

**Attachment D**  
**Fitchburg State University**  
**Foundation Supporting Org. Inc. - DRAFT**

**FSU Foundation Supporting Organization, Inc.**

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

**June 30, 2017 and 2016**

PRELIMINARY DRAFT -  
SUBJECT TO CHANGE

**FSU Foundation Supporting Organization, Inc.**

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PRELIMINARY DRAFT -  
SUBJECT TO CHANGE

## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of FSU Foundation Supporting Organization, Inc. (a not-for-profit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FSU Foundation Supporting Organization, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated [Report Date] on our consideration of FSU Foundation Supporting Organization, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended June 30, 2017. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of FSU Foundation Supporting Organization, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering FSU Foundation Supporting Organization, Inc.'s internal control over financial reporting and compliance.

Boston, Massachusetts

[Report Date]

PRELIMINARY DRAFT -  
SUBJECT TO CHANGE

**FSU Foundation Supporting Organization, Inc.**

**Statements of Financial Position  
June 30, 2017 and 2016**

	<u>Assets</u>	
	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 17,505	\$ 127,169
Due from affiliate	16,934	1,650
Prepaid expenses and other current assets	37,182	17,000
Property and equipment, net of accumulated depreciation	<u>6,178,297</u>	<u>5,541,126</u>
Total assets	<u>\$ 6,249,918</u>	<u>\$ 5,686,945</u>
	<u>Liabilities and Net Assets</u>	
Accounts payable, trade	\$ 4,294	\$ 4,753
Due to affiliates	32,147	250,000
Accrued interest payable	5,338	5,435
Bank line of credit	250,000	-
Note payable - bank	533,121	553,081
First mortgage notes payable	<u>2,714,311</u>	<u>2,099,428</u>
Total liabilities	<u>3,539,211</u>	<u>2,912,697</u>
Net assets		
Unrestricted	<u>2,710,707</u>	<u>2,774,248</u>
Total net assets	<u>2,710,707</u>	<u>2,774,248</u>
Total liabilities and net assets	<u>\$ 6,249,918</u>	<u>\$ 5,686,945</u>

See Notes to Financial Statements.

**FSU Foundation Supporting Organization, Inc.**

**Statements of Activities  
Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Revenue and support		
Program revenues		
Rental income	\$ 165,000	\$ 165,000
Residence hall income	523,798	478,962
License fee income	252,849	108,167
Contribution in kind income	8,784	8,154
Other income		
Interest income	<u>1,082</u>	<u>1,239</u>
Total revenue, gain and support	<u>951,513</u>	<u>761,522</u>
Expenses and losses		
Program services		
Utilities	30,738	24,915
Repairs and maintenance	56,106	48,518
Rent	254,191	254,191
Real estate and other taxes	4,901	787
Professional services	-	5,586
Insurance	75,089	57,436
Supplies and equipment	-	4,215
Landscaping	12,638	20,605
Miscellaneous other	1,420	1,400
Interest	131,888	120,244
Depreciation	138,050	129,459
Impairment losses (Note 3)	<u>285,897</u>	<u>98,446</u>
	<u>990,918</u>	<u>765,802</u>
Management and general		
Affiliate personnel costs	8,784	8,154
Professional services	9,352	15,700
Miscellaneous other	<u>6,000</u>	<u>5,610</u>
	<u>24,136</u>	<u>29,464</u>
Total expenses	<u>1,015,054</u>	<u>795,266</u>
Decrease in net assets	(63,541)	(33,744)
Net assets at beginning of year	<u>2,774,248</u>	<u>2,807,992</u>
Net assets at end of year	<u>\$ 2,710,707</u>	<u>\$ 2,774,248</u>

See Notes to Financial Statements.

**FSU Foundation Supporting Organization, Inc.**

**Statements of Cash Flows  
Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Decrease in net assets	\$ (63,541)	\$ (33,744)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities		
Impairment losses	285,897	98,446
Depreciation	138,050	129,459
Amortization of debt issuance costs	3,469	3,470
Changes in assets and liabilities		
(Increase) decrease in assets		
Due from affiliate	(15,284)	(1,650)
Prepaid expenses and other current assets	(34,182)	291
Increase (decrease) in liabilities		
Accounts payable, trade	(459)	3,212
Due to affiliate	32,147	(5,272)
Accrued interest payable	(97)	(518)
	<u>346,000</u>	<u>193,694</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Payments for property and equipment	(646,118)	(226,291)
Proceeds from sale of land and buildings	-	70,000
Change in deposits for purchases of property	14,000	(17,000)
	<u>(632,118)</u>	<u>(173,291)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Proceeds of first mortgage notes payable	338,000	-
Payments on first mortgage notes payable	(141,586)	(122,296)
Payments on note payable - bank	(19,960)	(19,383)
Proceeds of bank line of credit	250,000	-
Advances from affiliates	75,000	250,000
Payments on advances from affiliates	(325,000)	(39,114)
	<u>176,454</u>	<u>69,207</u>
Net cash provided by financing activities		
Net (decrease) increase in cash and cash equivalents	(109,664)	89,610
Cash and cash equivalents, beginning of year	<u>127,169</u>	<u>37,559</u>
Cash and cash equivalents, end of year	<u>\$ 17,505</u>	<u>\$ 127,169</u>

See Notes to Financial Statements.



## FSU Foundation Supporting Organization, Inc.

### Notes to Financial Statements June 30, 2017 and 2016

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

##### Organization

FSU Foundation Supporting Organization, Inc. (the "Organization") was organized on October 29, 1999 to be a supporting organization operated, supervised and controlled for the exclusive benefit of Fitchburg State University Foundation, Inc. (the "Foundation") and all of its educational and charitable activities. As of June 30, 2017, the Organization's sole program activity has been to acquire, hold, operate and lease real estate and related improvements for the benefit of the Foundation and Fitchburg State University (the "University").

##### Summary of significant accounting policies

###### Use of estimates

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

###### Method of accounting

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

###### Basis of presentation

The financial statements of the Organization are presented in accordance with guidance issued by the Financial Accounting Standards Board ("FASB") for the presentation of financial statements of not-for-profit-entities. Under this guidance, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Permanently restricted net assets are required to be maintained permanently by the Organization. Generally, the donors of such assets permit the Organization to use all or part of the income earned on the assets. Temporarily restricted net assets have donor-imposed restrictions that require the Organization to use the assets pursuant to those restrictions or that expire by the passage of time. Unrestricted and Board-designated net assets are those that are neither permanently nor temporarily restricted by donor-imposed restrictions. As of June 30, 2017 and 2016, the Organization's net assets are not subject to donor-imposed restrictions; accordingly, all of the net assets are accounted for as unrestricted net assets.

###### Revenue recognition

###### Contributions

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

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

## FSU Foundation Supporting Organization, Inc.

### Notes to Financial Statements June 30, 2017 and 2016

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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

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

#### **Residence hall income**

Residence hall fees are recognized when earned.

#### **Accounts receivable**

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

#### **Property and equipment**

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

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

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

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

#### **Debt issuance costs**

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

## FSU Foundation Supporting Organization, Inc.

### Notes to Financial Statements June 30, 2017 and 2016

#### Statement of cash flows

For purposes of the 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 Organization is classified by the Internal Revenue Service as a "publicly supported organization" exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. The Organization had no unrelated business income for the years ended June 30, 2017 and 2016. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Management has evaluated significant tax positions against the criteria established by professional standards and believes there are no such tax positions requiring accounting recognition in the financial statements. Management does not believe its evaluation of tax positions will significantly change within 12 months of June 30, 2017. Any changes in tax positions will be recorded when the ultimate outcome becomes known. Accrued interest and penalties associated with uncertain tax positions are recognized as a part of interest expense and miscellaneous other expenses, respectively, in the accompanying statements of activities. The Organization has no accrued interest and penalties associated with uncertain tax positions at June 30, 2017 and 2016 and none were incurred during the years then ended. The Organization's income tax returns are subject to examination by taxing authorities generally for the years ended June 30, 2014, 2015 and 2016.

#### Functional allocation of expenses

The costs of providing the Organization's program and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

#### Reclassifications

Certain reclassifications have been made to the fiscal 2016 financial statements to conform to the fiscal 2017 presentation.

#### Subsequent events

The Organization has evaluated subsequent events through [Report Date], which is the date these financial statements were available to be issued.

#### Recently adopted accounting pronouncement

During fiscal 2017, the Organization adopted the provisions of Accounting Standards Update 2015-03, *Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"), which modifies the presentation of debt issuance costs and the related amortization. This change in accounting principle under ASU 2015-03 improves the reporting of debt issuance costs by no longer reporting them as assets. It also improves the reporting of the related amortization by including it as a component of interest expense. ASU 2015-03 has been adopted by the Organization on a retrospective basis. As a result, as of June 30, 2016, \$27,268 of debt issuance costs, net of accumulated amortization, related to the Organization's mortgage notes payable were reclassified in the statement of financial position from other assets to first mortgage notes payable and for the year ended June 30, 2016, \$3,470 of amortization expense related to such debt issuance costs was reclassified to interest expense in the statement of activities, with no effect on previously reported increase (decrease) in net assets. Other than these reclassifications, the adoption of ASU 2015-03 did not have a material impact on the Organization's financial position, changes in new assets or cash flows.

**FSU Foundation Supporting Organization, Inc.**

**Notes to Financial Statements  
June 30, 2017 and 2016**

**Note 2 - Cash and cash equivalents**

The Organization maintains its operating cash and cash equivalent balances in several accounts in three banks. The cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each bank. At times, these balances may exceed the federal insurance limits; however, the Organization has not experienced any losses with respect to these cash and cash equivalent balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash and cash equivalent balances at June 30, 2017 and 2016.

**Note 3 - Property and equipment**

Property and equipment at June 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Real estate under lease		
Land	\$ 402,663	\$ 402,663
Building	1,557,724	1,557,724
Building improvements	<u>100,452</u>	<u>100,452</u>
	<u>2,060,839</u>	<u>2,060,839</u>
Real estate used for student housing		
Land	253,555	253,555
Building	434,225	434,225
Building improvements	<u>28,600</u>	<u>28,600</u>
	<u>716,380</u>	<u>716,380</u>
Real estate used for faculty and staff housing		
Land	18,766	18,766
Building	<u>82,099</u>	<u>82,099</u>
	<u>100,865</u>	<u>100,865</u>
Other		
Land	2,179,963	1,760,791
Building	739,598	383,549
Land improvements	158,127	158,127
Building improvements	1,069,436	1,069,436
Furniture and fixtures	<u>28,446</u>	<u>28,446</u>
	<u>4,175,570</u>	<u>3,400,349</u>
	7,053,654	6,278,433
Less accumulated depreciation	<u>875,357</u>	<u>737,307</u>
Property and equipment, net	<u>\$ 6,178,297</u>	<u>\$ 5,541,126</u>

## FSU Foundation Supporting Organization, Inc.

### Notes to Financial Statements June 30, 2017 and 2016

Accumulated depreciation on real estate under lease amounted to \$472,946 and \$428,981 at June 30, 2017 and 2016, respectively. Accumulated depreciation on real estate used for student housing amounted to \$120,663 and \$108,377 at June 30, 2017 and 2016, respectively. Accumulated depreciation on real estate used for faculty and staff housing amounted to \$5,131 and \$3,079 at June 30, 2017 and 2016, respectively.

On July 12, 2016, 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 \$141,374. The Organization razed the building and created green space during the year ended June 30, 2017. As a result of its decision to raze the building, management determined, in accordance with the requirements of FASB accounting guidance, that the property was impaired and was written down to its fair value of \$32,983 resulting in an impairment charge to operations in the amount of \$108,391.

On July 14, 2016, 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 \$81,098. The Organization razed the building and created green space during fiscal 2017. As a result of its decision to raze the building, management determined, in accordance with the requirements of FASB accounting guidance, that the property was impaired and was written down to its fair value of \$14,638 resulting in an impairment charge to operations in the amount of \$66,460.

The July acquisitions were funded with operating cash of the Organization in the amount of \$147,472 and the proceeds of an advance in the amount of \$75,000 from the Foundation (see Note 8).

On November 4, 2016, the Organization acquired a property in close proximity to the Fitchburg State University campus consistent with the Organization's mission and the University's strategic plan which includes campus expansion. The property, which includes land and a building, was purchased for an aggregate cost of \$360,305. The Organization intends to use the property for academic support and a theater renovation. Renovations are expected to commence in fiscal year 2018 (see Note 10). The acquisition was financed, in part, with a mortgage note on the property in the amount of \$280,000 (see Note 4).

On November 8, 2016, 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 \$183,914. The Organization intends to use this property for faculty housing. A contract for the renovations is not expected to be executed until the latter part of calendar year 2017. The acquisition was financed, in part, with a mortgage note on the property in the amount of \$135,000 (see Note 4).

On May 24, 2017 and June 16, 2017, the Organization acquired two properties in close proximity to the Fitchburg State University campus. The properties, including land only, were acquired for a cost of \$126,926 and \$30,506, respectively. The Organization intends to use the land as green space.

On June 5, 2017, 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 \$136,995. The Organization intends to raze the building and create green space. As a result of its decision to raze the building, management determined, in accordance with the requirements of FASB accounting guidance, that the property was impaired and was written down to its fair value of \$25,949 resulting in an impairment charge to operations in the amount of \$111,046.

The fair values of the properties for which impairment losses were recorded in fiscal 2017 were measured using significant unobservable inputs (Level 3) pursuant to the FASB's guidance on fair value

## FSU Foundation Supporting Organization, Inc.

### Notes to Financial Statements June 30, 2017 and 2016

measurements. The fair values of the properties were determined based upon the property assessment values at the purchase dates.

The impairment charges (noncash accounting charges) to operations on the above properties had no impact on the Organization's fiscal 2017 cash flow or its ability to generate cash flow in the future.

The May and June 2017 acquisitions were funded in part with the proceeds of \$250,000 drawn in May 2017 on the Organization's bank line of credit (see Note 7).

In fiscal 2016, the Organization acquired a property in close proximity to the Fitchburg State University campus consistent with the Organization's mission and the University's strategic plan which includes campus expansion. The property, which includes land and a building, was purchased for an aggregate cost of \$119,803 (see Note 4). The Organization razed the building and created green space. As a result of its decision to raze the building, management determined, in accordance with the requirements of FASB accounting guidance, that the property was impaired and was written down to its fair value of \$21,357. The impairment charge (a noncash accounting charge) to operations in the amount of \$98,446 had no impact on the Organization's fiscal 2016 cash flow or its ability to generate cash flow in the future.

The fair value of the property was measured using significant unobservable inputs (Level 3) pursuant to the FASB's guidance on fair value measurements. The fair value of the property was determined based upon the property assessment value at the purchase date.

#### **Note 4 - First mortgage notes payable**

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

In August 2006, the Organization acquired land and a building consisting of 4,179 square feet of office space and 53,429 square feet of warehouse space located in Fitchburg, Massachusetts near the University campus. The entire property has been leased to DCAM on behalf of the University (see Note 6). The University is currently using the property for its print services, maintenance, shipping and receiving and financial services.

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

The loan agreement has a term of 20 years and provides for a fixed rate of interest of 5.5% per annum for the first five years of the loan term. Thereafter, the interest rate will be adjusted at five-year intervals (August 16, 2011, 2016 and 2021) to a fixed rate of interest equal to 80% of the bank's prime rate, but no greater than 1% or less than 1% of the interest rate in effect for the immediately preceding five-year adjustment interval. The interest rate was adjusted to 4.5% per annum on August 16, 2011 pursuant to the provisions of the loan agreement. The loan required monthly installments of principal and interest of \$13,154 through August 16, 2011 and \$12,306 until August 16, 2016. The interest rate was adjusted to 3.5% per annum on August 16, 2016 pursuant to the provisions of the loan agreement. Commencing thereafter, the monthly installments of principal and interest are \$11,739 until the next five-year interval

**FSU Foundation Supporting Organization, Inc.**

**Notes to Financial Statements  
June 30, 2017 and 2016**

adjustment date of August 16, 2021. The loan matures on August 16, 2026. The loan agreement requires the Organization to maintain a Debt Service Coverage Ratio, as defined, of not less than 1.10 to 1 to be measured annually at the end of its fiscal year.

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

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

As of June 30, 2017, the outstanding principal balance of the loan of \$1,100,877, less net debt issuance costs of \$23,801, amounted to \$1,077,076.

As of June 30, 2016, the outstanding principal balance of the mortgage note payable of \$1,199,159, less net debt issuance costs of \$27,268, amounted to \$1,171,891.

Debt issuance costs, net of accumulated amortization, totaled \$23,801 and \$27,268 as of June 30, 2017 and 2016, respectively. Amortization of debt issuance costs on the above loan is being amortized using an imputed interest of 3.64% as of June 30, 2017 and 4.68% as of June 30, 2016.

Aggregate principal maturities on the loan for each of the next five years and thereafter, using the interest rate in effect at June 30, 2017, are estimated to be as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 103,466
2019	107,198
2020	110,984
2021	115,067
2022	119,217
Thereafter	<u>544,945</u>
Total balance due	<u>\$ 1,100,877</u>

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

Workers' Credit Union ("WCU") provided financing to the Organization in the form of a note, dated February 27, 2009, in the amount of \$750,000. The note is secured by a first mortgage interest in certain real estate owned by the Organization and an assignment of certain related leases and rents. The note is also collateralized by all funds held by the lender. At June 30, 2017 and 2016, the Organization has total cash balances of \$6,308 and \$5,660, respectively, held at WCU which serve as additional collateral for the loan.

The mortgage note has a term of 10 years, expiring on February 27, 2019, and provided for a fixed rate of interest of 5.74% per annum. The interest rate was adjusted to 4.99% per annum on June 20, 2013 pursuant to the provisions of a loan modification agreement. The note required monthly installments of principal and interest of \$4,714, through June 20, 2013, based on a 20-year principal amortization. Commencing thereafter, the monthly installments of principal and interest are \$4,422 based on a 20-year principal amortization.

**FSU Foundation Supporting Organization, Inc.**

**Notes to Financial Statements  
June 30, 2017 and 2016**

As of June 30, 2017 and 2016, the outstanding principal balance of the mortgage loan amounted to \$599,769 and \$622,287, respectively.

Aggregate principal maturities on the loan for each of the remaining years to maturity at June 30, 2017 are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 23,677
2019	<u>576,092</u>
Total Balance	<u>\$ 599,769</u>

**Rollstone Bank & Trust**

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

As of June 30, 2017 and 2016, the outstanding principal balance of the mortgage loan amounted to \$217,912 and \$226,969, respectively.

Aggregate principal maturities on the loan for each of the next five years and thereafter at June 30, 2017, are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 9,361
2019	9,674
2020	9,980
2021	10,331
2022	10,678
Thereafter	<u>167,888</u>
Total balance due	<u>\$ 217,912</u>

**Fidelity Co-Operative Bank**

Fidelity Co-Operative Bank provided financing to the Organization in the form of a note, dated June 26, 2013, in the amount of \$83,200. The note is secured by a first mortgage interest in the real estate property located at 340 Highland Avenue in Fitchburg, Massachusetts and an assignment of leases and rents on the property. The note has a term of 20 years, maturing on June 26, 2033, and provides for a fixed rate of interest of 3.5% per annum for the first five years of the loan term. Thereafter, the interest



**FSU Foundation Supporting Organization, Inc.**

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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 requires monthly installments of principal and interest of \$376 until the next five-year interval adjustment date of June 26, 2018. The note provides for the payment of a prepayment penalty if the loan is paid prior to maturity. The amount of the penalty shall be a specified percentage of the amount prepaid with such percentage ranging from 5% if paid before the loan's first anniversary and decreasing by 1% per year to 1% if paid before the loan's fifth anniversary. The prepayment penalty will reset as defined above at each five-year anniversary date of the note. The loan agreement contains, among other covenants, restrictions relating to future borrowings, making of advances or loans to other parties, sale, lease or transfer of assets, and the granting of further security interests, except as provided for and as more fully described in the loan agreement. The loan is cross-defaulted and cross-collateralized with any and all other loans made by the lender to the Organization.

As of June 30, 2017 and 2016, the outstanding principal balance of the mortgage loan amounted to \$76,518 and \$78,281, 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, 2017, are estimated to be as follows:

Year	Amount
2018	\$ 1,826
2019	1,892
2020	1,953
2021	2,030
2022	2,104
Thereafter	66,713
Total balance due	<u>\$ 76,518</u>

**Fidelity Co-Operative Bank**

In October 2016, Fidelity Co-Operative Bank provided financing to the Organization in the form of a promissory note, dated October 19, 2016, in the amount of \$118,000. The proceeds of the loan were used to reimburse the Organization for the acquisition, at a cost of \$119,803, of a real estate property located at 198 Pearl Street in Fitchburg, Massachusetts in February 2016 (see Note 3). The note is secured by a Negative Pledge Agreement on the property.

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

As of June 30, 2017, the outstanding principal balance of the loan amounted to \$115,273.

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Aggregate principal maturities on the loan for each of the next five years and thereafter at June 30, 2017 are as follows:

Year	Amount
2018	\$ 3,973
2019	4,142
2020	4,306
2021	4,501
2022	4,692
Thereafter	93,659
Total balance due	<u>\$ 115,273</u>

**Fidelity Co-Operative Bank**

In January 2017, Fidelity Co-Operative Bank provided financing to the Organization in the form of a promissory note, dated January 13, 2017, in the amount of \$220,000. The proceeds of the loan were used to reimburse the Organization for the acquisition, at a cost of \$222,472, of two real estate properties located at 9 Clinton Street and 85-87 Pearl Street in Fitchburg, Massachusetts in July 2016 (see Note 3). The note is secured by a Negative Pledge Agreement on the properties.

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

As of June 30, 2017, the outstanding principal balance of the loan amounted to \$216,683.

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Aggregate principal maturities on the loan for each of the next five years and thereafter at June 30, 2017 are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 6,838
2019	7,176
2020	7,504
2021	7,901
2022	8,291
Thereafter	<u>178,973</u>
Total balance due	<u>\$ 216,683</u>

**Hometown Bank**

In November 2016, Hometown Bank provided financing to the Organization in the form of a commercial note, dated November 8, 2016, in the amount of \$135,000. The proceeds of the loan were used for the acquisition, at a cost of \$183,914, of a real estate property located at 132 Highland Avenue in Fitchburg, Massachusetts (see Note 3). 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 25 years, maturing on November 8, 2041, and provides for a fixed rate of interest of 4.875% per annum. Commencing on December 8, 2016, the loan requires monthly installments of principal and interest of \$779 based on a 25 year principal amortization schedule with a final payment of all unpaid principal and accrued interest thereon due at maturity. The loan agreement requires the Organization to maintain a minimum earnings before interest, taxes, depreciation, amortization and rent to related entities and after distributions of not less than 1.25 times annual principal and interest payments plus dividends to be tested annually.

As of June 30, 2017, the outstanding principal balance of the loan amounted to \$133,364.

Aggregate principal maturities on the loan for each of the next five years and thereafter at June 30, 2017 are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 2,916
2019	3,061
2020	3,214
2021	3,374
2022	3,542
Thereafter	<u>117,257</u>
Total balance due	<u>\$ 133,364</u>

**Enterprise Bank and Trust Company**

In November 2016, Enterprise Bank and Trust Company provided financing to the Organization in the form of a promissory note, dated November 4, 2016, in the amount of \$280,000. The proceeds of the loan were used for the acquisition, at a cost of \$360,305, of a real estate property located at 689-717

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Main Street in Fitchburg, Massachusetts (see Note 3). The note is secured by a first mortgage interest in the property and an assignment or rents on the property.

The promissory note has a term of 10 years, maturing on November 4, 2026, and thereafter is payable on demand. The note provides for a fixed rate of interest of 4.33% per annum for the first ten years of the loan term. Thereafter, the interest rate will be adjusted at ten-year intervals to the Daily High Federal Home Loan Bank Boston Classic Advance Ten Year Regular Rate plus 1.95% per annum. Commencing on January 1, 2017, the loan requires monthly installments of principal and interest of \$1,401 based on a 30 year principal amortization schedule. If the note is prepaid in whole or in part during the first 117 months of each fixed rate period for the purpose of refinancing the note with another 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, 2017, the outstanding principal balance of the loan amounted to \$277,716.

Aggregate principal maturities on the loan for each of the next five years and thereafter, using the interest rate in effect at June 30, 2017, are estimated to be as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 4,712
2019	4,923
2020	5,143
2021	5,374
2022	5,614
Thereafter	<u>251,950</u>
Total balance due	<u>\$ 277,716</u>

**Note 5 - Note payable - bank**

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

The acquisitions were funded with the proceeds of a note payable in the amount of \$680,000, dated April 26, 2007, with Enterprise Bank and Trust Company. The note is secured by investments owned by the Foundation with a fair value of approximately \$2,116,000 and \$1,981,000 at June 30, 2017 and 2016, respectively. In addition, payment and performance of the Organization's obligations under the loan agreement have been guaranteed by the Foundation.

The promissory note has a term of 30 years, expiring on May 5, 2037, and provides for a fixed rate of interest of 6% per annum for the first five years of the loan term. Thereafter, the interest rate will be adjusted at five-year intervals (April 26, 2012, 2017, 2022, 2027 and 2032) to the Federal Home Loan Bank Boston Classic Advance Five Year Rate plus 1.15% per annum. The interest rate was adjusted to 2.62% per annum on April 26, 2012 pursuant to the provisions of the loan agreement. The loan required monthly installments of principal and interest of \$4,122 through May 7, 2012 and \$2,875 until April 26,

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2017. The interest rate was adjusted to 3.49% per annum on April 26, 2017 pursuant to the provisions of the loan agreement. Commencing thereafter, the monthly installments of principal and interest are \$3,115 until the next five-year interval adjustment date of April 26, 2022. The note may be prepaid at any time, in whole or in part, without premium or penalty.

As of June 30, 2017 and 2016, the outstanding principal balance of the loan amounted to \$533,121 and \$553,081, respectively.

Aggregate principal maturities on the loan for each of the next five years and thereafter, using the interest rate in effect at June 30, 2017, are estimated to be as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 18,967
2019	19,498
2020	20,152
2021	20,924
2022	21,677
Thereafter	<u>431,903</u>
Total balance due	<u>\$ 533,121</u>

**Note 6 - Lease and license agreements**

As disclosed in Note 4, the Organization entered into a long-term operating lease agreement with DCAM on behalf of the University. The lease commenced on August 16, 2006 and expired on August 16, 2016. The lease provided for base rent of \$165,000 per year, payable in monthly installments of \$13,750, for the entire lease term. The University was also responsible for the payment of normal operating, maintenance and repair costs associated with its use of the property. The lease continued in effect, after its expiration, under the same terms and conditions until March 9, 2017 when the Organization signed a new 10 year lease with the same terms and conditions as the previous agreement. The new lease agreement became effective as of August 16, 2016. For the years ended June 30, 2017 and 2016, rental income amounted to \$165,000 in each year.

The following is a schedule of future minimum rental income under the new operating lease agreement at June 30, 2017:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ 165,000
2019	165,000
2020	165,000
2021	165,000
2022	165,000
Later years	<u>680,625</u>
	<u>\$ 1,505,625</u>

**FSU Foundation Supporting Organization, Inc.**

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On August 6, 2008, the Organization entered into a 10-year operating lease agreement with an unrelated third party for 2,350 square feet of office space located in Fitchburg, Massachusetts. The lease commenced on November 1, 2008 and 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 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. The Organization may extend the initial term of the lease, under the same terms and conditions, for successive periods of one year, provided it is not then in default of the lease terms and it gives proper notice. The Organization may cancel the lease at any time with the payment of two months' base rent as a termination charge. The Organization is also responsible for the payment of normal operating, maintenance and repair costs associated with the use of the property. For the years ended June 30, 2017 and 2016, rent expense amounted to \$28,495 in each year.

The following is a schedule of future minimum rental payments under this operating lease agreement at June 30, 2017:

Year ending June 30,	Amount
2018	\$ 30,632
2019	30,632
	<u>\$ 61,264</u>

On February 1, 2013, the Organization entered into a 10-year operating lease agreement with the above noted unrelated third party for an additional 1,424 square feet of office space located in Fitchburg, Massachusetts. The lease commenced on February 1, 2013 and shall expire on January 31, 2023. The space is being used by Fitchburg State University for additional office and classroom space. The lease provides for a base annual rent of \$5,696 payable in monthly installments of \$475. The Organization may extend the initial term of the lease, under the same terms and conditions, for successive periods of one year, provided it is not then in default of the lease terms and it gives proper notice. The Organization may cancel the lease at any time after February 1, 2014 with the payment of two months base rent as a termination charge. The Organization is also responsible for the payment of normal operating, maintenance and repair costs associated with the use of the property. For the years ended June 30, 2017 and 2016, 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, 2017:

**FSU Foundation Supporting Organization, Inc.**

**Notes to Financial Statements  
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Year ending June 30,	Amount
2018	\$ 5,696
2019	5,696
2020	5,696
2021	5,696
2022	5,696
Later years	3,323
	<u>\$ 31,803</u>

On June 25, 2015, the Organization entered into an operating lease agreement with an unrelated third party for a building containing residential suites designed for use as a dormitory for college students. The lease commenced on August 1, 2015 and expired on May 31, 2016. The lease provided for annual rent of \$220,000 to be paid in two installments of \$110,000 each on August 1, 2015 and January 1, 2016. In July 2016, the Organization extended the initial term of the lease under the same terms and conditions for the period August 1, 2016 through May 31, 2017. Subject to availability, the Organization may extend the term of the lease, under the same terms and conditions for the periods June 1, 2017 through July 31, 2017 and August 1, 2017 through May 31, 2018. The Organization did not renew the lease for an additional term after the expiration on May 31, 2017. Instead, the building was purchased by the Massachusetts State College Building Authority ("MSCBA") and is being used by and billed directly to Fitchburg State University by MSCBA as a part of its semi-annual residence hall revenue assessments. For the years ended June 30, 2017 and June 30, 2016, rent expense amounted to \$220,000 in each year.

The Organization and the University are parties to License Agreements whereby the Organization granted to the University irrevocable and exclusive licenses to occupy, manage, maintain and operate certain property owned by the Organization. The License Agreements provide for initial terms of one year and automatic annual renewals thereafter. The License Agreements provide for annual license fees payable, in arrears, in 4 equal quarterly installments. All costs to operate and maintain the property, including any capital improvements made thereto, shall be borne by the University. The License Agreements may be terminated by either party upon the expiration of the initial term of the agreements and any subsequent renewal term with the giving of proper notice. In addition, the University may terminate the agreements at any time with the giving of proper notice. For the years ended June 30, 2017 and 2016, license fee income amounted to \$252,849 and \$108,167, respectively.

**Note 7 - Line of credit**

On August 18, 2016, the Organization entered into a demand unsecured revolving line of credit agreement with Rollstone Bank and Trust which permits the Organization to borrow up to \$250,000. The line of credit provides for interest at the Wall Street Journal Prime Rate less .25% (effective rate of 4% at June 30, 2017). The line of credit agreement expired on August 18, 2017. The line of credit was extended through November 30, 2017, under the same terms and conditions of the previous agreement. On November 30, 2017, the line of credit will be up for renewal. The Organization may prepay outstanding revolving loans under the agreement in whole or in part at any time without premium or penalty. The line of credit agreement contains, among other covenants, the maintenance of a debt service coverage rate, 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

**FSU Foundation Supporting Organization, Inc.**

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agreement. As of June 30, 2017, the Organization has made payments of \$110,000 and borrowings of \$360,000 under the line of credit agreement. The balance outstanding as of June 30, 2017 is \$250,000.

**Note 8 - Transactions with related parties**

Fitchburg State University and the Foundation render certain administrative services to the Organization. For the years ended June 30, 2017 and 2016, these services with a value of \$8,784 and \$8,154, respectively, have been recognized as contribution in kind income in the accompanying statements of activities in accordance with FASB guidance.

Repairs and maintenance expense in the accompanying 2017 and 2016 statements of activities includes \$32,147 and \$31,787, respectively, paid to Fitchburg State University for maintenance services provided to the Organization for the real estate used for student housing. At June 30, 2017, \$32,147 remained unpaid and is reflected as due to affiliates in the accompanying 2017 statement of financial position.

From time to time, the Foundation makes advances to the Organization to assist with the financing of its acquisitions of real estate properties located in Fitchburg, Massachusetts. The advances do not have any specified repayment provisions and due dates and are noninterest-bearing except to the extent that they are funded from the proceeds of draws on the Foundation's working capital line of credit. In those instances, the Foundation charges interest to the Organization at a rate equivalent to the Foundation's borrowing rate on its working capital line of credit agreement. At June 30, 2017 and 2016, the effective interest rate was 6% per annum. Interest expense incurred by the Organization on advances amounted to \$9,576 and \$4,079 in fiscal 2017 and 2016, respectively. Accrued interest payable to the Foundation at June 30, 2017 and 2016 amounted to \$0 and \$1,250, respectively. During fiscal 2017, the Foundation made advances of \$75,000 to the Organization and the Organization repaid advances in the amount of \$325,000. During fiscal 2016, the Foundation made advances of \$250,000 to the Organization and the Organization repaid advances in the amount of \$39,114. As of June 30, 2017 and 2016, outstanding advances payable to the Foundation amounted to \$0 and \$250,000, respectively.

As of June 30, 2017 and June 30, 2016, the Organization has miscellaneous accounts receivable totaling \$16,934 and \$1,650 from the University, respectively, which are reflected as due from affiliate in the accompanying statements of financial position.

**Note 9 - Supplemental cash flow information**

	<u>2017</u>	<u>2016</u>
Cash paid for interest during the year	<u>\$ 128,515</u>	<u>\$ 117,292</u>



**FSU Foundation Supporting Organization, Inc.**

**Notes to Financial Statements  
June 30, 2017 and 2016**

In fiscal 2017, the Organization financed, in part, two real estate property acquisitions through long-term mortgage notes in the amounts of \$280,000 and \$135,000 (total of \$415,000).

**Note 10 - Subsequent events**

On July 11, 2017, the Organization closed on the acquisition of a property, including land and a building, for a price of \$51,708. The Organization made a deposit of \$3,000 on the property during fiscal 2017 which is included in prepaid expenses and other current assets in the accompanying 2017 statement of financial position. The Organization intends to renovate the property and use it for academic support and a day care facility. Renovations are not expected to commence until fiscal 2020.

The Commonwealth of Massachusetts, acting by and through the Awarding Authority of Fitchburg State University, entered into a construction contract, dated August 3, 2017, with an unrelated third party contractor for the initial phase of renovations to the property at 689 - 717 Main Street. The renovations will be paid for by Fitchburg State University in accordance with the terms and provisions of the license agreement between the University and the Organization. The construction contract is in the aggregate amount of \$2,390,908, including approved change orders of \$27,795. This phase of the renovations is expected to be completed by early January, 2018.

PRELIMINARY DRAFT  
SUBJECT TO CHANGE

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of FSU Foundation Supporting Organization, Inc., which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated [Report Date].

#### Internal Control over Financial Reporting

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

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

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

#### Compliance and Other Matters

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

## Purpose of this Report

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

Boston, Massachusetts

[Report Date]

PRELIMINARY DRAFT -  
SUBJECT TO CHANGE