

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.

Professional standards require that a not-for-profit organization consolidate another not-for-profit organization if the reporting not-for-profit 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.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

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 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.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

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 Foundation. 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 consist 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.

Residence hall income

Residence hall fees are recognized when earned.

Cash and cash 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.

Grants and 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.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

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 110 individual funds at June 30, 2023 and 2022, 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.

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.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

Investment and spending policies (continued)

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, 2023 and 2022, there were no deficiencies of this nature.

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, 5 years for equipment and 3 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.

Leases as lessee

The Organization determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the customer obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Organization also considers whether its service arrangements include the right to control the use of an asset.

The Organization recognizes most leases on its combined balance sheets as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Leases are classified as either finance leases or operating leases based on certain criteria. Classification of the lease affects the pattern of expense recognition in the combined statements of operations.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

Leases as lessee (continued)

The Organization made an accounting policy election available not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 2, 2022, for existing leases upon the adoption of ASC Topic 842, Leases). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives received. To determine the present value of lease payments, the Organization utilizes the discount rate implicit in the lease agreement, if known, or the Organization's incremental borrowing rate for a loan with terms similar to the lease's terms.

Leases as lessor

The Organization's leases are considered operating leases and rental income is recognized on a straight-line basis over the term of the lease. Deferred rent receivables represent the amount by which the cumulative straight-line rental revenue recorded to date exceeds cash rents billed to date under the lease agreement and are included in accounts receivable, net on the combined balance sheet. Deferred rent receivables as of June 30, 2023 and 2022 were not material to the financial statements.

Renting and leasing operations consist of leasing commercial space under a long-term lease agreement with the Commonwealth of Massachusetts acting by and through its Division of Capital Asset Management and Maintenance ("DCAM") on behalf of Fitchburg State University. In addition, the Organization granted Fitchburg State University an exclusive license to occupy, manage, maintain and operate certain other property owned by the Organization pursuant to License Agreements with initial terms of one year and automatic annual renewals thereafter.

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.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

Income taxes (continued)

The Foundation has unrelated business income for the years ended June 30, 2023 and 2022. 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, 2023 and 2022. 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, 2023. 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 uncertain tax positions at June 30, 2023 and 2022 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, 2021, 2022, and 2023.

Functional expenses

The costs related to various activities of the Organization have been summarized on a functional basis in the accompanying statements of activities and functional expenses. The financial statements report certain categories of expense that are attributed to more than one supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include affiliate personnel costs, 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 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, 2023, from which the summarized information was derived.

Subsequent event

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

3 - CASH AND EQUIVALENTS

Cash and equivalents consist of the following at June 30:

| | <u>2023</u> | <u>2022</u> |
|--------------------------------|---------------------|---------------------|
| Cash and other demand deposits | \$ 2,098,830 | \$ 1,827,249 |
| Money market funds | <u>1,263,050</u> | <u>848,881</u> |
| | <u>\$ 3,361,880</u> | <u>\$ 2,676,130</u> |

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

3 - CASH AND EQUIVALENTS (Continued)

Money market funds include the SSGA US Government Money Market Fund in the aggregate amount of \$599,019 and \$226,031 at June 30, 2023 and 2022, 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, 2023 and 2022, the fund's investment securities had a weighted average maturity of 22 days and 28 days, respectively. The fund had an average credit quality rating of AAAM at 2023 and 2022, respectively.

Money market funds include Dreyfus Government Cash Management Fund in the aggregate amount of \$84,941 at June 30, 2023 and Goldman Sachs Financial Square Government Fund in the aggregate amount of \$30,814 at June 30, 2022. Both the Dreyfus Government Cash Management Fund and the Goldman Sachs Financial Square Government Fund invests in U.S. Government securities and repurchase agreements. The funds seek 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. Both funds had an average credit quality rating of AAAM at June 30, 2023 and June 30, 2022, respectively.

Money market funds include the RWM Cash Management Money Market account in the aggregate amount of \$106,669 and \$119,852 at June 30, 2023 and 2022, respectively.

Money market funds also include the Fidelity Bank LifeDesign Business Cash Management Money Market account with a balance of \$472,421 and \$472,184 at June 30, 2023 and 2022, 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.

4 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure within one year as of June 30, 2023 and 2022 consist of the following:

| | <u>2023</u> | <u>2022</u> |
|--|---------------------|---------------------|
| Financial assets at year end | | |
| Cash and cash equivalents (excluding agency fund) | \$ 3,330,800 | \$ 2,645,050 |
| Grants receivable | 207,052 | - |
| Contributions receivable (net of purpose or time restrictions) | 20,150 | 78,404 |
| Investments (net of donor-restricted endowment) | <u>136,883</u> | <u>1,154,372</u> |
| Total financial assets | <u>\$ 3,694,885</u> | <u>\$ 3,877,826</u> |

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4 - LIQUIDITY AND AVAILABILITY (Continued)

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.

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. Further, the Organization anticipates collecting sufficient contributions and revenue to cover general expenditures. Refer to the statement of cash flows, which identifies the sources and uses of the Organization's cash for fiscal years 2023 and 2022.

5 - INVESTMENTS

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

| | 2023 | | 2022 | |
|----------------------------|----------------------|----------------------|----------------------|----------------------|
| | Cost | Fair Value | Cost | Fair Value |
| Equities | \$ 7,149,970 | \$12,700,361 | \$ 6,220,726 | \$ 10,095,241 |
| Preferred stock | 12,758 | 12,520 | 12,758 | 11,958 |
| Mutual funds | 5,493,132 | 5,917,998 | 5,587,839 | 5,737,578 |
| Corporate bonds | 4,250,847 | 3,994,937 | 3,856,666 | 3,637,616 |
| U.S. government securities | 3,181,494 | 2,989,610 | 3,771,154 | 3,616,554 |
| | <u>\$ 20,088,201</u> | <u>\$ 25,615,426</u> | <u>\$ 19,449,143</u> | <u>\$ 23,098,947</u> |

At June 30, 2023 and 2022, net unrealized gains in the Organization's investment portfolio amounted to \$5,527,225 and \$3,649,804, respectively.

At June 30, 2023 and 2022, equities include securities in the consumer goods sector which represent 15% and 14% of the fair value of the Organization's investment portfolio, respectively.

At June 30, 2023 and 2022, 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, 2023 and 2022, 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 \$14,952,516 at June 30, 2023 collateralize certain debt agreements.

At June 30, 2023, 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 | \$ 504,961 | \$ 2,714,983 | \$ 774,992 | \$ - | \$ 3,994,936 |
| U.S. government securities | 705,972 | 1,892,176 | 391,464 | - | 2,989,612 |
| | <u>\$ 1,210,933</u> | <u>\$ 4,607,159</u> | <u>\$ 1,166,456</u> | <u>\$ -</u> | <u>\$ 6,984,548</u> |

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

5 - INVESTMENTS (Continued)

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, 2023.

| 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 | \$ 563,456 | \$ 45,256 | \$ 352,266 | \$ 152,787 | \$ 915,722 | \$ 198,043 |
| Preferred stocks | - | - | 12,520 | 238 | 12,520 | 238 |
| Mutual funds | 716,673 | 117,220 | 1,667,967 | 206,808 | 2,384,640 | 324,028 |
| Corporate bonds | 1,417,449 | 35,629 | 2,387,625 | 221,752 | 3,805,074 | 257,381 |
| U.S. government securities | 135,938 | 1,394 | 2,489,442 | 193,021 | 2,625,380 | 194,415 |
| Total | <u>\$ 2,833,516</u> | <u>\$ 199,499</u> | <u>\$ 6,909,820</u> | <u>\$ 774,606</u> | <u>\$ 9,743,336</u> | <u>\$ 974,105</u> |

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, 2022.

| 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 | \$ 1,601,843 | \$ 304,042 | \$ 134,962 | \$ 85,246 | \$ 1,736,805 | \$ 389,288 |
| Preferred stocks | 11,958 | 800 | - | - | 11,958 | 800 |
| Mutual funds | 354,252 | 82,523 | 2,868,700 | 351,230 | 3,222,952 | 433,753 |
| Corporate bonds | 2,586,379 | 155,543 | 826,686 | 67,937 | 3,413,065 | 223,480 |
| U.S. government securities | 1,913,712 | 68,828 | 1,702,842 | 85,772 | 3,616,554 | 154,600 |
| Total | <u>\$ 6,468,144</u> | <u>\$ 611,736</u> | <u>\$ 5,533,190</u> | <u>\$ 590,185</u> | <u>\$ 12,001,334</u> | <u>\$ 1,201,921</u> |

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

5 - INVESTMENTS (Continued)

Equities and preferred stocks

The Organization has 88 investments in equities, of which 11 were in an unrealized loss position at June 30, 2023. The Organization also has 2 investments in preferred stocks, of which 2 were in an unrealized loss position at June 30, 2023. 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, 2023.

Mutual funds

The Organization has 33 mutual fund investments, of which 15 were in an unrealized loss position at June 30, 2023. 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, 2023.

Corporate bonds

At June 30, 2023, the Organization's investments in corporate debt securities were in the form of interest-bearing securities of top-rated corporate issuers. The Organization has 96 corporate debt security investments, of which 89 were in an unrealized loss position at June 30, 2023.

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, 2023.

U.S. government obligations

The Organization has 33 U.S. government investment securities at June 30, 2023, of which 29 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, 2023.

The following table represents the composition of the Organization's endowment net assets by type of fund at June 30, 2023:

| <u>Fund Type</u> | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|---|------------------------------------|---------------------|
| Donor-restricted funds | \$ - | \$ 9,502,980 | \$ 9,502,980 |
| Donor restricted amounts required to be held in perpetuity | - | 15,975,563 | 15,975,563 |
| Board-designated for endowment fund | 25,000 | - | 25,000 |
| Total funds | <u>\$ 25,000</u> | <u>\$25,478,543</u> | <u>\$25,503,543</u> |

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

5 - INVESTMENTS (Continued)

U.S. government obligations (continued)

The Board-designated endowment as of June 30, 2023 and 2022, represents funds designated for students with financial needs to be awarded financial aid scholarships.

Changes in the endowment net assets for the year ended June 30, 2023 are as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|----------------------------------|----------------------------|--------------|
| Endowment net assets, beginning of year | \$ 25,000 | \$21,919,575 | \$21,944,575 |
| Investment return | | | |
| Investment income | - | 382,545 | 382,545 |
| Appreciation, realized and unrealized | - | 1,734,319 | 1,734,319 |
| Total investment return | - | 2,116,864 | 2,116,864 |
| Contributions | - | 1,954,884 | 1,954,884 |
| Other income | - | 6,950 | 6,950 |
| Appropriation of endowment assets for expenditure | - | (479,126) | (479,126) |
| Investment management fees | - | (119,887) | (119,887) |
| Reclassification of net assets | - | 79,283 | 79,283 |
| Endowment net assets, end of year | \$ 25,000 | \$25,478,543 | \$25,503,543 |

The endowment net asset composition by type of fund at June 30, 2022 is as follows:

| Fund Type | Without Donor Restrictions | With Donor Restrictions | Total |
|---|----------------------------------|----------------------------|--------------|
| Donor-restricted funds | \$ - | \$ 8,019,959 | \$ 8,019,959 |
| Donor restricted amounts required to be held in perpetuity | - | 13,899,616 | 13,899,616 |
| Board-designated for endowment fund | 25,000 | - | 25,000 |
| Total funds | \$ 25,000 | \$21,919,575 | \$21,944,575 |

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

5 - INVESTMENTS (Continued)

U.S. government obligations (continued)

Changes in the endowment net assets for the year ended June 30, 2022 are as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|----------------------------------|----------------------------|----------------------|
| Endowment net assets, beginning of year | \$ 25,000 | \$ 24,619,108 | \$ 24,644,108 |
| Investment return | | | |
| Investment income | - | 304,869 | 304,869 |
| Depreciation, realized and unrealized | - | (3,388,048) | (3,388,048) |
| Total investment return | - | (3,083,179) | (3,083,179) |
| Contributions | - | 1,069,085 | 1,069,085 |
| Appropriation of endowment assets for expenditure | - | (493,980) | (493,980) |
| Investment management fees | - | (126,768) | (126,768) |
| Reclassification of net assets | - | (64,691) | (64,691) |
| Endowment net assets, end of year | <u>\$ 25,000</u> | <u>\$ 21,919,575</u> | <u>\$ 21,944,575</u> |

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 contribution's 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:

| | 2023 | 2022 |
|----------------------------------|---------------------|------------------|
| Receivable in less than one year | \$ 1,563,577 | \$ 35,425 |
| Receivable in one to five years | - | 45,000 |
| | 1,563,577 | 80,425 |
| Discount on pledges | - | (2,021) |
| | <u>\$ 1,563,577</u> | <u>\$ 78,404</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

(Continued)

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, 2023 and 2022, 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
(Continued)

7 - FAIR VALE MEASUREMENTS (Continued)

The fair value of assets measured on a recurring basis at June 30, 2023 is as follows:

| <u>Investments</u> | <u>Fair Value</u> | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|----------------------------|----------------------|---|---|--|
| Equities | \$ 12,700,361 | \$ 12,700,361 | \$ - | \$ - |
| Preferred stock | 12,520 | - | 12,520 | - |
| Mutual funds | 5,917,998 | 5,917,998 | - | - |
| Corporate bonds | 3,994,937 | - | 3,994,937 | - |
| U.S. government securities | 2,989,610 | - | 2,989,610 | - |
| | <u>\$ 25,615,426</u> | <u>\$ 18,618,359</u> | <u>\$ 6,997,067</u> | <u>\$ -</u> |

The fair value of assets measured on a recurring basis at June 30, 2022 is as follows:

| <u>Investments</u> | <u>Fair Value</u> | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|----------------------------|----------------------|---|---|--|
| Equities | \$ 10,095,241 | \$ 10,095,241 | \$ - | \$ - |
| Preferred stock | 11,958 | - | 11,958 | - |
| Mutual funds | 5,737,578 | 5,737,578 | - | - |
| Corporate bonds | 3,637,616 | - | 3,637,616 | - |
| U.S. government securities | 3,616,554 | - | 3,616,554 | - |
| | <u>\$ 23,098,947</u> | <u>\$ 15,832,819</u> | <u>\$ 7,266,128</u> | <u>\$ -</u> |

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

8 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2023 and 2022 consist of the following:

| | <u>2023</u> | <u>2022</u> |
|--|---------------------|---------------------|
| Real estate under lease | | |
| Land | \$ 402,664 | \$ 402,664 |
| Building | 1,557,724 | 1,557,724 |
| Building improvements | 342,079 | 342,079 |
| | <u>2,302,467</u> | <u>2,302,467</u> |
| Real estate used for student housing | | |
| Land | 236,524 | 236,524 |
| Building | 434,225 | 434,225 |
| Building improvements | 28,600 | 28,600 |
| | <u>699,349</u> | <u>699,349</u> |
| Real estate used for faculty and staff housing | | |
| Land | 198,648 | 133,619 |
| Land improvements | 9,994 | - |
| Building | 813,475 | 533,508 |
| | <u>1,022,117</u> | <u>667,127</u> |
| Other | | |
| Land | 2,048,341 | 2,002,750 |
| Land improvements | 96,228 | 96,228 |
| Building | 1,834,311 | 1,935,266 |
| Building improvements | 1,109,005 | 1,109,005 |
| Equipment | 172,312 | 117,429 |
| Computer software | 641,878 | 641,878 |
| Furniture and fixtures | 60,773 | 60,773 |
| Library materials | 6,570 | 6,570 |
| | <u>5,969,418</u> | <u>5,969,899</u> |
| | 9,993,351 | 9,638,842 |
| Less accumulated depreciation | <u>2,736,663</u> | <u>2,547,932</u> |
| | <u>\$ 7,256,688</u> | <u>\$ 7,090,910</u> |

Accumulated depreciation on real estate under lease amounted to \$763,923 and \$707,876 at June 30, 2023 and 2022, respectively. Accumulated depreciation on real estate used for student housing amounted to \$194,376 and \$182,091 at June 30, 2023 and 2022, respectively. Accumulated depreciation on real estate used for faculty and staff housing amounted to \$65,402 and \$50,189 at June 30, 2023 and 2022, respectively.

At June 30, 2023 and 2022, property and equipment with a cost of approximately \$798,204 were fully depreciated and still in service

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

8 - PROPERTY AND EQUIPMENT (Continued)

On September 2, 2022, the Organization acquired a property in close proximity to the Fitchburg State University campus. The property which includes land and a building was purchased for a total cost of \$305,259. The Organization razed the building and intends to use the land for green space. The acquisition was funded, in part, through the proceeds of an advance \$250,000 on a letter of credit (see Note 9).

On July 11, 2022, the Organization acquired a property in close proximity to the Fitchburg State University campus. The property which includes land and a building was purchased for a total cost of \$354,990. The acquisition was financed, in part, with a mortgage note on the property in the amount of \$281,200 and proceeds from an advance from the Foundation (see Notes 6 and 9). The Organization intends to use the property for faculty or staff housing.

On June 23, 2022, 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 \$287,377. The Supporting Organization intends to use this property for open green space.

On December 22, 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 \$121,813. The Supporting Organization razed the building and incurred an impairment loss of \$100,956 in 2023. The land is being used for green space.

On November 13, 2019, the Organization acquired a property in close proximity to the Fitchburg State University campus to support the downtown Theater project. The property, which consists of land and a building, was purchased for \$1 after the Organization was notified by the Massachusetts Department of Environmental Protection ("DEP") about an environmental issue with the property that requires remediation before the property is usable. The Organization razed the building on the property and is actively working on converting the land to a parking lot. During the year ended June 30, 2022, the Organization determined that additional costs of the remediation are expected above insured policy limits in the amount of \$465,696, which has been and accrued and expensed in the accompanying financial statements. As of June 30, 2023, and 2022, the remaining environmental liability of \$161,148 and \$198,784, respectively is shown on the accompanying statements of financial position.

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 6). 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 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 Markets Tax Credits, Historic Tax Credits, bonds, grants and philanthropy. The project is in the very early stages of development and is estimated to require four years to completion. At some point during that period, the property will be transferred to a new entity. The 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. The Supporting Organization incurred \$26,448 of legal costs related to the project which have been recorded in prepaid expenses and other assets as of June 30, 2023 and 2022.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

9 - OTHER ASSETS

Prepaid expenses and other assets at June 30, 2023 and 2022 includes the cash surrender value of life insurance in the amount of \$12,569 and \$21,260, 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 \$26,448 in both years

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 Supporting 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, 2023 and 2022, the Supporting Organization did not collect or disburse any monies in connection with this collaboration. At June 30, 2023 and 2022, the Supporting Organization was holding \$31,080 of funds that is to be used exclusively by the members of the coalition.

DISCUSSION DRAFT 10/12/23

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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, 2020, the line of credit agreement was modified to change the interest rate to The Wall Street Journal Prime Rate plus 0%. At June 30, 2022 and 2021, the effective interest rate was 4.75% and 3.25% per annum. The line of credit lapsed on March 25, 2022 and was subsequently extended on August 26, 2022 for one month. The line of credit was renewed on October 25, 2022 under the existing terms for 5 years. Interest rate as at June 30, 2023 was 9.25%. In fiscal 2023, \$250,000 was borrowed on the line of credit to assist with short-time cash flow in purchasing a property abutting the University. The amount was repaid in full in October 2022. As of June 30, 2023, and 2022, there were no outstanding liability under the line of credit. For the years ended June 30, 2023 and 2022, interest expense incurred on borrowings under this line of credit amounted to \$1,896 and \$0 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 \$12,337,190 at June 30, 2023. The line was also collateralized by all funds held by the lender. At June 30, 2023, the Foundation has total cash balances of approximately \$58,127 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 October 24, 2027.

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 8.0% at June 30, 2023 and 4.5% at June 30, 2022). 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, 2021 and renewed again through November 30, 2023. 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. In fiscal year 2023, the Supporting Organization made payments of \$125,000 and borrowings of \$250,000 under the line of credit agreement but no borrowings occurred in fiscal year 2022. The balance outstanding as of June 30, 2023 and 2022 was \$125,000 and \$0 respectively. For the year ended June 30, 2023 and 2022, interest expense amounted to \$4,544 and \$0, respectively.

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.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

12 - FIRST MORTGAGE NOTES PAYABLE (Continued)

Foundation (continued)

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.

At June 30, 2023 and 2022, the outstanding principal balance of this mortgage note payable amounted to \$297,982 and \$314,142, respectively.

For the years ended June 30, 2023 and 2022, interest expense on this mortgage note payable amounted to \$13,277 and \$13,942, respectively.

Aggregate principal maturities on the loan for each of the next five years and thereafter at June 30, 2023 are as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|-------------------|
| 2024 | \$ 16,886 |
| 2025 | 17,632 |
| 2026 | 18,410 |
| 2027 | 19,223 |
| Thereafter | <u>225,821</u> |
| | <u>\$ 297,972</u> |

Supporting Organization

Avidia Bank provided financing to the Organization in the form of a note, dated September 28, 2022, in the amount of \$281,200. The note is secured by a first mortgage interest in certain real estate owned by the Organization and an assignment of certain related leases and rents. The note is also collateralized by all funds held by the lender. At June 30, 2023, the Organization has total cash balance of \$8,461 held at Avidia Bank which serve as additional collateral for the loan.

The mortgage note had an original term of 25 years, expiring on September 28, 2047, and provided for a fixed rate of interest of 4.25 % per annum. The interest rate which has a floor of 4.25% per annum will be adjusted every 60 months pursuant to the provisions of a loan modification agreement. The note has a fixed rate prepayment charge in the event of the prepayment of the note before September 27, 2027. 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 note requires monthly installments of principal and interest of \$1,533 through September 27, 2027.

As of June 30, 2023 the outstanding principal balance of the mortgage loan amounted to \$276,397.

For the year ended June 30, 2023 interest expense on this mortgage note amounted to \$9,060.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Continued)

12 - FIRST MORTGAGE NOTES PAYABLE (Continued)

Supporting Organization (continued)

Aggregate principal maturities on the loan for each of the next five years and thereafter at June 30, 2023, are as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|-------------------|
| 2024 | \$ 6,583 |
| 2025 | 6,905 |
| 2026 | 7,209 |
| 2027 | 7,526 |
| 2028 | 7,827 |
| Thereafter | <u>240,346</u> |
| | <u>\$ 276,396</u> |

MDFA is providing financing to the Supporting Organization in the form of a General Fund loan in the amount of \$500,000 per the agreement dated June 28, 2021. The loan will be disbursed by a series of advances, per the terms and conditions stipulated in the Construction Loan Agreement. The proceeds are to be used for predevelopment costs in connection with the proposed redevelopment of the Theater Block. The note is secured by a first mortgage on and assignment of leases and rents for the real estate located at 675 Main Street, Fitchburg, MA. The note has a term of 5 years, maturing on June 28, 2026, and provides for a fixed rate of interest of 4% per annum. The loan requires monthly installments of interest effective August 1, 2021. The entire outstanding principal balance shall be due and paid at the earlier of (i) a triggering event or (ii) at maturity, June 28, 2026. A triggering event occurs when the property is transferred to another, abandoned, or financing of \$20M or more is secured.

The loan has debt issuance costs of \$10,184. Total amount disbursed to June 30, 2023 and June 30, 2022 is \$52,878.

For the years ended June 30, 2023 and 2022, interest expense on this note amounted to \$2,127 and \$741, respectively.

MDFA is providing financing to the Supporting Organization in the form of a Brownfields loan in the amount of \$500,000 per the agreement dated June 28, 2021. The loan will be disbursed by a series of advances, per the terms and conditions stipulated in the Loan Agreement. The proceeds are to be used for remediation work at 15 Central Street. The note is secured by mortgage and security agreements on 675 Main Street, 689-717 Main Street and 15 Central Street and by the performance of the contractor. The note has a term of 10 years, amortizing over 30 years, and provides for a fixed rate of interest of 3% per annum. The loan requires monthly installments of interest for the first twelve months after closing; and thereafter principal and interest payable over 30 years. Effective August 1, 2022, the loan repayment period was modified. The current loan amount of \$73,846 is being repaid over a period of 47 months with monthly installments of principal and interest of \$1,677. If the Organization has a Debt Service Coverage Ratio in any given fiscal year of less than 1.2:1, then Organization may choose to defer payments due by notifying the lender within thirty days of commencement. The debt issuance costs loan balance is \$7,638.

As of June 30, 2023, and 2022, the outstanding principal balance of the mortgage loan amounted to \$57,287 and \$73,846, respectively.

For the years ended June 30, 2023 and 2022, interest expense on this mortgage note amounted to \$2,131 and \$2,226, respectively.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

12 - FIRST MORTGAGE NOTES PAYABLE (Continued)

Supporting Organization (continued)

Aggregate principal maturities on the loan for each of the next five years and thereafter at June 30, 2023, are as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|------------------|
| 2024 | \$ 18,686 |
| 2025 | 19,255 |
| 2026 | 19,346 |
| | <u>\$ 57,287</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, 2022 and 2021 the Supporting Organization has total cash balances of \$9,233 and \$8,874, 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, 2020, 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, 2020, the interest rate was adjusted to 5.25% per annum expiring on February 27, 2024 pursuant to the provisions of a loan modification agreement. The note requires monthly installments of principal and interest of \$4,517 through February 27, 2024. Commencing thereafter, the interest rate will be adjusted to the FHLB 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, 2023, and 2022, the outstanding principal balance of the mortgage loan amounted to \$439,265 and \$469,538, respectively.

For the years ended June 30, 2023 and 2022, interest expense on this mortgage note amounted to \$23,856 and \$25,392, respectively.

Aggregate principal maturities on the loan for each of the next five years and thereafter at June 30, 2023, are as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|-------------------|
| 2024 | \$ 31,839 |
| 2025 | 33,612 |
| 2026 | 35,420 |
| 2027 | 37,325 |
| 2028 | 39,292 |
| Thereafter | <u>261,777</u> |
| | <u>\$ 439,265</u> |

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Continued)

12 - FIRST MORTGAGE NOTES PAYABLE (Continued)

Supporting Organization (continued)

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, 2023, and 2022 the outstanding principal balance of the mortgage loan amounted to \$156,855 and \$167,889, respectively.

For the years ended June 30, 2023 and 2022, interest expense on this mortgage note amounted to \$5,345 and \$5,716, respectively.

Aggregate principal maturities on the loan for each of the next five years and thereafter at June 30, 2023, are as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|-------------------|
| 2024 | \$ 11,389 |
| 2025 | 11,784 |
| 2026 | 12,178 |
| 2027 | 12,586 |
| 2028 | 12,998 |
| Thereafter | <u>95,920</u> |
| | <u>\$ 156,855</u> |

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 was 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 had been guaranteed by the Foundation. On December 7, 2020 the Supporting Organization paid off the MDFA note in the amount of \$779,258 and it was replaced with a mortgage from Rollstone Bank in the amount of \$1,538,000.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

12 - FIRST MORTGAGE NOTES PAYABLE (Continued)

Supporting Organization (continued)

Rollstone Bank & Trust provided refinancing to the Supporting Organization in the form of a note, dated December 9, 2020. The proceeds of the note were used to (i) refinance existing debt owed by the Supporting Organization, (ii) to purchase, raze and develop the real property located at 175-179 Myrtle Street, Fitchburg, Massachusetts, (iii) to finance a new roof at the property located at 167 Klondike Avenue. This note is secured by a first mortgage interest in the real estate property located at 167 Klondike Avenue in Fitchburg, Massachusetts and an assignment of leases and rents on the property. The note bears interest at a fixed rate of 3.5% per annum until December 9, 2030. Thereafter the note shall bear interest at a per annum rate equal to the Federal Home Loan Bank of Boston Five Year Classic Advance Rate plus 2.25%. The loan requires monthly installments of principal and interest of \$11,032 based on a 15-year principal amortization. The loan agreement requires the Supporting Organization to maintain a debt service ratio equal to or greater than 1:1. 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, 2023, and 2022, the outstanding principal balance of the mortgage loan amounted to \$1,334,686 and \$1,418,087.

For the years ended June 30, 2023 and 2022, interest expense on this mortgage note amounted to \$48,808 and \$51,717.

Aggregate principal maturities on the loan for each of the next five years and thereafter, using the interest rate in effect at June 30, 2023, are estimated to be as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------------|
| 2024 | \$ 86,278 |
| 2025 | 89,516 |
| 2026 | 92,744 |
| 2027 | 96,090 |
| 2028 | 99,467 |
| Thereafter | <u>870,591</u> |
| | <u>\$ 1,334,686</u> |

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

12 - FIRST MORTGAGE NOTES PAYABLE (Continued)

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. On June 26, 2023, the interest rate was adjusted to a fixed rate of 6.98% per annum until June 26, 2028 with a monthly installment of \$521.21. 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, 2023, and 2022, the outstanding principal balance of the mortgage loan amounted to \$66,661 and \$68,484, respectively.

For the years ended June 30, 2023 and 2022, interest expense on this mortgage note amounted to \$3,902 and \$3,630, respectively.

Aggregate principal maturities on the loan for each of the next five years and thereafter, using the interest rates in effect at June 30, 2023, are estimated to be as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|------------------|
| 2024 | \$ 1,933 |
| 2025 | 2,047 |
| 2026 | 2,157 |
| 2027 | 2,274 |
| 2028 | - |
| Thereafter | <u>58,231</u> |
| | <u>\$ 66,642</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.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

12 - FIRST MORTGAGE NOTES PAYABLE (Continued)

Supporting Organization (continued)

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, 2023, and 2022, the outstanding principal balance of the loan amounted to \$88,726 and \$93,637, respectively.

For the years ended June 30, 2023 and 2022, interest expense on this mortgage note amounted to \$3,813 and \$4,003, respectively.

Aggregate principal maturities on the loan for each of the next five years and thereafter at June 30, 2023 are as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|------------------|
| 2024 | \$ 5,089 |
| 2025 | 5,315 |
| 2026 | 5,541 |
| 2027 | - |
| 2028 | <u>72,781</u> |
| | <u>\$ 88,726</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.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Continued)

12 - FIRST MORTGAGE NOTES PAYABLE (Continued)

Supporting Organization (continued)

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, 2023, and 2022, the outstanding principal balance of the loan amounted to \$170,104 and \$178,835, respectively.

For the years ended June 30, 2023 and 2022 interest expense on this mortgage note amounted to \$8,419 and \$8,808 respectively.

Aggregate principal maturities on the loan for each of the next five years and thereafter at June 30, 2023 are as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|-------------------|
| 2024 | \$ 9,107 |
| 2025 | 9,578 |
| 2026 | 10,051 |
| 2027 | 10,570 |
| 2028 | 11,093 |
| Thereafter | <u>119,705</u> |
| | <u>\$ 170,104</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.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Continued)

12 - FIRST MORTGAGE NOTES PAYABLE (Continued)

Supporting Organization (continued)

As of June 30, 2023 and 2022, the outstanding principal balance of the loan amounted to \$282,715 and \$290,537, respectively.

For the years ended June 30, 2023 and 2022, interest expense on this mortgage note amounted to \$13,189 and \$13,547, respectively.

Aggregate principal maturities on the loan for each of the next five years and thereafter at June 30, 2023 are as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|-------------------|
| 2024 | \$ 8,190 |
| 2025 | 8,575 |
| 2026 | 8,977 |
| 2027 | 9,399 |
| 2028 | 9,841 |
| Thereafter | <u>237,734</u> |
| | <u>\$ 282,716</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, 2023 and 2022, the outstanding principal balance of the loan amounted to \$125,409 and \$128,879, respectively.

For the years ended June 30, 2023 and 2022, interest expense on this mortgage note amounted to \$5,851 and \$6,000, respectively.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

12 - FIRST MORTGAGE NOTES PAYABLE (Continued)

Supporting Organization (continued)

Aggregate principal maturities on the loan for each of the next five years and thereafter at June 30, 2023 are as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|-------------------|
| 2024 | \$ 3,633 |
| 2025 | 3,804 |
| 2026 | 3,982 |
| 2027 | 3,815 |
| 2028 | 4,720 |
| Thereafter | <u>105,456</u> |
| | <u>\$ 125,410</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, 2023, and 2022, the outstanding principal balance of the loan amounted to \$16,601 and \$35,633, respectively.

For the years ended June 30, 2023 and 2022, interest expense on this mortgage note amounted to \$1,273 and \$2,203 respectively.

Aggregate principal maturities on the loan for each of the next four years at June 30, 2023 are as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|------------------|
| 2024 | \$ <u>16,602</u> |
| | <u>\$ 16,602</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

(Continued)

12 - FIRST MORTGAGE NOTES PAYABLE (Continued)

Supporting Organization (continued)

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, 2023, and 2022, the outstanding principal balance of the loan amounted to \$246,118 and \$251,983 respectively.

For the years ended June 30, 2023 and 2022, interest expense on this mortgage note amounted to \$11,199 and \$11,238, 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, 2023, are estimated to be as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|-------------------|
| 2024 | \$ 6,128 |
| 2025 | 6,403 |
| 2026 | 6,690 |
| 2027 | 6,987 |
| 2028 | 7,274 |
| Thereafter | <u>212,636</u> |
| | <u>\$ 246,118</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, 2020, the loan requires monthly installments of principal and interest of \$983 based on a 20-year principal amortization schedule. If the note is prepaid in whole or in part during the term of the loan for the purpose of refinancing the loan with another financial institution, the loan provides for a prepayment penalty equal to 3% of any principal reduction. Except for the forgoing, the note may be prepaid in whole or in part without penalty. The loan is cross-defaulted and cross-collateralized with any and all other loans made by the lender to the Organization.

As of June 30, 2023 and 2022, the outstanding principal balance of the loan amounted to \$126,391 and \$131,631, respectively.

For the years ended June 30, 2023 and 2022, interest expense on this mortgage note amounted to \$6,987 and \$7,104, respectively.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

12 - FIRST MORTGAGE NOTES PAYABLE (Continued)

Supporting Organization (continued)

Aggregate principal maturities on the loan for each of the next five years and thereafter, using the interest rate in effect at June 30, 2023, are estimated to be as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|-------------------|
| 2024 | \$ 5,495 |
| 2025 | 5,797 |
| 2026 | 6,098 |
| 2027 | 6,414 |
| 2028 | 6,733 |
| Thereafter | <u>95,853</u> |
| | <u>\$ 126,390</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, 2023, and 2022, the outstanding principal balance of the loan amounted to \$171,793 and \$186,847, respectively.

For the years ended June 30, 2023 and 2022 interest expense on this mortgage note amounted to \$6,798 and \$7,361, 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, 2023, are estimated to be as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|-------------------|
| 2024 | \$ 15,741 |
| 2025 | 16,341 |
| 2026 | 16,869 |
| 2027 | 17,521 |
| 2028 | 18,189 |
| Thereafter | <u>87,131</u> |
| | <u>\$ 171,792</u> |

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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 \$2,357,000 and \$2,301,000 at June 30, 2022 and 2021, 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 and 3.49% on April 26, 2017 pursuant to the provisions of the loan agreement. The loan required monthly installments of principal and interest of \$4,122 through May 7, 2012, \$2,875 until April 26, 2017 and \$3115 to April 26, 2022. The interest rate was adjusted to 4.24% per annum on April 26, 2022 pursuant to the provisions of the loan agreement. Commencing thereafter, the monthly installments of principal and interest are \$3,280 until the next five-year interval adjustment date of April 26, 2027. The note may be prepaid at any time, in whole or in part, without premium or penalty.

As of June 30, 2023 and 2022, the outstanding principal balance of the loan amounted to \$411,113 and \$432,326, respectively.

For the years ended June 30, 2023 and 2022, interest expense on the note amounted to \$18,930 and \$15,420, 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, 2023, are estimated to be as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|-------------------|
| 2024 | \$ 22,078 |
| 2025 | 23,093 |
| 2026 | 24,106 |
| 2027 | 25,162 |
| 2028 | 26,230 |
| Thereafter | 290,444 |
| | <u>\$ 411,113</u> |

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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, 2023 and 2022, 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, 2023:

| <u>Year</u> | <u>Amount</u> |
|-------------|-------------------|
| 2024 | \$ 165,000 |
| 2025 | 165,000 |
| 2026 | 165,000 |
| Later years | <u>20,625</u> |
| | <u>\$ 515,625</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 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. On July 1, 2019, the Supporting Organization entered into a three-year lease agreement with the unrelated third party at a cost of \$2,350 per square feet, with a base annual rate of \$30,632 and an increase of 2% per year at the end of each year period of the lease term to be effective commencing July 1st of the following year, including the continuous period of any extension. Effective July 1, 2022, the Organization entered into a three-year operating lease agreement with the unrelated third party for the same space. The new lease provides a base annual rent of \$31,870 per annum and will increase 1% at the end of each year period of the lease term to be effective commencing July 1st of the following year, including the continuous period of any extension. 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, 2023 and 2022, rent expense amounted to \$31,870 for both years.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

14 - LEASE AND LICENSE AGREEMENTS (Continued)

The following is a schedule of future minimum rental payments under this operating lease agreement at June 30, 2023:

| <u>Year</u> | <u>Amount</u> |
|-------------|------------------|
| 2024 | \$ 32,188 |
| 2025 | 32,510 |
| | <u>\$ 64,698</u> |

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. An addendum was made to the expiration date, changing it to June 30, 2024. 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, 2023 and 2022, 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, 2023:

| <u>Year</u> | <u>Amount</u> |
|-------------|-----------------|
| 2024 | \$ 5,696 |
| | <u>\$ 5,696</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 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, 2023 and 2022 license fee income amounted to \$517,439 and \$450,849, 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. A new five-year lease commenced on July 1, 2021 with a monthly lease payment of \$1,914. For the years ended June 30, 2023 and 2022, rental income amounted to \$23,496 for both years.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

14 - LEASE AND LICENSE AGREEMENTS (Continued)

The following is a schedule of future minimum rental payments under this operating lease agreement at June 30, 2023:

| <u>Year</u> | <u>Amount</u> |
|-------------|------------------|
| 2024 | \$ 23,496 |
| 2025 | 23,496 |
| 2026 | 23,496 |
| | <u>\$ 70,488</u> |

On June 30, 2022, the Organization entered into a two-year operating lease agreement with an unrelated third party using a donated property located in Fitchburg, Massachusetts. The lease agreement provided for monthly lease payment of \$500 commencing on July 1, 2022. The lease agreement became effective October 1, 2022. For the year ended June 30, 2023, rental income amounted to \$4,500.

The following is a schedule of future minimum rental payments under this operating lease agreement at June 30, 2023:

| <u>Year</u> | <u>Amount</u> |
|-------------|-----------------|
| 2024 | \$ 6,000 |
| | <u>\$ 6,000</u> |

Effective on August 6, 2020, the Organization entered into a lease agreement with Fitchburg Housing Authority ("FHA") to lease the land located at 66 Day Street to be used for parking by FHA employees. The Organization is leasing the property solely for convenience to FHA; no revenue is being generated by this lease agreement.

15 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions in the amount of \$12,072,726, as of June 30, 2023, are available for scholarships to qualified students and to promote cultural programs within Fitchburg State University. Net assets with donor restrictions in the amount of \$9,696,101 as of June 30, 2022, are available for scholarships to qualified students and to promote cultural programs within Fitchburg State University.

Remaining net assets with donor restrictions in the amounts of \$15,975,563 and \$13,899,616 as of June 30, 2023 and 2022, respectively, are invested in perpetuity.

Net assets released from restrictions during 2023 represent the satisfaction of program restrictions in the amount of \$210,733 and the satisfaction of scholarship-related restrictions in the amount of \$569,110.

16 - TRANSACTIONS WITH RELATED PARTY

Fitchburg State University renders certain administrative services to the Foundation and Supporting Organization. These services, with a value of \$212,525 and \$201,139, 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, 2023 and 2022.

During fiscal 2023 and 2022, the Foundation made contributions without donor restrictions to Fitchburg State University in the amount of \$326,000 annually 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.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

16 - TRANSACTIONS WITH A RELATED PARTY (Continued)

As of June 30, 2023, and 2022, the Supporting Organization has miscellaneous accounts receivable totaling \$315,599 and \$4,060 from the Fitchburg State University, respectively, which is reflected as accounts receivable in the accompanying consolidated statements of financial position.

As of June 30, 2023, and 2022, the Supporting Organization has miscellaneous payables in the amount of \$814,576, and \$1,223 respectively to the Fitchburg State University, which is included in accounts payable, trade in the accompanying consolidated statement of financial position.

As of June 30, 2023, and 2022 the Supporting Organization borrowed \$550,000 and \$250,000 from the Foundation as a short-term loan to purchase property located within the college vicinity and repaid \$400,000 in 2023.

At June 30, 2023 and 2022, the Foundation has miscellaneous payables to Fitchburg State University in the amounts of \$25,181 and \$33,578, respectively, which are included in accounts payable, trade in the accompanying consolidated statement of financial position.

17 - MAJOR DONORS

During fiscal 2023, the Organization received restricted gift and grant donations totaling \$1,575,960 from five donors which represents approximately 57% of total gifts, donations and grant revenue for 2023.

During fiscal 2022, the Organization received restricted grant donations totaling \$843,208 from three donors which represents approximately 51% of total gifts, donations and grant revenue for 2022.

18 - SUPPLEMENTAL CASH FLOW INFORMATION

During the years ended June 30, 2023 and 2022, cash paid for property additions is as follows:

| | <u>2023</u> | <u>2022</u> |
|---|-------------------|-------------------|
| Costs incurred for the purchase of property | \$ 400,581 | \$ 59,511 |
| Donated property | (100,956) | - |
| Amounts included in accounts payable at the beginning of the year | <u>-</u> | <u>71,205</u> |
| Cash paid for property and equipment | <u>\$ 299,625</u> | <u>\$ 130,716</u> |

19 - CONTINGENCY

In early fiscal 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, 2023, there was no significant impact to the Organization's operations however, the Organization is not able to reliably estimate the length or severity of this outbreak. If the length of the outbreak and related effects on the Organization's operations continues for an extended period of time, there could be a loss of revenue and other material adverse effects on the Organization's financial position, results of operations and cash flows.

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

Board of Directors
Fitchburg State University Foundation, Inc.

We have audited, in accordance with the 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 (*Government Auditing Standards*), the consolidated financial statements of Fitchburg State University Foundation, Inc., which comprise the consolidated statements of financial position as of June 30, 2023, 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 _____, 2023.

Report on 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 opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fitchburg State University Foundation, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

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

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

(Continued)

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Worcester, Massachusetts
_____, 2023

DISCUSSION DRAFT