

FITCHBURG STATE UNIVERSITY

(a department of the Commonwealth of Massachusetts)

**REPORT ON AUDITS OF FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

YEARS ENDED JUNE 30, 2014 AND 2013

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(a department of the Commonwealth of Massachusetts)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Fitchburg State University
Fitchburg, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Fitchburg State University (the University) (a department of the Commonwealth of Massachusetts), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of Fitchburg State University as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of Fitchburg State University and its discretely presented component unit are intended to present the respective financial position, the changes in financial position and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts that is attributable to the transactions of Fitchburg State University and its discretely presented component unit. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Massachusetts as of June 30, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Financial Statements as of June 30, 2013

The financial statements of Fitchburg State University, as of June 30, 2013, were audited by other auditors whose report dated October 15, 2013, expressed an unmodified opinion on those financial statements. That report included an emphasis-of-matter paragraph which referred to the fact that those financial statements are intended to present the respective financial position, the changes in financial position and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts that is attributable to the transactions of Fitchburg State University and its discretely presented component unit. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Massachusetts as of June 30, 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplemental Information

Our audit was conducted for the purpose of forming opinions on the 2014 financial statements as a whole. The residence hall fund and residence hall damage fund activity shown on pages 76 to 77, and the statistical section on pages 78 to 82 are presented for purposes of additional analysis and are not a required part of the 2014 financial statements. The residence hall fund and residence hall damage fund activity are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 2014 financial statements. The residence hall fund and residence hall damage fund activity information have been subjected to the auditing procedures applied in the audit of the 2014 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2014 financial statements or to the 2014 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the residence hall fund and residence hall damage fund activity information are fairly stated, in all material respects, in relation to the 2014 financial statements as a whole. The statistical section has not been subjected to the auditing procedures applied in the audit of the 2014 financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2014 on our consideration of Fitchburg State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended June 30, 2014. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fitchburg State University's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "CohnReznick LLP". The signature is written in a cursive, flowing style.

Boston, Massachusetts
October 15, 2014

FITCHBURG STATE UNIVERSITY
(a department of the Commonwealth of Massachusetts)
Management's Discussion and Analysis
UNAUDITED

Introduction

The following discussion and analysis are intended to provide an overview of the financial position and results of operations of Fitchburg State University (the "University") for the fiscal years ended June 30, 2014, 2013 and 2012. This discussion is provided by the management of the University and should be read in conjunction with the financial statements and notes thereto. The purpose of this document is to give some background to the financial statements, and foster an understanding of how these statements relate to the mission and activities of the University.

The University, located in North Central Massachusetts, is one of the nine comprehensive public universities in the Commonwealth of Massachusetts (the "Commonwealth"). These institutions, along with the five-campus University of Massachusetts system and the fifteen community colleges comprise public higher education in Massachusetts. The University offers approximately 50 undergraduate degree programs in eighteen academic departments, 20 Masters' degree programs and several Graduate Certificates of Advanced Study. During fiscal 2014, there were approximately 3,600 full-time students and thousands of part-time students enrolled in degree programs, for a combined full-time equivalent enrollment of approximately 5,075. Thousands more non-matriculated students take advantage of professional development programs through the Division of Graduate and Continuing Education (DGCE). The University awarded approximately 1,100 graduate and undergraduate degrees in fiscal 2014. The University is accredited by the New England Association of Schools and Colleges (NEASC) and many of the University's programs are accredited by program-specific accrediting bodies.

Financial Highlights

The University experienced positive results from operations in fiscal 2014 and remains on firm financial ground. The following are key financial highlights for the current period:

- General appropriations from the Commonwealth are approved by the legislature to help fund the day-to-day operations of the University. The University received appropriations of \$27.4 million in fiscal 2014 as compared with \$24.9 million in fiscal 2013 and \$23.5 million in fiscal 2012. The increase in appropriation is the result of the Massachusetts legislature providing an additional \$15 million in funding to the state university system of which Fitchburg State University received an additional \$1.5 million. The state also provided additional monies to fund current collective bargaining agreements.
- The added funding allowed the state universities to freeze tuition and mandatory non capital student fees for the academic year. The capital projects fee was increased in fiscal 2014 to fund continued renovation of Hammond Hall. Total mandatory per semester fees were \$4,007, \$3,870 and \$3,665 in fiscal 2014, 2013 and 2012, respectively. Tuition, which is controlled by the Commonwealth, has not increased since the fall of 2001 and remains at \$485 per semester for in-state students.
- The University expended \$16.9 million from current funds for capital additions in fiscal 2014. An additional \$12.1 million was spent on the University's behalf by the Massachusetts Division of Capital Asset Management (DCAM) for the Science Center modernization project. Projects completed during the year included renovations to the Conlon IA Building for the new Game Design major, Phases II & III of the Hammond Hall renovation project and the Ross Street and McKay Campus parking expansion project. Projects remaining in process at June 30, 2014 include Phase IV of the Hammond Hall renovation and Phase II of the Science Center modernization project.
- Total assets at the end of fiscal 2014 were \$213.8 million and exceeded liabilities and deferred inflows of resources of \$74.9 million by \$138.9 million (i.e. net position). Unrestricted net position available to

support short-term operations totaled \$22.3 million, of which \$9.4 million has been designated for specific purposes.

- Total operating, non-operating, and gift revenue for fiscal 2014 was \$100.9 million, while expenses totaled \$84.2 million, resulting in an increase to net position of \$16.7 million. The increase in net position includes a 5.0% increase in student tuition and fee revenues.
- The consolidated financial information of the Fitchburg State University Foundation, Inc. is included in the University's financial statements as a component unit of the University. It is important to reiterate that the Foundation is a separate organization. Foundation funds are largely restricted, and unrestricted funds can only be expended by vote of the Board of Directors of the Foundation.

Ratio analysis measures certain elements of an institution's overall financial health. The Massachusetts Department of Higher Education has instituted the use of certain core financial ratios as part of their performance measures for public universities and colleges in the Commonwealth. Analysis using these ratios, as well as other commonly accepted ratios, are incorporated throughout this document.

- **Current Ratio:** An excess of current assets over current liabilities (the current ratio) is a measure of liquidity and provides a buffer against future uncertainties. The University's current assets of \$23.6 million are sufficient to cover current liabilities of \$16.5 million. The University's current ratio at June 30 is 1.4 to 1 for 2014, 1.4 to 1 for 2013, and 1.5 to 1 for 2012.
- **Return on Net Position Ratio:** Net position represents the residual interest in the University's assets after liabilities and deferred inflows of resources are deducted. Comparing the current change in total net position to total net position at the beginning of the period (return on net position) is an economic measure that determines if the University is financially better off than in previous years. The University's return on net position at June 30, 2014, 2013 and 2012 was 13.7%, 16.5% and 30.8%, respectively. The ratio remains well above industry benchmarks.
- **Primary Reserve Ratio:** This ratio indicates how long the University could function using its expendable reserves without relying on additional net position generated by operations. The University's primary reserve ratio at June 30, 2014, 2013 and 2012 was 33.2%, 32.1% and 42.2%, respectively.
- **Secondary Reserve Ratio:** This ratio measures the significance of non expendable net position in relation to an institution's operating size. An improving trend shows an improved capital base and the higher the ratio value, the better the long term financial condition. The University's secondary reserve ratio at June 30, 2014, 2013 and 2012 was 131.9%, 120.2% and 98.1%, respectively.
- **Composite Financial Index:** In order to assess and evaluate the total financial health of an institution, core financial ratios are weighted and combined into a single factor called the Composite Financial Index (CFI). When calculated, a strength factor of three indicates a relatively healthy institution that can sustain moderate growth with expendable net position exceeding debt levels, although not by excessive amounts. The University's CFI at June 30, 2014, 2013 and 2012 was 3.0, 3.1 and 5.3, respectively.

Using the Financial Statements

Fitchburg State University reports its activity as a business type activity using the full accrual basis of accounting. The accrual basis of accounting ensures that all amounts owed to the University and all pending obligations of the University are accounted for in the appropriate period, thus giving a clear picture of the University's financial position. The University is a department of the Commonwealth of Massachusetts. A summary of the University's financial statements is incorporated in the Commonwealth's Comprehensive Annual Financial Report in its government-wide financial statements.

The University's financial statements include three major documents: The Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. These statements are prepared in accordance with Governmental Accounting Standards.

Statement of Net Position

The statement of net position presents the financial position of the University at the end of the year and includes all assets, liabilities and deferred inflows of resources of the University, with the difference reported as net position. Assets, liabilities and deferred inflows are generally measured using current values, with a notable exception in capital assets, which are stated at historical cost less an allowance for depreciation. Net position is one indicator of the financial condition of the University, while the change in net position from one period to the next is an indicator of whether the financial condition has improved or worsened. The statements of net position (condensed, in thousands) at June 30, 2014, 2013 and 2012, are as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets			
Current assets	\$ 23,573	\$ 23,672	\$ 21,669
Capital assets, net	151,560	129,816	103,170
Other	<u>38,639</u>	<u>34,340</u>	<u>31,545</u>
Total Assets	<u>213,772</u>	<u>187,828</u>	<u>156,384</u>
 Liabilities			
Current liabilities	16,485	16,876	14,786
Long term liabilities	<u>56,349</u>	<u>46,582</u>	<u>34,326</u>
Total Liabilities	<u>72,834</u>	<u>63,458</u>	<u>49,112</u>
 Deferred Inflows of Resources	<u>2,016</u>	<u>2,218</u>	<u>2,420</u>
 Net Position			
Net investment in capital assets	110,513	95,933	72,858
Restricted:			
Nonexpendable	474	465	448
Expendable	5,680	5,781	11,908
Unrestricted:			
Designated	9,381	8,577	8,594
Undesignated	<u>12,874</u>	<u>11,396</u>	<u>11,044</u>
Total net position	<u>\$ 138,922</u>	<u>\$ 122,152</u>	<u>\$ 104,852</u>

Current assets consist primarily of cash and cash equivalents (91.7%). Other assets include non current restricted cash and cash equivalents, investments in marketable securities and loans receivable. Capital assets are used to provide services to students, faculty and staff. These assets are not available for current or future spending. Current liabilities primarily include trade accounts and salaries payable, accounts payable - construction, the current portion of compensated absences and accrued faculty payroll. In the normal course of events and based on a consistent past history in this regard, it is anticipated that obligations due to employees will be funded by state appropriations. Deferred inflows of resources represent the acquisition of net assets applicable to future periods and are distinct from assets and liabilities. The increase in net position over the past three periods is indicative of the capital improvement initiatives undertaken during this time.

Statement of Revenues, Expenses and Changes in Net Position

The following Statements of Revenues, Expenses and Changes in Net Position (condensed, in thousands) presents information showing the University's results of operations for the fiscal years ended June 30, 2014, 2013 and 2012. Changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will result in cash flows in future periods (e.g. the accrual for compensated absences).

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<u>Operating revenues:</u>			
Tuition & fees (net)	\$ 32,945	\$ 31,360	\$ 30,681
Grants	8,040	7,060	6,688
Sales & service of educational department	1,142	1,193	1,188
Auxiliary	8,807	8,535	8,117
Other operating revenue	<u>799</u>	<u>720</u>	<u>687</u>
Total operating revenue	<u>51,733</u>	<u>48,868</u>	<u>47,361</u>
<u>Operating expenses:</u>			
Instruction	31,735	29,843	28,023
Research & public service	551	600	505
Academic support	4,865	4,944	4,761
Student services	9,195	9,079	8,598
Scholarships	1,688	1,482	1,519
Institutional support	7,664	7,606	6,866
Operations & maintenance	11,377	11,246	11,401
Depreciation	7,209	5,544	4,270
Auxiliary	<u>8,770</u>	<u>8,809</u>	<u>8,460</u>
Total operating expenses	<u>83,054</u>	<u>79,153</u>	<u>74,403</u>
Net operating loss	<u>(31,321)</u>	<u>(30,285)</u>	<u>(27,042)</u>
<u>Non-operating revenue & expenses:</u>			
State appropriations	34,028	30,788	29,797
Investment income	1,988	857	611
Interest expense & debt issue costs	(1,002)	(1,047)	(298)
State capital appropriations	836	2,258	6,768
Capital gifts & grants	12,361	14,302	15,135
Insurance proceeds	-	427	-
Interagency transfers	<u>(120)</u>	<u>-</u>	<u>(249)</u>
Total non-operating revenue	<u>48,091</u>	<u>47,585</u>	<u>51,764</u>
<u>Increase in net position</u>	<u>16,770</u>	<u>17,300</u>	<u>24,722</u>
Net position, beginning of the year	<u>122,152</u>	<u>104,852</u>	<u>80,130</u>
Net position, end of the year	<u>\$ 138,922</u>	<u>\$ 122,152</u>	<u>\$ 104,852</u>

State appropriations are reported net of the amount of in state day school tuition collected by the University on behalf of the Commonwealth. The tuition collected (for in state supported courses taught by state employees) is then remitted to the Commonwealth as required by Massachusetts General Law. The following schedule details the Commonwealth appropriations received by the University. Included in appropriations are the fringe benefit costs for University employees, which are paid by the Commonwealth. The Commonwealth appropriates general funds to cover the cost of fringe benefits for state employees, but these funds are not appropriated directly to the University. Employees who are paid from local trust funds, grants or other sources receive the same fringe benefits. Generally, the University reimburses the Commonwealth for the benefit costs associated with these employees. In 2012 legislation was passed that allowed the state universities to retain out of state day tuition. The

legislation further mandated that the Commonwealth would fund the fringe benefits for any employee paid from this funding source. The fringe benefit rate charged by the Commonwealth, exclusive of compensated absences, for fiscal years 2014, 2013 and 2012 was 26.2%, 26.0% and 33.0%, respectively. The current fringe benefit rate includes group medical insurance (17.5%); retirement (7.9%) and terminal leave (.8%).

The following schedule (condensed, in thousands) details the Commonwealth appropriations received by the University:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Commonwealth general appropriations	\$ 27,551	\$ 25,131	\$ 23,468
Appropriations to cover fringe benefits provided to employees of the Commonwealth	<u>7,522</u> 35,073	<u>6,808</u> 31,939	<u>7,592</u> 31,060
Tuition remitted back to the Commonwealth	<u>(1,045)</u>	<u>(1,151)</u>	<u>(1,263)</u>
Net appropriations	34,028	30,788	29,797
Additional state capital appropriations	<u>836</u>	<u>2,258</u>	<u>6,768</u>
Total appropriations	\$ <u>34,864</u>	\$ <u>33,046</u>	\$ <u>36,565</u>

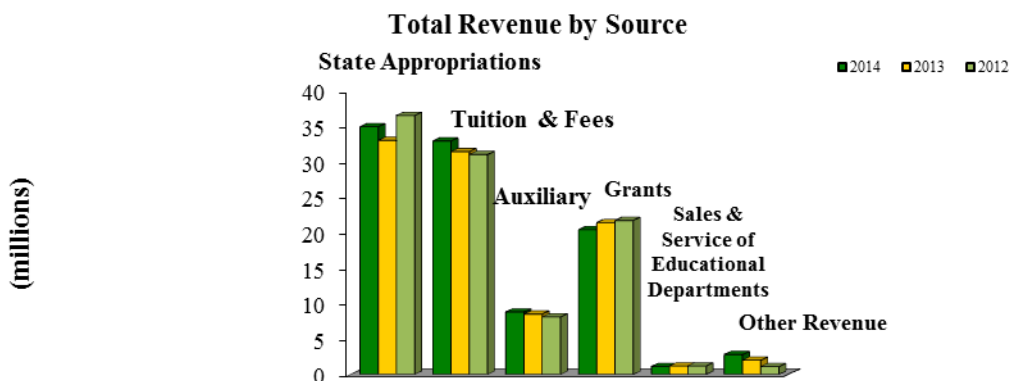
State appropriations are a significant source of funding for the University. According to the Governmental Accounting Standards Board (GASB), appropriations are considered non-operating revenue. As such, the University appears to experience a loss from operations. However, it should be noted that state appropriations *are* used to fund the operating activities of the University.

The following schedule (condensed, in thousands) illustrates the University's incurred losses from operations for the fiscal years ended June 30, 2014, 2013 and 2012.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Tuition & fees revenue, net	\$ 32,945	\$ 31,360	\$ 30,681
Other operating revenue	<u>18,788</u>	<u>17,508</u>	<u>16,680</u>
Total operating revenue	51,733	48,868	47,361
Operating expenses	<u>(83,054)</u>	<u>(79,153)</u>	<u>(74,403)</u>
Operating loss	(31,321)	(30,285)	(27,042)
Total state appropriations	34,028	30,788	29,797
Other revenue (expense), net	<u>14,063</u>	<u>16,797</u>	<u>21,967</u>
Increase in net position	\$ <u>16,770</u>	\$ <u>17,300</u>	\$ <u>24,722</u>

Net Operating Revenues Ratio: This ratio indicates whether total operating activities resulted in a surplus or deficit. A positive ratio indicates that the institution experienced an operating surplus and is indicative of efficient and effective operations. For the fiscal years ended June 30, 2014, 2013 and 2012, the University's net operating revenues ratio was 4.1%, 1.0% and 4.0%, respectively.

The following is a graphic illustration of total revenue (operating, non-operating and capital) by source. Total revenue for the fiscal years ended June 30, 2014, 2013 and 2012 was \$100.9, \$97.5 and \$99.7 million, respectively.

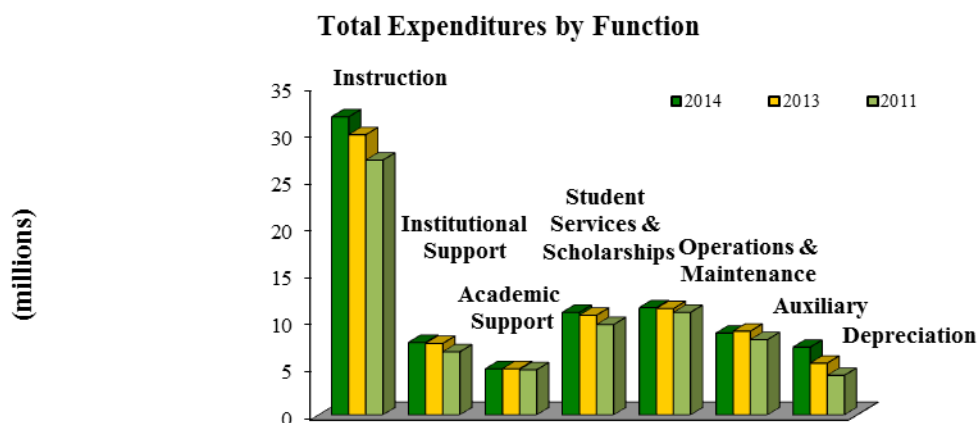


For the fiscal year ended June 30, 2014, general appropriations increased by 10.0% from 2013 funding levels. Total appropriations increased by 5.5%. Although the University received additional appropriations in 2014, state support continues to trend down forcing the University to rely more heavily on student fees to support operations. Whereas state appropriations funded 61.5% of the total expenses in fiscal 2001, in fiscal 2014 that percentage is now 40.4%. All other operating costs incurred by the University are funded from other non state revenue sources. Tuition and fees are reported net of tuition waivers, exemptions, and scholarship allowances. The amount of tuition charged per student is controlled at the state level and remains unchanged. The increase in total tuition and fee revenue (5.0%) is due to an increase in the capital projects fees and increased enrollment. During fiscal year 2014, 2013 and 2012, in-state tuition and fees for full time resident students was \$8,907, \$8,656 and \$8,320 per semester, respectively. In-state tuition and fees for commuting students in fiscal years 2014, 2013 and 2012 was \$4,492, \$4,355 and \$4,150 per semester, respectively.

Auxiliary revenue represents revenue received from the operations of the University's residence halls. Auxiliary revenue does not include fees charged for the student housing facility owned and operated by the FSU Supporting Organization, Inc. (the "Supporting Organization"). The average residence hall occupancy rate for the year was 101% capacity.

Grant revenue is made up of federal, state and private grants. Grant revenue includes PELL, SEOG and Federal Work Study financial aid programs. Grant revenue also includes \$12.3 million in capital grant funds used primarily for the construction of the new science center.

The following is a graphic illustration of total expenditures (operating and non-operating) by function. Total expenditures for the fiscal years ended June 30, 2014, 2013 and 2012 were \$84.2, \$80.2 and \$75.0 respectively.



Expenditures, exclusive of depreciation, increased by 2.8% primarily due to increases in payroll mandated by collective bargaining agreements and increased energy costs. The most significant area of expense remains Instruction, which represents 38.2% of total operating expenses. Faculty payroll (\$19.8 million) and related benefits (\$5.2 million) represent approximately 78.8% of instructional expenditures. Institutional Support consists of the day-to-day operational support of the institution, excluding physical plant operations. Scholarships are funded from Title V entitlement programs such as PELL and SEOG, as well as, from institutional operating funds. Operations and Maintenance consists of expenditures related to physical plant. Expenditures in this functional area include general repair costs and deferred maintenance costs that are below the capitalization threshold of \$50,000. The financial statements include \$7.2, \$5.5 and \$4.3 million in depreciation expense for 2014, 2013 and 2012, respectively.

Demand Ratios: Demand ratios measure the extent to which each type of expense consumes operating and non operating revenues. The following table displays the amount of operating and non operating revenue, exclusive of capital grants and appropriations, consumed by the various functional expense categories:

Expense	2014	2013	2012
Instruction	36.2%	36.9%	36.0%
Institutional Support	8.7%	9.4%	8.8%
Academic Support	5.5%	6.1%	6.1%
Student Services & Scholarships	12.4%	13.0%	13.1%
Operations & Maintenance	13.0%	13.9%	14.7%
Auxiliary	10.0%	10.9%	10.9%
Depreciation	8.2%	6.9%	5.5%

Note: The total sum of all Demand Ratios will be greater (less) than 100 percent, with the difference representing the surplus (deficit).

Statement of Cash Flows

The statement of cash flows provides pertinent information about the cash receipts and cash payments during a certain period of time. The statement provides an additional tool to assess the financial health of the institution. As required by GASB, the statement is reported using the direct method. The direct method of cash flow reporting portrays net cash flows from operations as major classes of receipts (e.g. tuition and fees) and disbursements (e.g. cash paid to employees for services).

The following are the University's statements of cash flows (condensed, in thousands) for the fiscal years ended June 30, 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cash received from operations	\$ 51,214	\$ 49,307	\$ 47,691
Cash expended for operations	<u>(68,574)</u>	<u>(65,419)</u>	<u>(61,682)</u>
Net cash used by operations	(17,360)	(16,112)	(13,991)
Net cash provided by non-capital financing activities	26,506	23,967	22,199
Net cash used by capital and related financing activities	(7,150)	(4,013)	(13,222)
Net cash (used) provided by investing activities	<u>(187)</u>	<u>(360)</u>	<u>(3,504)</u>
Net increase (decrease) in cash and equivalents	1,809	3,482	(8,518)
Cash and equivalents, beginning of the year	<u>36,650</u>	<u>33,168</u>	<u>41,686</u>
Cash and equivalents, end of the year	\$ <u>38,459</u>	\$ <u>36,650</u>	\$ <u>33,168</u>

The University's cash and cash equivalents increased by approximately \$1.8 million during fiscal 2014, resulting in the cash and cash equivalents balance of \$38.5 million at fiscal year end. The increase is primarily due to increases in state appropriations and bond proceeds for Phase IV of the Hammond Hall renovation. Non-capital financing activities, as defined by GASB, include state appropriations. These appropriations fund the operating activities of the University. Investing activities include interest and dividends received from portfolio investments, as well as, interest earned on University funds held in various short-term money management vehicles.

Capital Assets

Capital assets consist of land, land improvements, buildings and building improvements, equipment, library materials, and construction in progress. As of June 30, 2014, net capital assets increased to \$151.6 million after depreciation expense of \$7.2 million. During the current fiscal year there were \$28.9 million in additions to capital assets. Major capital initiatives either continuing or undertaken during 2014 include:

- Phase II construction of the Science Center modernization project, Condikey Wing renovations
- Phase IV renovations of the Hammond Hall, \$2.8 million (to date)
- Percival Elevator project, \$150,000 (to date)

Additional information on Fitchburg State University's capital assets can be found in footnote 5 to the accompanying financial statements.

Physical Asset Renewal Ratio: The extent to which capital renewal is occurring as compared to physical usage (depreciation) can be measured by the physical asset renewal ratio. A ratio above 1:1 indicates increasing investment in plant facilities. The University's physical asset renewal ratio for fiscal years ended June 30, 2014, 2013 and 2012 was 4.0, 5.8 and 9.8, respectively.

Long Term Debt

The University has long term debt obligations issued for various capital projects. The debt was issued through several financing agreements with the Massachusetts Development Finance Agency (MDFA) (formerly the Massachusetts Health and Educational Facilities Authority (MHEFA)) and the Massachusetts State College Building Authority (MSCBA). The interest rate on the MDFA debt is a floating rate set every thirty five days based on market conditions. The interest rate on the MSCBA debt is based on an increasing coupon rate ranging from 2.25% to 6.54 % over the term of the debt as set by MSCBA. The debt is being repaid by the University primarily through dedicated student fees (DSF). The following table summarizes the various debt vehicles, interest rates, debt service and debt outstanding at June 30, 2014 and is inclusive of any bond premiums or discounts.

Issuing Agency	Construction Project	Fiscal Year Issued	Original Issue	Funding Source	Effective Interest Rate	Debt Service Payments	Debt Outstanding	Maturity
MDFA	Recreation Center	1997	\$6,000,000	DSF	1.29%	\$245,017	\$3,382,021	2023
MSCBA	Holmes Dining Hall Renovations	2005	\$1,090,000	DSF	3.89%	\$79,383	\$705,000	2025
MSCBA	Elliot Athletic Field Improvements	2005	\$4,020,000	DSF	3.89%	\$292,534	\$2,580,000	2025
MSCBA	Holmes Dining Hall Renovations	2006	\$2,060,000	DSF	4.09%	\$152,774	\$1,511,303	2026
MSCBA	Hammond Campus Center Renovations	2011	\$15,935,656	DSF & operating funds	3.47%	\$1,106,014	\$13,961,632	2030
MSCBA	Hammond Campus Center Renovations	2012	\$7,043,416	DSF & operating funds	4.95%	\$512,050	\$6,589,864	2031
MSCBA	Hammond Campus Center Renovations	2013	\$11,300,906	DSF & operating funds	3.87%	\$747,488	\$10,968,398	2032
MSCBA	Parking Expansion	2013	\$2,563,127	DSF & operating funds	3.87%	\$170,594	\$2,486,650	2032
MSCBA	Hammond Campus Center Renovations	2014	\$12,235,614	DSF & operating funds	4.73%	—	\$12,203,349	2033
Total			\$62,248,719			\$3,305,854	\$54,388,217	

For the fiscal years ended June 30, 2014, 2013 and 2012, the total debt (current and long term) attributable to interagency payments and bond premiums amounted to \$54.4, \$44.1 and \$31.6 million, respectively.

Additional information on Fitchburg State University's long term debt activity can be found in footnote 12 to the accompanying financial statements.

Viability Ratio: The availability of expendable net position to cover debt (the viability ratio) is a basic determinant of financial health. A viability ratio of 1.0 indicates that, as of the statement of net position date, the University has sufficient net position to satisfy its debt obligations. As of June 30, 2014, 2013 and 2012, the University's viability ratio was .5, .6 and 1.0, respectively.

Debt Burden: The debt burden ratio measures an institution's dependence on borrowed funds by comparing the level of debt service to total expenditures. In order to effectively manage resources, including debt, the Massachusetts Department of Higher Education recommends a debt burden ratio of no more than 5%. As of June 30, 2014, 2013 and 2012, the University's debt burden was 4.2%, 3.1% and 3.2%, respectively.

Looking Forward

In recent years the University has completed countless capital projects, large and small, that have positively impacted the larger university experience. Renovation of the aging Condiike Science building was completed this past summer creating a seamless addition to the new Science Laboratory Wing which opened last fall. Students and faculty now have more than 100,000 square feet of state of the art instructional, laboratory and office space. Hammond Hall continues its restoration with the initiation of Phase IV construction which will completely remodel the first two floors of the library. When completed, the collective project will provide additional and improved space for student and faculty to study and conduct research. Groundbreaking has also taken place for a project to create a new and better entryway to Aubuchon Hall.

The University is re-launching its chemistry major following unanimous approval by the state Board of Higher Education. The University has offered chemistry courses for decades, but it was discontinued as a major in the 1990s. The proposal to reintroduce the major has been years in development by faculty members and administrators and was designed to support the University's efforts to prepare students to meet the workforce needs of Massachusetts. The Bachelor of Science degree in chemistry will be available for pre-professional students who intend to pursue graduate studies, secondary school teaching, and professional careers in the chemical, pharmaceutical, biotechnology and other related industries. In August of 2014, Fitchburg State University signed an articulation agreement with the University of Massachusetts Law School (UMass Law). Under the agreement, qualified undergraduates will be permitted to substitute the first year of law school for the senior year at Fitchburg State University, thus earning the bachelor's degree and the juris doctor degree in six years instead of the normal seven. The joint "three plus three" program offers qualified, ambitious and motivated undergraduates an accelerated course of study that maintains high academic standards while saving students one year's worth of tuition and time. The agreement is the first of its kind between the law school and a state university. The University has also received approval from the Department of Elementary and Secondary Education for a new master's and Certificate of Advanced Graduate Studies (CAGS) program in Educational Leadership and Management. The University has successfully enrolled nineteen students in the first two cohort courses.

The University has begun a year-long effort to craft a new strategic plan. The strategic planning committee is made up of an executive planning committee and a series of sub committees to facilitate campus wide involvement. The plan is intended to be a wide ranging blueprint that will embrace change while preserving what is best about the University. The draft plan will be negotiated with the President and then submitted to the Board of Trustees for final approval in the spring of 2015.

The President has announced his intention to retire in June of 2015. The Board of Trustees has laid the groundwork for a national search for the eleventh president of Fitchburg State University. A search committee has been formed and charged with presenting final candidates to the board in early 2015. Campus forums have begun that allow students, faculty, alumni, staff and community members to discuss the personal and professional qualifications the next president should have. Over the course of more than a century, the University has had strong and impassioned leadership. It is the search committee's goal to bring to Fitchburg State University an inspirational and effective president who will lead the University into the second decade of the 21st century.

Requests for Information

This financial report is designed to provide a general overview of the finances of Fitchburg State University for anyone interested in this information. Questions concerning any of the data provided in this report or requests for additional financial information should be addressed to Robert V. Antonucci, President, Fitchburg State University, 160 Pearl Street, Fitchburg, Massachusetts, 01420.

FITCHBURG STATE UNIVERSITY
(a department of the Commonwealth of Massachusetts)

STATEMENTS OF NET POSITION

JUNE 30, 2014 AND 2013

ASSETS	<u>2014</u>	Component Unit Fitchburg State University Foundation, Inc. <u>2014</u>	<u>2013</u>	Component Unit Fitchburg State University Foundation, Inc. <u>2013</u>
<u>Current Assets</u>				
Cash and cash equivalents	\$ 16,230,452	\$ 2,130,990	\$ 15,531,951	\$ 2,468,384
Restricted cash and cash equivalents	5,395,192	-	6,325,209	-
Investments	-	5,572,246	-	3,772,530
Accounts receivable, net	1,636,654	33,805	1,656,757	40,124
Contributions receivable, net	-	59,062	-	169,212
Loans receivable - current portion	100	-	1,467	-
Other current assets	<u>310,617</u>	<u>331,044</u>	<u>156,385</u>	<u>28,300</u>
Total current assets	<u>23,573,015</u>	<u>8,127,147</u>	<u>23,671,769</u>	<u>6,478,550</u>
<u>Noncurrent Assets</u>				
Restricted cash and cash equivalents	16,833,270	-	14,793,079	-
Investments	18,447,273	-	16,460,012	-
Endowment investments	924,022	8,926,818	821,436	8,829,156
Accounts receivable, net of current portion	263,506	-	246,251	-
Contributions receivable, net	-	49,033	-	71,127
Loans receivable, net of current portion	1,998,908	-	1,977,999	-
Capital assets, net	151,559,802	5,701,437	129,816,351	5,227,189
Other noncurrent assets	<u>172,158</u>	<u>126,099</u>	<u>40,865</u>	<u>131,054</u>
Total noncurrent assets	<u>190,198,939</u>	<u>14,803,387</u>	<u>164,155,993</u>	<u>14,258,526</u>
Total assets	<u>213,771,954</u>	<u>22,930,534</u>	<u>187,827,762</u>	<u>20,737,076</u>
DEFERRED OUTFLOWS OF RESOURCES				
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

FITCHBURG STATE UNIVERSITY
(a department of the Commonwealth of Massachusetts)

STATEMENTS OF NET POSITION - CONTINUED

JUNE 30, 2014 AND 2013

LIABILITIES	<u>2014</u>	Component Unit Fitchburg State University Foundation, Inc. <u>2014</u>	<u>2013</u>	Component Unit Fitchburg State University Foundation, Inc. <u>2013</u>
<u>Current Liabilities</u>				
Interagency payables - current portion	\$ 2,367,969	\$ -	\$ 1,856,004	\$ -
Long-term debt - current portion	-	427,660	-	154,304
Bank line of credit	-	225,000	-	-
Accounts payable and accrued liabilities	4,069,774	48,783	4,074,939	67,341
Accounts payable - construction	1,880,368	127,075	2,572,364	-
Advance payable to the University	-	100,000	-	-
Accrued workers' compensation - current portion	137,481	-	146,711	-
Compensated absences - current portion	3,236,890	-	3,323,893	-
Faculty payroll accrual	3,428,694	-	2,845,417	-
Revenue received in advance	999,308	86,255	1,662,267	104,729
Deposits	310,715	35,000	370,600	-
Other current liabilities	<u>53,537</u>	<u>-</u>	<u>23,555</u>	<u>-</u>
Total current liabilities	<u>16,484,736</u>	<u>1,049,773</u>	<u>16,875,750</u>	<u>326,374</u>
<u>Noncurrent Liabilities</u>				
Interagency payables, net of current portion	52,020,248	-	42,197,963	-
Accrued workers' compensation, net of current portion	560,393	-	598,014	-
Compensated absences, net of current portion	1,810,027	-	1,859,391	-
Long-term debt, net of current portion	-	3,140,800	-	3,568,453
Loan payable - federal financial assistance programs	<u>1,958,082</u>	<u>-</u>	<u>1,927,071</u>	<u>-</u>
Total noncurrent liabilities	<u>56,348,750</u>	<u>3,140,000</u>	<u>46,582,439</u>	<u>3,568,453</u>
Total liabilities	<u>72,833,486</u>	<u>4,190,573</u>	<u>63,458,189</u>	<u>3,894,827</u>
DEFERRED INFLOWS OF RESOURCES				
Service concession arrangement	<u>2,016,360</u>	<u>-</u>	<u>2,217,995</u>	<u>-</u>
Total deferred inflows of resources	<u>2,016,360</u>	<u>-</u>	<u>2,217,995</u>	<u>-</u>

FITCHBURG STATE UNIVERSITY
(a department of the Commonwealth of Massachusetts)

STATEMENTS OF NET POSITION - CONTINUED

JUNE 30, 2014 AND 2013

NET POSITION	<u>2014</u>	Component Unit Fitchburg State University Foundation, Inc. <u>2014</u>	<u>2013</u>	Component Unit Fitchburg State University Foundation, Inc. <u>2013</u>
Net investment in capital assets	\$ 110,513,323	\$ 1,946,367	\$ 95,932,514	\$ 1,504,432
Restricted for:				
Non-expendable				
Scholarships and fellowships	474,297	4,272,116	465,051	4,286,388
Cultural programs	-	3,008,666	-	2,949,638
Centennial endowments	-	1,592,974	-	1,592,974
Other	-	62,866	-	64,351
Expendable				
Scholarships and fellowships	564,023	2,594,327	484,287	1,979,607
Cultural programs	-	1,911,437	-	1,386,986
Loans	265,902	-	262,845	-
Capital projects	1,209,826	-	1,810,648	-
Debt service	3,638,796	-	3,222,211	-
Other	930	296,005	930	266,815
Unrestricted	<u>22,255,011</u>	<u>3,055,203</u>	<u>19,973,092</u>	<u>2,811,058</u>
Total net position	<u>\$ 138,922,108</u>	<u>\$ 18,739,961</u>	<u>\$ 122,151,578</u>	<u>\$ 16,842,249</u>

FITCHBURG STATE UNIVERSITY
(a department of the Commonwealth of Massachusetts)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEARS ENDED JUNE 30, 2014 AND 2013

		Component Unit Fitchburg State University Foundation, Inc.		Component Unit Fitchburg State University Foundation, Inc.
<u>OPERATING REVENUES</u>	<u>2014</u>	<u>2014</u>	<u>2013</u>	<u>2013</u>
Student tuition and fees	\$ 36,571,360	\$ -	\$ 35,378,367	\$ -
Student fees restricted for repayment of Interagency payables	3,834,709	-	2,838,588	-
Less: Scholarship allowances	(7,461,594)	-	(6,856,970)	-
Net student tuition and fees	32,944,475		31,359,985	
Federal grants and contracts	7,246,709	-	6,586,240	-
State and local grants and contracts	620,738	225,229	329,523	193,395
Nongovernmental grants and contracts	172,999	-	144,562	-
Sales and services of educational departments	1,141,719	723,751	1,193,482	665,285
Gifts and contributions	-	476,589	-	399,077
Auxiliary enterprises:				
Residential life	8,775,554	206,071	8,502,987	223,825
Alcohol awareness and other programs	31,220	-	31,673	-
Other operating revenues	799,322	-	719,919	4,442
Total operating revenues	51,732,736	1,631,640	48,868,371	1,486,024
<u>OPERATING EXPENSES</u>				
Educational and general:				
Instruction	31,734,485	77,116	29,842,993	179,489
Research	2,346	-	4,951	-
Public service	548,735	161,900	594,615	170,257
Academic support	4,864,473	10,864	4,944,159	21,681
Student services	9,194,763	190,615	9,078,713	185,002
Institutional support	7,664,431	380,693	7,605,890	377,020
Operations and maintenance of plant	11,376,771	112,008	11,246,151	35,250
Depreciation and amortization	7,209,319	118,863	5,544,522	107,441
Scholarships and awards	1,688,642	424,319	1,481,570	366,963
Auxiliary enterprises:				
Residential life	8,744,953	65,224	8,782,538	61,099
Alcohol awareness and other programs	24,765	-	26,629	-
Total operating expenses	83,053,683	1,541,602	79,152,731	1,504,202
Operating income (loss)	(31,320,947)	90,038	(30,284,360)	(18,178)

FITCHBURG STATE UNIVERSITY
(a department of the Commonwealth of Massachusetts)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

<u>NONOPERATING REVENUES (EXPENSES)</u>	<u>2014</u>	Component Unit Fitchburg State University Foundation, Inc. <u>2014</u>	<u>2013</u>	Component Unit Fitchburg State University Foundation, Inc. <u>2013</u>
State appropriations	\$ 34,027,571	\$ -	\$ 30,787,648	\$ -
Gifts	300	-	250	-
Investment income (loss), net of investment expense	1,931,591	508,950	806,668	302,764
Investment income (loss) on restricted assets, net of investment expense	56,344	1,377,174	50,013	752,224
Interest expense on Interagency payables and capital asset related debt	(933,777)	(168,827)	(897,116)	(170,780)
Debt issuance costs	(67,815)	-	(149,868)	-
Proceeds on equipment insurance claim	<u>-</u>	<u>-</u>	<u>426,618</u>	<u>-</u>
Net nonoperating revenues before capital and endowment additions	<u>35,014,214</u>	<u>1,717,297</u>	<u>31,024,213</u>	<u>884,208</u>
<u>INCOME BEFORE CAPITAL AND ENDOWMENT ADDITIONS</u>	<u>3,693,267</u>	<u>1,807,335</u>	<u>739,853</u>	<u>866,030</u>
State capital appropriations	836,048	-	2,257,801	-
Capital grants	12,361,251	-	14,301,814	-
Transfers (to)/from state agencies	(120,036)	-	-	-
Private gifts for endowment purposes	<u>-</u>	<u>90,377</u>	<u>-</u>	<u>403,560</u>
Total capital and endowment additions	<u>13,077,263</u>	<u>90,377</u>	<u>16,559,615</u>	<u>403,560</u>
<u>INCREASE (DECREASE) IN NET POSITION</u>	<u>16,770,530</u>	<u>1,897,712</u>	<u>17,299,468</u>	<u>1,269,590</u>
<u>NET POSITION - BEGINNING OF YEAR</u>	<u>122,151,578</u>	<u>16,842,249</u>	<u>104,852,110</u>	<u>15,572,659</u>
<u>NET POSITION - END OF YEAR</u>	<u>\$ 138,922,108</u>	<u>\$ 18,739,961</u>	<u>\$ 122,151,578</u>	<u>\$ 16,842,249</u>

FITCHBURG STATE UNIVERSITY
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STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2014 AND 2013

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2014</u>	<u>2013</u>
Tuition and fees	\$ 32,919,637	\$ 31,150,738
Research grants and contracts	8,062,277	7,076,339
Payments to suppliers	(18,695,862)	(18,913,142)
Payments to utilities	(5,119,661)	(4,297,751)
Payments to employees	(40,371,720)	(38,096,057)
Payments for benefits	(2,363,328)	(2,295,389)
Payments for scholarships	(1,732,292)	(1,518,302)
Loans issued to students	(285,839)	(298,481)
Collection of loans to students	262,512	269,470
Auxiliary enterprise receipts:		
Residential life	8,675,951	8,511,961
Alcohol awareness program	31,220	31,673
Receipts from sales and services of educational departments	463,625	1,508,354
Other payments	(4,875)	41,398
Other receipts	<u>798,137</u>	<u>716,870</u>
Net cash provided by (used in) operating activities	(17,360,218)	(16,112,319)
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	27,550,516	25,130,522
Tuition remitted to State	(1,044,720)	(1,163,098)
Gifts from grants for other than capital purposes	<u>300</u>	<u>250</u>
Net cash provided by (used in) noncapital financing activities	<u>26,506,096</u>	<u>23,967,674</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State capital appropriations	836,048	2,257,801
Loan programs net funds received	35,334	27,721
Capital grants	184,781	-
Interagency payable proceeds received	12,235,614	13,864,033
Proceeds from equipment insurance claim	-	426,618
Payments for capital assets	(16,948,208)	(18,056,800)
Principal paid on capital debt	(1,704,332)	(1,245,356)
Interest paid on Interagency payables	(1,601,522)	(1,136,904)
Debt issuance costs	(67,815)	(149,868)
Transfers to other state agencies	<u>120,036</u>	<u>-</u>
Net cash provided by (used in) capital and related financing activities	(7,150,136)	(4,012,755)

FITCHBURG STATE UNIVERSITY
(a department of the Commonwealth of Massachusetts)

STATEMENTS OF CASH FLOWS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

CASH FLOWS FROM INVESTING ACTIVITIES	<u>2014</u>	<u>2013</u>
Purchase of investments	(\$ 5,154,306)	(\$ 3,847,135)
Proceeds from sale of investments	4,505,087	3,135,230
Earnings on investments	562,152	352,039
Advance to component unit	(<u>100,000</u>)	<u>-</u>
Net cash provided by (used in) investing activities	(<u>187,067</u>)	(<u>359,866</u>)
Net increase (decrease) in cash and cash equivalents	1,808,675	3,482,734
Cash and cash equivalents - beginning of year	<u>36,650,239</u>	<u>33,167,505</u>
Cash and cash equivalents - end of year	<u>\$ 38,458,914</u>	<u>\$ 36,650,239</u>

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:

Operating loss	(\$ 31,320,947)	(\$ 30,284,360)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Bad debt expense	139,483	152,633
Depreciation and amortization	7,209,319	5,544,522
Fringe benefits paid by the Commonwealth of Massachusetts	7,521,775	6,808,148
Changes in assets and liabilities:		
Receivables	(221,181)	(127,029)
Other current and noncurrent assets	(285,525)	(62,887)
Accounts payable and accrued liabilities	(86,774)	541,039
Accrued workers' compensation	(46,851)	66,208
Compensated absences	(136,367)	973,131
Accrued faculty payroll	583,277	5,039
Revenue received in advance	(662,959)	257,644
Other current liabilities	29,982	(36,477)
Deposits	(59,885)	77,875
Loans to students	(<u>23,565</u>)	(<u>27,805</u>)
Net cash used in operating activities	<u>(\$ 17,360,218)</u>	<u>(\$ 16,112,319)</u>

FITCHBURG STATE UNIVERSITY
(a department of the Commonwealth of Massachusetts)

STATEMENTS OF CASH FLOWS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

<u>SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:</u>	<u>2014</u>	<u>2013</u>
Acquisition of capital assets	\$ 28,952,770	\$ 32,191,139
Accounts payable thereon:		
Beginning of year	2,572,364	2,722,077
End of year	(1,880,368)	(2,572,364)
Capital grants from DCAM	(12,144,352)	(14,078,732)
Net interest earned and incurred, capitalized in construction in progress	(552,206)	(205,320)
Payments for capital assets	<u>\$ 16,948,208</u>	<u>\$ 18,056,800</u>
Unrealized gain (loss) on investments	<u>\$ 1,440,628</u>	<u>\$ 535,957</u>
Fringe benefits paid by the Commonwealth of Massachusetts	<u>\$ 7,521,775</u>	<u>\$ 6,808,148</u>
Capital grants - amortization of deferred inflows of resources - service concession arrangement	<u>\$ 201,635</u>	<u>\$ 201,635</u>
<u>RECONCILIATION OF CASH AND CASH EQUIVALENT BALANCES:</u>		
	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents	\$ 16,230,452	\$ 15,531,951
Restricted cash and cash equivalents	5,395,192	6,325,209
Noncurrent assets:		
Restricted cash and cash equivalents	<u>16,833,270</u>	<u>14,793,079</u>
Total cash and cash equivalents	<u>\$ 38,458,914</u>	<u>\$ 36,650,239</u>

FITCHBURG STATE UNIVERSITY
(a department of the Commonwealth of Massachusetts)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

1. Summary of significant accounting policies

Organization

Fitchburg State University (the University) is a public, State-supported comprehensive four-year University which offers a quality education leading to baccalaureate and masters degrees in many disciplines. With its campus located in Fitchburg, Massachusetts, the University provides instruction in a variety of liberal arts, allied health, and business fields of study. The University also offers, through the Division of Graduate and Continuing Education, credit and non-credit courses. The University is accredited by the New England Association of Schools and Colleges.

The University is a department of the Commonwealth of Massachusetts (the State or the Commonwealth). The accompanying financial statements reflect only the transactions of the University and its discretely presented component unit. Accordingly, the accompanying financial statements may not necessarily be indicative of the conditions that would have existed if the University had been operated independently of the State.

Fitchburg State University Foundation, Inc. (the Foundation) is a component unit of Fitchburg State University. The Foundation is a legally separate, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. It was organized on June 6, 1978, exclusively for the benefit of Fitchburg State 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. The Board of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. The University provides, at no cost, certain administrative services to the Foundation.

FSU Foundation Supporting Organization, Inc. (the Foundation Supporting Organization) was organized on October 29, 1999 for the exclusive benefit of the Foundation and all of its educational and charitable activities. The Foundation Supporting Organization is a legally separate, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Foundation Supporting Organization's sole program activity, as of June 30, 2014, has been to acquire, hold, operate and lease real estate and related improvements for the benefit of the Foundation and the University. The financial information of the Foundation Supporting Organization is consolidated into the financial statements of the Foundation. The Foundation and Foundation Supporting Organization are collectively referred to hereinafter as the FSU Foundation.

During the year ended June 30, 2014, FSU Foundation distributed a net amount of \$424,046 to the University for both restricted and unrestricted purposes. During 2014, FSU Foundation distributed scholarships and awards in the amount of \$424,319 directly to students and faculty of the University, and incurred an additional

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

1. Summary of significant accounting policies - continued

Organization - continued

\$862,064 in support of its mission in other ways. Complete financial statements for FSU Foundation can be obtained from the Office of the Vice President for Finance and Administration, Fitchburg State University, 160 Pearl Street, Fitchburg, MA 01420.

During the year ended June 30, 2013, FSU Foundation distributed a net amount of \$369,782 to the University for both restricted and unrestricted purposes. During 2013, FSU Foundation distributed scholarships and awards in the amount of \$366,963 directly to students and faculty of the University, and incurred an additional \$938,238 in support of its mission in other ways.

Basis of presentation

The University's financial statements have been prepared using the "economic resources measurement focus" and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

FSU Foundation, as a nonprofit organization, reports under Financial Accounting Standards Board (FASB) guidance on financial reporting for Not-for-Profit Entities. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. Other than the reclassification of certain items, no modifications have been made to FSU Foundation's consolidated financial information in the University's financial reporting entity for these differences.

The University's policy for defining operating activities in the statements of revenues, expenses and changes in net position are those that generally result from exchange transactions such as the payment received for services and payment made for the purchase of goods and services. Certain other transactions are reported as nonoperating activities in accordance with GASB Statement No. 35. These nonoperating activities include the University's operating and capital appropriations from the Commonwealth of Massachusetts, net investment income, gifts, and interest expense.

When both restricted and unrestricted resources are available for use, it is the University's policy to use the restricted resources first, then unrestricted resources as they are needed.

The accompanying statements of revenues, expenses and changes in net position demonstrate the degree to which the direct expense of a given function is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues primarily include charges to students or others who enroll or directly benefit from services that are provided by a particular function. Items not meeting the definition of program revenues are instead reported as general revenue.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

1. Summary of significant accounting policies - continued

Basis of presentation - continued

GASB Statement No. 34 requires that resources be classified for accounting purposes into the following three net position categories:

- **Net investment in capital assets:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are also included in this component of net position.
- **Restricted:**
 - Nonexpendable** - Component of net position whose net assets are subject to externally-imposed stipulations that they be maintained permanently by the University. Such assets include the University's permanent endowment funds.
 - Expendable** - Component of net position whose use of net assets by the University is subject to externally-imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.
- **Unrestricted:** All other categories of net position. Unrestricted net position may be designated for specific purposes by action of management or the Board of Trustees.

In accordance with the requirements of the Commonwealth of Massachusetts, the University's operations are accounted for in several trust funds. All of these trust funds have been consolidated and are included in these financial statements.

Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

Cash and cash equivalents and investments

The University's cash and cash equivalents are considered to be cash on hand, cash and cash equivalents held by the Commonwealth's Treasurer and Receiver-General, Massachusetts Development Finance Agency (MDFA) and Massachusetts State College Building Authority (MSCBA), and short term investments with original maturities of three months or less from the date of acquisition.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

1. Summary of significant accounting policies - continued

Cash and cash equivalents and investments - continued

Investments for the University are reported at fair value. Any investments held with the Commonwealth's Treasurer and Receiver-General in the Massachusetts Municipal Depository Trust (MMDT) are also at fair value. This external investment pool, run by the Treasurer and Receiver-General, operates in accordance with appropriate laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Investments include marketable debt and equity securities which are carried at their readily determinable fair values. Realized and unrealized gains and losses are included in nonoperating revenues. Gains and losses on the disposition of investments are determined based on specific identification of securities sold or the average cost method. Investment income is recognized when earned and is generally credited to the trust fund holding the related assets.

Dividends, interest and net gains or losses on investments are reported in the Statements of Revenues, Expenses and Changes in Net Position. Any net earnings not expended are included in net position categories as follows:

- (i) as increases in restricted - nonexpendable net position if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- (ii) as increases in restricted - expendable net position if the terms of the gift or the University's interpretation of relevant state law impose restrictions on the current use of the income or net gains. The University has relied upon the Attorney General's interpretation of state law that unappropriated endowment gains should be classified as restricted - expendable; and
- (iii) as increases in unrestricted net position in all other cases.

At June 30, 2014 and 2013, the University had \$418,143 and \$414,615, respectively, in endowment income available for authorization for expenditure, which is included in restricted-expendable net position for scholarships and fellowships.

Massachusetts General Law, Chapter 15 grants authority to the University Boards of Trustees to administer the general business of the University. Inherent in this authority is the authority to invest funds of the University. Chapter 15 further grants the Trustees the authority to delegate, to the President, any said powers or responsibilities. The Board of Trustees of Fitchburg State University has delegated the authority to make specific investment decisions to the President of the University and the Finance Committee of the Board of Trustees. The University's endowment investments consist of debt, marketable equity securities, mutual funds, and other investments which are carried at their fair values. The primary cash equivalent funds are within the MMDT, the external investment pool for political subdivisions of the Commonwealth.

The University's authorized spending rule provides that all earnings on endowment investments may be expended pursuant to the stipulations placed on these endowments. If a donor has not provided specific instructions, Massachusetts General Law permits the University's Board of Trustees to authorize for expense the net appreciation (realized and unrealized) of the investments of endowment funds. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

1. Summary of significant accounting policies - continued

Cash and cash equivalents and investments - continued

FSU Foundation's investments consist of debt, marketable equity securities, mutual funds, a pooled investment real estate fund 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 unrestricted net position, unless a donor or law temporarily (expendable) or permanently (non-expendable) 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.

FSU Foundation maintains cash and equivalents and an investment pool that is available for use by all funds. Each fund's portion is reflected in the financial statements under cash and equivalents and investments. Earnings on cash and investments of the unrestricted net position and temporarily restricted (expendable) net position are reflected in the fund in which the assets are recorded.

The University's and FSU Foundation's investment income are presented net of investment expense in the statements of revenues, expenses and changes in net position. The University's investment expense amounted to \$117,930 and \$91,147 for the years ended June 30, 2014 and 2013. The Foundation's investment expense amounted to \$88,307 and \$80,067 for the years ended June 30, 2014 and 2013, respectively.

Accounts receivable

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

Accounts receivable also include a receivable from the operator of the University's food services operation in connection with a service concession arrangement between the University and the operator. The receivable has been recorded at the net present value of the installments to be received from the operator using a discount rate determined by management of the University.

Loans receivable and payable

Loans receivable consist, primarily, of the Federal Perkins Loan Program (Perkins) and the Federal Nursing Student Loan Program (NSL). The federal government provides the majority of the funds to support these programs. Loan payments received from students made under the Perkins and NSL programs may be re-loaned after collection. The portion of the Perkins and NSL Loan Programs provided by the federal government is refundable to the federal government upon the ending (liquidation) of the University's participation in the programs. The amount due to the federal government upon liquidation by the University is \$1,561,259 and \$1,537,505 for Perkins and \$396,823 and \$389,566 for NSL at June 30, 2014 and 2013, respectively. These amounts are included as a noncurrent liability in the accompanying statements of net position.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

1. Summary of significant accounting policies - continued

Loans receivable and payable - continued

The prescribed practices for the Perkins and NSL programs do not provide for accrual of interest on student loans receivable or for the provision of an allowance for doubtful loans. Accordingly, interest on loans is recorded as received and loan balances are reduced subsequent to the determination of their uncollectability and have been accepted (assigned) by the Department of Education and the Department of Health and Human Services. Management closely monitors outstanding balances and assigns loans to the Department of Education based upon such factors as student payment history, current status of applicable students, and the results of collection efforts.

Capital assets

Capital assets are controlled but not owned by the University. The University is not able to sell or otherwise pledge its assets, since the assets are all owned by the Commonwealth of Massachusetts. Capital assets, which include land, land improvements, buildings, building improvements, equipment and other assets are reported in the statement of net position at cost or fair market value, if donated. Capital assets are defined by the University as assets with an initial, individual cost of more than \$50,000 in accordance with the Commonwealth's capitalization policy. The University does not hold collections of historical treasures, works of art, or other items not requiring capitalization or depreciation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets, with the exception of land, are depreciated using the straight-line method over estimated useful lives of 40 years for buildings, 20 years for building and land improvements, 5 years for furniture and 3 to 10 years for equipment.

Library materials acquired for the most recent five year period are capitalized. The cost of library materials purchased in the current year is added and the cost of purchases made in the earliest year of the five year period is deducted from the net position balance.

The land on which the residence halls stand is leased by the MSCBA from the Commonwealth of Massachusetts at a yearly cost of one dollar. The residence halls have various lease terms which extend to the years 2016 and 2022. The leases can be extended at the end of the terms for additional 10-year periods.

The University, in accordance with a management and services agreement between the MSCBA and Commonwealth of Massachusetts, is charged a semi-annual revenue assessment which is based on a certified occupancy report, the current rent schedule, and the design capacity for each of the residence halls. This revenue assessment is used by MSCBA to pay principal and interest due on its long-term debt obligations. These obligations may include the costs of periodic renovations and improvements to the residence halls. Certain obligations are guaranteed by the Commonwealth. The revenue assessment amounts for the years ended June 30, 2014 and 2013 were \$5,476,967 and \$5,277,968, respectively, and are included in the Residential life auxiliary enterprises in the accompanying statements of revenues, expenses and changes in net position. All facilities and

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

1. Summary of significant accounting policies - continued

Capital assets - continued

obligations of the MSCBA are included in the financial statements of the MSCBA. It is not practical to determine the specific asset cost or liability attributable to the University. The leases, therefore, are accounted for under the operating method for financial statement purposes.

FSU Foundation's capital assets are recorded at cost, if purchased or constructed and, if donated, at fair value at the date of donation. Capital assets, with the exception of land, are depreciated using the straight-line method over the estimated useful lives of the assets of 40 years for buildings, 20 years for building and land improvements, 7 years for furniture and fixtures, 5 years for equipment and 3 years for computer software and equipment. FSU Foundation generally capitalizes all additions and improvements with an individual cost or, if donated, fair value in excess of \$5,000.

Contributions and bequests

FSU Foundation recognizes contributions revenue 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 FSU 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 are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Contributions in the form of property and equipment and other assets are recorded at the fair value on the date the donation is received. All contributions are considered to be available for unrestricted use by FSU Foundation unless specifically restricted by the donor. FSU Foundation provides for probable uncollectible amounts of unconditional promises to give through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual account balances.

Compensated absences

Employees earn the right to be compensated during absences for vacation leave and sick leave. Accrued vacation is the amount earned by all eligible employees through June 30 each year. Pursuant to statewide experience on sick pay buy-back agreements applicable to state employees, the University accrues sick leave to a level representing 20 percent of amounts earned by those University employees with ten or more years of State service at the end of the fiscal year. Upon retirement, these employees are entitled to receive payment for this accrued balance. (See also Note 8).

Student fees

Student tuition and fees are presented net of scholarships applied to students' accounts. Certain other scholarship amounts are paid directly to, or refunded to, the student and are generally reflected as expenses.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

1. Summary of significant accounting policies - continued

Revenue received in advance

Deposits and advance payments received for tuition and fees related to the University's summer programs and tuition billed for the following fiscal year are recorded as revenues received in advance. Funds received in advance from various grants and contracts are also included in revenues received in advance.

Agency funds

Agency funds consist of resources held by the University as custodian or fiscal agent of student organizations, the State Treasurer and others. Transactions are recorded to asset and liability accounts. There were no material balances at June 30, 2014 and 2013.

Bond premiums

Bond premiums are being amortized on a straight-line basis over the terms of the related debt agreements.

Interest expense and capitalization

The University follows the policy of capitalizing interest expense as a component of the cost of capital assets constructed for its own use. During 2014 and 2013, total interest costs incurred were accounted for as follows:

	<u>2014</u>	<u>2013</u>
Total interest costs incurred	\$1,683,131	\$1,246,752
Less: Interest income on unused funds from tax exempt borrowings	(116)	(2,966)
Bond premium amortization	<u>(197,032)</u>	<u>(141,350)</u>
	1,485,983	1,102,436
 Less: Capitalized portion of net interest earned and incurred	 (<u>552,206</u>)	 (<u>205,320</u>)
 Interest expense	 <u>\$ 933,777</u>	 <u>\$ 897,116</u>

Fringe benefits

The University participates in the Commonwealth's fringe benefit programs, including health insurance, unemployment, pension and workers' compensation benefits. Workers' compensation coverage is provided by the Commonwealth on a self-insured basis. Health insurance and pension costs are billed through a fringe benefit rate charged to the University. Workers' compensation and unemployment insurance costs are assessed separately based on the University's actual experience.

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

1. Summary of significant accounting policies - continued

Tax status

The University is a department of the Commonwealth of Massachusetts and is therefore exempt from federal and state income taxes.

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 presentation.

Recently adopted accounting pronouncements

In April, 2013, the GASB issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, the primary objective of which is to improve the accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The Statement enhances comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees and enhances the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees. This Statement also augments the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee. The requirements of GASB Statement No. 70 are effective for financial statements for fiscal years beginning after June 15, 2013 with earlier application encouraged. Adoption of this Statement in fiscal 2014 had no impact on the University's financial statements.

Recent accounting pronouncements not yet adopted

In June, 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The primary objective of GASB Statement No. 68 is to improve accounting and financial reporting by state and local governments for pensions. GASB Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The requirements of GASB Statement No. 68 are effective for financial statements for fiscal years beginning after June 15, 2014 with earlier application encouraged.

In November, 2013, the GASB issued GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment of GASB Statement No. 68. The objective of this statement is to address an issue regarding application of the transition provisions of GASB Statement No. 68. The Statement requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB Statement No. 68.

The University is currently evaluating the impact of GASB Statements No. 68 and 71 on its fiscal year 2015 financial statements.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

2. Cash and cash equivalents, and investments

Cash and cash equivalents - unrestricted and restricted - include the following at June 30, 2014 and 2013:

	<u>2014</u>		
	<u>Current Unrestricted</u>	<u>Current Restricted</u>	<u>Noncurrent Restricted</u>
Cash and money market accounts	\$ 11,921,392	\$ 89,849	\$ 102,582
Cash equivalents held by MDFA *	-	232,356	367,654
Cash equivalents held by MSCBA ***	-	1,463,065	15,781,361
Massachusetts Municipal Depository Trust	1,669,718	3,364,752	581,673
Massachusetts State Treasurer **	2,638,116	245,170	-
Petty cash	<u>1,226</u>	<u>-</u>	<u>-</u>
	<u>\$ 16,230,452</u>	<u>\$ 5,395,192</u>	<u>\$ 16,833,270</u>

	<u>2013</u>		
	<u>Current Unrestricted</u>	<u>Current Restricted</u>	<u>Noncurrent Restricted</u>
Cash and money market accounts	\$ 13,250,225	\$ 78,486	\$ 29,842
Cash equivalents held by MDFA *	-	219,204	369,601
Cash and cash equivalents held by MSCBA ***	-	1,397,926	12,323,864
Massachusetts Municipal Depository Trust	186,580	3,375,630	2,069,772
Massachusetts State Treasurer **	2,093,819	1,253,963	-
Petty cash	<u>1,327</u>	<u>-</u>	<u>-</u>
	<u>\$ 15,531,951</u>	<u>\$ 6,325,209</u>	<u>\$ 14,793,079</u>

* This amount consists of cash equivalents which are restricted by the Massachusetts Development Finance Agency (MDFA) for the funding of payments to retire the bonds (See Note 12). The University does not have access to these funds except by the authorization of MDFA.

** The University has recorded cash held for the benefit of the University by the State Treasurer in the amount of \$2,638,116 and \$2,093,819 at June 30, 2014 and 2013, respectively, for University funds and \$245,170 and \$1,253,963 at June 30, 2014 and 2013, respectively, to pay year-end liabilities. The latter balance represents amounts paid from State appropriations subsequent to the fiscal year end.

*** This amount consists of cash and cash equivalents which are restricted by the Massachusetts State College Building Authority (MSCBA) for the funding of certain construction projects at the University and payments to retire bonds (See Note 12). The University does not have access to these funds except by authorization of MSCBA. Interest earned on debt service reserve funds are used on a current basis to offset annual debt service payments.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

2. Cash and cash equivalents, and investments - continued

Money market funds include the Schwab Advisor Cash Reserves Premier Sweep Shares in the aggregate amount of \$62,861 and \$199,039 at June 30, 2014 and June 30, 2013, respectively. The Schwab Advisor Cash Reserves Premier Sweep Shares invests in high-quality short-term money market investments issued by U.S. and foreign issuers, such as commercial paper, including asset-backed commercial paper; promissory notes; certificates of deposit and time deposits; variable and floating-rate debt services; bank notes and bankers' acceptances; repurchase agreements; obligations that are issued by the U.S. government, its agencies or instrumentalities. The fund seeks the highest current income consistent with stability of capital and liquidity. At June 30, 2014 and June 30, 2013, the fund's investment securities had a weighted average maturity of 49 days and 54 days, respectively. The fund was not rated for average credit quality at June 30, 2014 and June 30, 2013, respectively.

Money market funds include the Dreyfus Cash Management Fund Institutional Class in the aggregate amount of \$220,331 and \$293,980 at June 30, 2014 and June 30, 2013, respectively. The Dreyfus Cash Management Fund Institutional Class invests in a diversified portfolio of high-quality, short-term debt securities, including securities issued or guaranteed by the U.S. government or its agencies or instrumentalities including certificates of deposit, time deposits, bankers' acceptances and other short-term securities issued by domestic banks or foreign banks, or their subsidiaries or branches; repurchase agreements, including tri-party repurchase agreements, asset-backed securities; and domestic and dollar-denominated foreign commercial paper, and other short-term corporate obligations, including those with floating or variable rates of interest. The fund seeks as high a level of current income as is consistent with the preservation of capital and the maintenance of liquidity. At June 30, 2014 and June 30, 2013, the fund's investment securities had a weighted average maturity of 40 days and 44 days, respectively. The fund had an average credit quality rating of AAAM at June 30, 2014 and June 30, 2013, respectively.

Money market funds include the Northern Institutional Diversified Assets Portfolio in the aggregate amount of \$320,697 and \$254,817 at June 30, 2014 and June 30, 2013, respectively. The Northern Institutional Diversified Assets Portfolio invests in a broad range of high quality, U.S. dollar-denominated government, bank and commercial obligations that are available in the money markets. The fund seeks to maximize current income to the extent consistent with the preservation of capital and maintenance of liquidity by investing exclusively in high quality money market instruments. At June 30, 2014 and June 30, 2013, the fund's investment securities had a weighted average maturity of 48 days and 50 days, respectively. The fund had an average credit quality rating of AAAM at June 30, 2014. The fund was not rated for average credit quality at June 30, 2013.

The Massachusetts Municipal Depository Trust (MMDT) is not subject to FDIC insurance. According to the MMDT, the Massachusetts Municipal Depository Trust is an investment pool for political subdivisions in the Commonwealth which was designed as a legal means to safely invest temporarily available cash. Its primary purpose is to provide a safe, liquid, high-yield investment vehicle offering participation in a diversified portfolio of high quality debt instruments. The MMDT is not a bank, savings institution, or financial institution. The MMDT is an instrumentality of the State Treasurer.

The University maintains a cash and investment pool that is available for use by all trust funds. Each fund type's portion of this pool is reflected in the financial statements under the caption, cash and cash equivalents and investments. The method of allocating interest earned on pooled cash and investments is to record all interest to the appropriate fund based on that fund's average monthly balance. Interest earnings attributable to each trust fund are included under investment income.

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

2. Cash and cash equivalents, and investments - continued

Custodial credit risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University's deposit policy provides for bank balances to be held in interest-bearing checking accounts and, where account activity and balances warrant it, in money market accounts. All bank balances are to be held at financial institutions of high credit quality. At June 30, 2014 and 2013, the University had uninsured cash balances totaling \$5,718,771 and \$5,000,000, respectively.

Credit risk

The University is required to comply with the Commonwealth of Massachusetts' deposit and investment policies which are principally defined in the Massachusetts General Laws, Chapter 29. State Statutes permit investment in obligations of the U.S. Treasury, authorized bonds of all states, bankers' acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by Standard & Poor's Corporation and Moody's Commercial Paper Record and repurchase agreements secured by any of these obligations. The University has also adopted its own formal investment policy, the objectives of which are: safety of principal; liquidity for operating needs; return on investment; and diversification of risk. The University's investment policy generally limits the maturities of investments to not more than one year. However, the University may invest in securities with maturities in excess of one year if it is determined to be in the best interest of the University as described in the University's investment policy. The University may also appoint a professional fund manager and invest in equity and bond funds. Eligible investments shall be consistent with those permitted by State Statutes.

As of June 30, 2014 and 2013, the fair values of the University's deposits held at the Massachusetts Municipal Depository Trust were \$5,616,143 and \$5,631,982, respectively. At June 30, 2014, the approximate percentage of the University's deposits held at the MMDT and the respective investment maturities in days were as follows: 53% at 30 days or less; 28% at 31-90 days; 12% at 91-180 days; and 7% at 181 days or more. At June 30, 2014, approximately 97% of the MMDT's cash portfolio had a credit quality rating of P1 and the remaining 3% had a credit quality rating of P2.

The University's funds held at MDFA are invested in the Short Term Asset Reserve (STAR) Fund and had a fair value of \$600,010 and \$588,805 at June 30, 2014 and 2013, respectively. The STAR Fund invests primarily in U.S. Treasury bills, notes, and other obligations guaranteed by the U.S. government or its agencies or instrumentalities. Additionally, the fund invests in repurchase agreements, bankers' acceptances, certificates of deposit, commercial paper, notes, and both corporate floating rate and corporate fixed-rate securities. The STAR Fund maintains a net asset value of \$1 per share and had a fund credit quality rating of AAAM as of both June 30, 2014 and 2013, respectively. At June 30, 2014 and 2013, the fund's investment securities maintain a weighted average maturity of 54 and 48 days, respectively.

At June 30, 2014, certain of the University's funds are held at MSCBA. Of the total, \$14,843,112 is deposited in various cash accounts which are fully collateralized by securities in accounts in the name of MSCBA, and \$2,401,314 is invested in various funds as listed below:

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

2. Cash and cash equivalents, and investments - continued

Credit risk - continued

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>				<u>Credit Rating</u>
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater Than 10</u>	
Federal Home Loan						Not
Bank discount notes	\$ 283,738	\$ 283,738	\$ -	\$ -	\$ -	Rated
Federal Farm Credit	667,799	-	-	667,799	-	AA+
Massachusetts ST Bonds	<u>1,449,777</u>	<u>-</u>	<u>485,614</u>	<u>-</u>	<u>964,163</u>	AAA
Total	<u>\$2,401,314</u>	<u>\$ 283,738</u>	<u>\$ 485,614</u>	<u>\$ 667,799</u>	<u>\$ 964,163</u>	

At June 30, 2013, certain of the University's funds are held at MSCBA. Of the total, \$11,988,248 is deposited in various cash accounts which are fully collateralized by securities in accounts in the name of MSCBA, and \$1,733,542 is invested in various funds as listed below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>				<u>Credit Rating</u>
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater Than 10</u>	
Federal Home Loan						Not
Bank discount notes	\$ 283,765	\$ 283,765	\$ -	\$ -	\$ -	Rated
Massachusetts ST Bonds	<u>1,449,777</u>	<u>-</u>	<u>-</u>	<u>485,614</u>	<u>964,163</u>	AAA
Total	<u>\$1,733,542</u>	<u>\$ 283,765</u>	<u>\$ -</u>	<u>\$ 485,614</u>	<u>\$ 964,163</u>	

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

2. Cash and cash equivalents, and investments - continued

The University's investments in marketable securities are represented by the following at June 30, 2014:

	<u>2014</u>	
	<u>Cost</u>	<u>Fair Value</u>
<u>Noncurrent:</u>		
U.S. Treasury Notes and Government Securities	\$ 1,291,462	\$ 1,255,519
Corporate Debt Securities	2,140,706	2,103,702
Mortgage-Backed Securities	34,807	34,849
Equity Securities	4,966,015	6,411,547
Mutual Funds	<u>8,869,944</u>	<u>9,565,678</u>
	<u>\$ 17,302,934</u>	<u>\$ 19,371,295</u>

The University's investments are represented by the following at June 30, 2013:

	<u>2013</u>	
	<u>Cost</u>	<u>Fair Value</u>
<u>Noncurrent:</u>		
U.S. Treasury Notes and Government Securities	\$ 1,019,922	\$ 988,592
Corporate Debt Securities	2,136,948	2,071,413
Mortgage-Backed Securities	237,704	237,456
Equity Securities	7,369,022	8,287,897
Mutual Funds	<u>5,890,119</u>	<u>5,696,090</u>
	<u>\$ 16,653,715</u>	<u>\$ 17,281,448</u>

The University's investments at fair value are presented in the accompanying statements of net position as follows:

	<u>2014</u>	<u>2013</u>
Investments	\$ 18,447,273	\$ 16,460,012
Endowment investments	<u>924,022</u>	<u>821,436</u>
	<u>\$ 19,371,295</u>	<u>\$ 17,281,448</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

2. Cash and cash equivalents, and investments - continued

At June 30, 2014, the University's U.S. Treasury Notes and Government Securities, corporate debt securities and mortgage-backed securities along with their investment maturities and credit quality ratings are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>				<u>Credit Rating</u>
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater Than 10</u>	
U.S. Treasury Notes and Government Securities						
2.000% to 3.500%	\$ 1,255,519	\$ -	\$ 998,479	\$ 257,040	\$ -	AA+
Corporate Debt Securities						
1.375% to 6.0000%	754,398	183,229	315,925	255,244	-	A
Corporate Debt Securities						
1.400% to 3.875%	369,474	60,903	121,634	186,937	-	A-
Corporate Debt Securities						
1.875% to 5.625%	438,961	60,625	129,725	248,611	-	A+
Corporate Debt Securities						
3.400% to 4.300%	193,371	-	-	193,371	-	AA
Corporate Debt Securities						
1.750%	61,154	-	61,154	-	-	AA-
Corporate Debt Securities						
3.000% to 4.650%	220,163	75,165	78,276	66,722	-	AA+
Corporate Debt Securities						
4.6%	66,181	-	-	66,181	-	BBB+
Mortgage - Backed Securities						
0.370%	<u>34,849</u>	<u>-</u>	<u>34,849</u>	<u>-</u>	<u>-</u>	N/A
Total	<u>\$ 3,394,070</u>	<u>\$ 379,922</u>	<u>\$1,740,042</u>	<u>\$1,274,106</u>	<u>\$ -</u>	

FSU Foundation's cash and cash equivalents consist of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Cash and other demand deposits	\$ 730,660	\$ 1,057,676
Money Market Funds	<u>1,400,330</u>	<u>1,410,708</u>
	<u>\$ 2,130,990</u>	<u>\$ 2,468,384</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

2. Cash and cash equivalents, and investments - continued

Money market funds include the SSgA US Government Money Market Fund, the Schwab Advisor Cash Reserves Fund, the Dreyfus Cash Management Institutional - Shares Fund and the Fidelity Bank LifeDesign Business Cash Management Money Market account in the amounts of \$74,518, \$58,867, \$255,643, and \$1,011,302 at June 30, 2014 and \$197,538, \$26,748, \$179,039, and \$1,007,383 at June 30, 2013, respectively.

The cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. There were no overnight repurchase agreements included in cash and equivalents at June 30, 2014. Included in cash and equivalents at June 30, 2013 are overnight repurchase agreements in the amounts of \$778,730 and \$91,694 each at an interest rate of .05% per annum. At June 30, 2013, overnight repurchase agreements were fully collateralized under an agreement between Sovereign Bank and the University. At June 30, 2014 and 2013, FSU Foundation's uninsured cash and equivalent balances, including the SSgA US Government Money Market Fund, Schwab Advisor Cash Reserves Fund, Dreyfus Cash Management Institutional - Shares Fund, and Fidelity Bank LifeDesign Business Cash Management Money Market account, amounted to approximately \$1,755,100 and \$1,410,700, respectively.

FSU Foundation's investment policy consists of an asset allocation range of 50% to 70% equity securities, 30% to 50% fixed income securities and up to 10% in cash and cash equivalents.

FSU Foundation's investments are represented by the following at June 30:

	<u>2014</u>		<u>2013</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Equities	\$ 5,732,264	\$ 8,124,323	\$ 5,327,267	\$ 6,677,258
Preferred stock	120,237	118,223	241,660	239,236
Mutual funds	3,267,766	3,668,240	2,880,297	2,965,625
Corporate bonds	1,155,263	1,183,135	1,264,043	1,272,140
U.S. government securities	1,335,088	1,316,137	1,433,244	1,401,309
Mortgage backed securities	89,157	89,006	46,719	46,118
Commonfund Realty Investors, LLC	-	-	-	-
	<u>\$ 11,699,775</u>	<u>\$ 14,499,064</u>	<u>\$ 11,193,230</u>	<u>\$ 12,601,686</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

2. Cash and cash equivalents, and investments - continued

FSU Foundation's investments at fair value are presented in the accompanying statements of net position as follows:

	<u>2014</u>	<u>2013</u>
Current assets:		
Investments	\$ 5,572,246	\$ 3,772,530
Noncurrent assets:		
Endowment investments	<u>8,926,818</u>	<u>8,829,156</u>
	<u>\$ 14,499,064</u>	<u>\$ 12,601,686</u>

At June 30, 2014, net unrealized gains in FSU Foundation's investment portfolio amounted to \$2,799,289. At June 30, 2013, net unrealized gains in FSU Foundation's investment portfolio amounted to \$1,408,456.

At June 30, 2014 and 2013, equities include securities in the consumer goods sector which represent 16% in each year of the fair value of FSU Foundation's investment portfolio.

At June 30, 2014 and 2013, 6% of the fair value of FSU Foundation's investment portfolio in each year represents foreign investments.

Investments held by FSU Foundation with an equivalent fair value of \$8,858,000 at June 30, 2014 collateralize certain debt agreements (see Notes 13 and 14).

Commonfund Realty Investors, LLC (the Fund) is a commingled, open-end real estate investment fund composed of income oriented, value-add and development properties that are combined to create a value-added portfolio with a strong focus on distributable income. The Foundation made a capital investment in the Commonfund Realty Investors, LLC totaling \$485,000 as of August, 2007. Investment units in the Fund are not deemed to be readily marketable pursuant to and as more fully described in the investment agreement. On June 30, 2010, FSU Foundation wrote down its investment in Commonfund Realty Investors, LLC to zero representing its fair value based upon the latest available information (March 31, 2010) provided by its professional investment manager. The decline in the fair value of this investment resulted from the continuing significant disruptions in the global capital, credit and real estate markets. In the opinion of management of FSU Foundation, the decline in fair value of this investment was considered to be other-than-temporary. During fiscal 2014, FSU Foundation received capital gain distributions from Commonfund Realty Investors, LLC totaling \$1,579, which are included in investment income (loss) on restricted assets in the accompanying 2014 statement of revenues, expenses and changes in net position.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

2. Cash and cash equivalents, and investments - continued

At June 30, 2014, the fair value of FSU Foundation's investments in debt securities by contractual maturities is as follows:

	Maturity				
	<u>Within 1 year</u>	<u>1 - 5 Years</u>	<u>5-10 Years</u>	<u>More Than 10 Years</u>	<u>Total</u>
Corporate bonds	\$ 162,923	\$ 837,002	\$ 183,210	\$ -	\$ 1,183,135
Mortgage backed securities	-	-	-	89,006	89,006
U.S. government securities	<u>179,083</u>	<u>898,556</u>	<u>238,498</u>	<u>-</u>	<u>1,316,137</u>
	<u>\$ 342,006</u>	<u>\$ 1,735,558</u>	<u>\$ 421,708</u>	<u>\$ 89,006</u>	<u>\$ 2,588,278</u>

3. Accounts and contributions receivable

The University's accounts receivable include the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Student accounts receivable	\$ 1,371,911	\$ 1,399,439
Parking and other fines receivable	88,565	73,095
Commissions receivable	41,338	32,974
Grants receivable	269,190	191,488
Advance receivable from FSU Foundation Supporting Organization, Inc. (see below)	100,000	-
Compass receivable, including accrued interest of \$9,902 and \$37,530 (see Note 11)	263,506	446,251
Miscellaneous other receivables	<u>10,281</u>	<u>6,889</u>
	2,144,791	2,150,136
Less allowance for doubtful accounts	<u>(244,631)</u>	<u>(247,128)</u>
	<u>\$ 1,900,160</u>	<u>\$ 1,903,008</u>

During 2014, the University made a noninterest bearing advance to FSU Foundation Supporting Organization, Inc. in the amount of \$100,000 to fund a portion of the rehabilitation costs associated with a Foundation Supporting Organization construction project. The advance does not have any specified repayment provisions and due date.

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

3. Accounts and contributions receivable - continued

FSU Foundation's contributions receivable consist of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Receivable in less than one year	\$ 59,853	\$ 171,872
Receivable in one to five years	50,500	70,900
Receivable in more than five years	<u>-</u>	<u>1,000</u>
	110,353	243,772
Discount on pledges	(2,258)	(3,433)
	<u>\$ 108,095</u>	<u>\$ 240,339</u>

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

4. Loans receivable

Loans receivable include the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Perkins loans receivable	\$ 1,647,999	\$ 1,618,893
Nursing loans receivable	351,009	359,306
Emergency student loans receivable	<u>3,018</u>	<u>3,018</u>
	2,002,026	1,981,217
Less allowance for doubtful accounts	(3,018)	(1,751)
	<u>\$ 1,999,008</u>	<u>\$ 1,979,466</u>

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

5. Capital assets

Capital assets activity of the University for the year ended June 30, 2014 is as follows:

Capital assets:	Totals June 30, 2013	Additions	Reclassifications* and Reductions	Totals June 30, 2014
<u>Non-depreciable capital assets</u>				
Land	\$ 5,130,841	\$ -	\$ -	\$ 5,130,841
Construction in progress	<u>8,127,599</u>	<u>15,304,959</u>	(8,117,232)	<u>15,315,326</u>
Total non-depreciable assets	<u>13,258,440</u>	<u>15,304,959</u>	(8,117,232)	<u>20,446,167</u>
<u>Depreciable capital assets</u>				
Land improvements	11,245,910	1,765,118	1,285,402	14,296,430
Buildings	80,591,909	-	-	80,591,909
Building improvements	75,374,548	10,633,299	6,842,691	92,850,538
Equipment	15,449,823	1,152,048	(1,269,834)	15,332,037
Furniture	597,676	-	-	597,676
Library materials	<u>441,146</u>	<u>97,346</u>	(110,030)	<u>428,462</u>
Total depreciable assets	<u>183,701,012</u>	<u>13,647,811</u>	<u>6,748,229</u>	<u>204,097,052</u>
Total capital assets	<u>196,959,452</u>	<u>28,952,770</u>	(1,369,003)	<u>224,543,219</u>
Less: accumulated depreciation				
Land improvements	3,086,907	668,724	22,350	3,777,981
Buildings	36,624,832	1,603,415	-	38,228,247
Building improvements	14,193,570	3,818,689	(11,489)	18,000,770
Equipment	12,748,436	908,473	(1,269,834)	12,387,075
Furniture	489,356	99,988	-	589,344
Library materials	<u>-</u>	<u>110,030</u>	(110,030)	<u>-</u>
Total accumulated depreciation	<u>67,143,101</u>	<u>7,209,319</u>	(1,369,003)	<u>72,983,417</u>
Capital assets, net	<u>\$129,816,351</u>	<u>\$ 21,743,451</u>	<u>\$ -</u>	<u>\$151,559,802</u>

As of June 30, 2014, capital assets of the University with a cost of approximately \$26,003,000 were fully depreciated and still in service.

* Construction costs incurred for various capital projects were included in construction in progress and subsequently transferred to capital asset additions upon completion during the fiscal year ended June 30, 2014.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

5. Capital assets - continued

The University enters into various contract commitments with contractors, from time to time, for improvements to its facilities. Remaining contract commitments totaled approximately \$1,735,000 and \$1,165,000 at June 30, 2014 and 2013, respectively.

Capital assets activity of the University for the year ended June 30, 2013 is as follows:

Capital assets:	Totals June 30, 2012	Additions	Reclassifications* and Reductions	Totals June 30, 2013
<u>Non-depreciable capital assets</u>				
Land	\$ 5,130,841	\$ -	\$ -	\$ 5,130,841
Construction in progress	<u>47,516,797</u>	<u>7,973,385</u>	<u>(47,362,583)</u>	<u>8,127,599</u>
Total non-depreciable assets	<u>52,647,638</u>	<u>7,973,385</u>	<u>(47,362,583)</u>	<u>13,258,440</u>
<u>Depreciable capital assets</u>				
Land improvements	11,168,908	77,002	-	11,245,910
Buildings	44,491,325	14,522,690	21,577,894	80,591,909
Building improvements	41,167,229	8,422,630	25,784,689	75,374,548
Equipment	14,770,925	1,105,558	(426,660)	15,449,823
Furniture	597,676	-	-	597,676
Library materials	<u>395,979</u>	<u>89,874</u>	<u>(44,707)</u>	<u>441,146</u>
Total depreciable assets	<u>112,592,042</u>	<u>24,217,754</u>	<u>46,891,216</u>	<u>183,701,012</u>
Total capital assets	<u>165,239,680</u>	<u>32,191,139</u>	<u>(471,367)</u>	<u>196,959,452</u>
Less: accumulated depreciation				
Land improvements	2,528,462	558,445	-	3,086,907
Buildings	35,892,801	732,031	-	36,624,832
Building improvements	10,927,437	3,266,133	-	14,193,570
Equipment	12,331,878	843,218	(426,660)	12,748,436
Furniture	389,368	99,988	-	489,356
Library materials	<u>-</u>	<u>44,707</u>	<u>(44,707)</u>	<u>-</u>
Total accumulated depreciation	<u>62,069,946</u>	<u>5,544,522</u>	<u>(471,367)</u>	<u>67,143,101</u>
Capital assets, net	<u>\$103,169,734</u>	<u>\$ 26,646,617</u>	<u>\$ -</u>	<u>\$129,816,351</u>

As of June 30, 2013, capital assets of the University with a cost of approximately \$26,132,000 were fully depreciated and still in service.

* Construction costs incurred for various capital projects were included in construction in progress and subsequently transferred to capital asset additions upon completion during the fiscal year ended June 30, 2013.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

5. Capital assets - continued

The University has considered the requirements of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, and has noted no implications of this standard to the University's financial statements for the years ended June 30, 2014 and 2013, respectively.

Capital assets activity of FSU Foundation for the year ended June 30, 2014 is as follows:

Capital assets:	Totals June 30, 2013	Additions	Reclassifications and Reductions	Totals June 30, 2014
Real estate under lease to the University:				
Land	\$ 402,663	\$ -	\$ -	\$ 402,663
Building	1,557,724	-	-	1,557,724
Building improvements	<u>100,452</u>	<u>-</u>	<u>-</u>	<u>100,452</u>
	<u>2,060,839</u>	<u>-</u>	<u>-</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>-</u>	<u>-</u>	<u>28,600</u>
	<u>716,380</u>	<u>-</u>	<u>-</u>	<u>716,380</u>
Other:				
Land	1,946,784	122,446	(196,740)	1,872,490
Land improvements	61,899	-	-	61,899
Buildings	810,923	249,289	(167,190)	893,022
Building improvements	39,569	-	-	39,569
Equipment	460,200	183,059	-	643,259
Furniture and fixtures	26,277	-	-	26,277
Library materials	6,570	-	-	6,570
Construction in progress	<u>-</u>	<u>398,777</u>	<u>-</u>	<u>398,777</u>
	<u>3,352,222</u>	<u>953,571</u>	<u>(363,930)</u>	<u>3,941,863</u>
Total capital assets	<u>6,129,441</u>	<u>953,571</u>	<u>(363,930)</u>	<u>6,719,082</u>
Less: accumulated depreciation				
Real estate under lease to the University:				
Building	266,111	38,943	-	305,054
Building improvements	<u>30,973</u>	<u>5,022</u>	<u>-</u>	<u>35,995</u>
	<u>297,084</u>	<u>43,965</u>	<u>-</u>	<u>341,049</u>
Real estate used for student housing:				
Building	66,038	10,856	-	76,894
Building improvements	<u>5,482</u>	<u>1,430</u>	<u>-</u>	<u>6,912</u>
	<u>71,520</u>	<u>12,286</u>	<u>-</u>	<u>83,806</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

5. Capital assets - continued

	Totals		Reclassifications		Totals
	<u>June 30, 2013</u>	<u>Additions</u>	<u>and</u>	<u>Reductions</u>	<u>June 30, 2014</u>
Other:					
Land improvements	\$ 45,134	\$ 3,096	\$ -		\$ 48,230
Buildings	68,643	20,273	-		88,916
Building improvements	7,978	1,979	-		9,957
Equipment	395,766	28,727	-		424,493
Furniture and fixtures	11,528	3,753	-		15,281
Library materials	4,599	1,314	-		5,913
	<u>533,648</u>	<u>59,142</u>	<u>-</u>		<u>592,790</u>
Total accumulated depreciation	<u>902,252</u>	<u>115,393</u>	<u>-</u>		<u>1,017,645</u>
Capital assets, net	<u>\$ 5,227,189</u>	<u>\$ 838,178</u>	<u>(\$ 363,930)</u>		<u>\$ 5,701,437</u>

Non-depreciable capital assets of FSU Foundation total \$3,092,568 at June 30, 2014 and are comprised of land (\$2,528,708), construction in progress (\$398,777) and equipment not placed in service until July 1, 2014 (\$165,083).

At June 30, 2014, capital assets of FSU Foundation with a cost of approximately \$335,500 were fully depreciated and still in service.

At June 30, 2014, FSU Foundation has a remaining contract commitment of \$527,257 associated with the project included in construction in progress.

During fiscal 2014, the Foundation Supporting Organization committed to a plan to sell certain of its land and buildings. The assets, with an initial carrying value of \$363,930, were reclassified from property and equipment and are included in other current assets in the accompanying 2014 statement of net position of FSU Foundation. The land and buildings are being held for sale. Two of the properties, with an aggregate cost of \$233,930 (\$66,740 for land and \$167,190 for building), were acquired during fiscal 2014 and are currently under negotiations to be sold to the Commonwealth of Massachusetts acting by and through DCAM on behalf of Fitchburg State University. A third property consisting of land with a cost of \$130,000 is under a Purchase and Sale Agreement with an unrelated third party for a sale price of \$800,000 in cash.

FSU Foundation records land and buildings held for sale at their carrying amounts, but not in excess of the asset's fair value less the estimated direct costs to sell the asset. No depreciation expense is taken once the decision has been made to hold the asset for sale. In this instance, the buildings were not placed in service. Accordingly, no depreciation expense has been taken on the buildings.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

5. Capital assets - continued

The Foundation Supporting Organization received a letter of intent from DCAM to purchase one of the two properties referred to above and recorded on the books of the Foundation Supporting Organization at an initial carrying amount of \$133,065 (\$26,170 for land and \$106,895 for building). DCAM has agreed to pay the Foundation Supporting Organization \$69,600 subject to the satisfaction of certain State publication requirements and the execution of a mutually acceptable Purchase and Sale Agreement. As a result of DCAM's offer, management has determined that the property is impaired and should be written down to \$69,600 at June 30, 2014. Management expects the direct costs to sell the asset will not be material. Negotiations between the Foundation Supporting Organization and DCAM related to the second property are ongoing. The Foundation Supporting Organization currently expects all three properties to be sold during fiscal 2015. Other current assets of FSU Foundation at June 30, 2014 include land and buildings in the total amount of \$300,465.

Capital assets activity of FSU Foundation for the year ended June 30, 2013 is as follows:

Capital assets:	Totals June 30, 2012	Additions	Reclassifications and Reductions	Totals June 30, 2013
Real estate under lease to the University:				
Land	\$ 402,663	\$ -	\$ -	\$ 402,663
Building	1,557,724	-	-	1,557,724
Building improvements	<u>100,452</u>	<u>-</u>	<u>-</u>	<u>100,452</u>
	<u>2,060,839</u>	<u>-</u>	<u>-</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>-</u>	<u>-</u>	<u>28,600</u>
	<u>716,380</u>	<u>-</u>	<u>-</u>	<u>716,380</u>
Other:				
Land	1,667,356	279,428	-	1,946,784
Land improvements	61,899	-	-	61,899
Buildings	556,478	254,445	-	810,923
Building improvements	39,569	-	-	39,569
Equipment	438,530	21,670	-	460,200
Furniture and fixtures	22,287	3,990	-	26,277
Library materials	<u>6,570</u>	<u>-</u>	<u>-</u>	<u>6,570</u>
	<u>2,792,689</u>	<u>559,533</u>	<u>-</u>	<u>3,352,222</u>
Total capital assets	<u>5,569,908</u>	<u>559,533</u>	<u>-</u>	<u>6,129,441</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

5. Capital assets - continued

	Totals June 30, 2012	Additions	Reclassifications and Reductions	Totals June 30, 2013
Less: accumulated depreciation				
Real estate under lease to the University:				
Building	\$ 227,168	\$ 38,943	\$ -	\$ 266,111
Building improvements	<u>25,950</u>	<u>5,023</u>	<u>-</u>	<u>30,973</u>
	<u>253,118</u>	<u>43,966</u>	<u>-</u>	<u>297,084</u>
Real estate used for student housing:				
Building	55,183	10,855	-	66,038
Building improvements	<u>4,052</u>	<u>1,430</u>	<u>-</u>	<u>5,482</u>
	<u>59,235</u>	<u>12,285</u>	<u>-</u>	<u>71,520</u>
Other:				
Land improvements	42,040	3,094	-	45,134
Buildings	54,200	14,443	-	68,643
Building improvements	6,000	1,978	-	7,978
Equipment	372,154	23,612	-	395,766
Furniture and fixtures	8,249	3,279	-	11,528
Library materials	<u>3,285</u>	<u>1,314</u>	<u>-</u>	<u>4,599</u>
	<u>485,928</u>	<u>47,720</u>	<u>-</u>	<u>533,648</u>
Total accumulated depreciation	<u>798,281</u>	<u>103,971</u>	<u>-</u>	<u>902,252</u>
Capital assets, net	<u>\$ 4,771,627</u>	<u>\$ 455,562</u>	<u>\$ -</u>	<u>\$ 5,227,189</u>

Non-depreciable capital assets of FSU Foundation totaled \$2,603,002 at June 30, 2013 and consisted of land.

At June 30, 2013, capital assets of FSU Foundation with a cost of approximately \$332,500 were fully depreciated and still in service.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

6. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Accounts payable - trade	\$ 1,193,220	\$ 1,727,430
Salaries and fringe benefits payable	2,023,682	1,646,552
Accrued interest payable	440,188	358,579
Tuition due State	70,491	77,188
Other	<u>342,193</u>	<u>265,190</u>
	<u>\$ 4,069,774</u>	<u>\$ 4,074,939</u>

7. Accrued workers' compensation

Independent actuarial reviews of the outstanding loss reserve requirements for the Commonwealth of Massachusetts' self-insured workers' compensation program were conducted as of June 30, 2014 and 2013. Based upon the Commonwealth's analyses, \$697,874 and \$744,725 of accrued workers' compensation has been recorded as a liability at June 30, 2014 and 2013, respectively.

8. Accrued compensated absences

Accrued compensated absences are comprised of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Vacation time payable	\$ 2,420,542	\$ 2,544,904
Sick time payable	<u>2,626,375</u>	<u>2,638,380</u>
Total	<u>\$ 5,046,917</u>	<u>\$ 5,183,284</u>
Amount representing obligations due to employees funded through sources other than State appropriations	\$ 326,070	\$ 320,427
Amount representing obligations for employees compensated through State appropriations	<u>4,720,847</u>	<u>4,862,857</u>
Total	<u>\$ 5,046,917</u>	<u>\$ 5,183,284</u>

It is anticipated that the obligation due to employees funded through State appropriations will be discharged through future State appropriations and the balance is expected to be liquidated through trust funds. Had these amounts not been reflected as obligations of the University, the University's unrestricted net position balances would be \$26,975,858 and \$24,835,949 at June 30, 2014 and 2013, respectively. (See Note 1, Compensated absences).

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

9. Faculty payroll accrual

The contract for full-time faculty begins on September 1 and ends on May 31, of any given academic year. The Commonwealth of Massachusetts and Fitchburg State University pay all faculty over the twelve month period from September through August. Consequently, on June 30 of each year there is a balance due on each faculty contract which is to be paid from the subsequent year's State appropriation. The total amount due at June 30, 2014 of \$3,428,694 will be paid from the University's fiscal 2015 State appropriations. The total amount due at June 30, 2013 of \$2,845,417 was paid from the University's fiscal 2014 State appropriations.

10. Revenue received in advance

Revenue received in advance includes tuition received in advance from students for summer courses commencing after June 30 and grant funds received in advance.

Revenue received in advance includes the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Tuition, fees and professional development	\$ 828,426	\$ 819,477
Grants	165,632	833,969
Other	<u>5,250</u>	<u>8,821</u>
	<u>\$ 999,308</u>	<u>\$ 1,662,267</u>

11. Deferred inflows of resources

Deferred inflows of resources at June 30, 2014 and 2013, in the amounts of \$2,016,360 and \$2,217,995, respectively, consist of the unamortized balances of a service concession arrangement with Compass Group USA, Inc. (Compass) to manage and operate the University's food services operation at the University's dining services locations as more fully described in the arrangement. The service concession arrangement commenced on July 1, 1999 for a term of ten years through June 30, 2009 and has been amended several times thereafter to modify its terms, provide for additional payments to the University for investment in improvements in or at the University as mutually agreed upon by the parties, and extend the term of the arrangement until June 30, 2024. The last such amendment to the service concession arrangement was effective August 1, 2010 and provides for the extension of the arrangement to June 30, 2024 and payments to the University totaling \$2,000,000. These payments shall be made to the University by Compass in six installments as follows: \$300,000 in fiscal 2011; \$1,200,000 in fiscal 2012; \$200,000 in fiscal 2014; \$200,000 in fiscal 2016; \$50,000 in fiscal 2020; and \$50,000 in fiscal 2022. As of June 30, 2014, the University has received the first three installments from Compass. In addition, Compass has agreed to pay the University specified percentages of 4%, 4 ½% or 12% of specified sales receipts from the food services operation as more fully described in the arrangement. All improvements and equipment purchased with the payments received from Compass shall remain the property of the University. The arrangement may be terminated by either party at any time, without cause, by giving not less than sixty days prior written notice to the other party. The arrangement contains provisions, whereby, in the event of termination of the arrangement, the University shall be required to repay a portion of any payments made to the University by Compass. The portion required to be repaid shall be determined in accordance with amortization schedules prepared by Compass. The amortization schedules assume that all funds will be received from Compass. The University does not anticipate that the arrangement will be terminated prior to its expiration date.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

11. Deferred inflows of resources - continued

The University has recorded the service concession arrangement as a deferred inflow of resources at its present value using a 5% discount rate determined by management of the University. In fiscal 2011, the University recorded an accounts receivable from Compass at the present value of the future payments to be received from Compass, using a 5% discount rate determined by management of the University. The University received \$200,000 from Compass in fiscal 2014 which was applied as follows: interest income - \$42,891; and a reduction of the accounts receivable - \$157,109. At June 30, 2014, the accompanying statement of net position includes a remaining receivable from Compass in the amount of \$263,506, which includes accrued interest receivable of \$9,902 (see Note 3). At June 30, 2013, the accompanying statement of net position includes a remaining receivable from Compass in the amount of \$446,251, which includes accrued interest receivable of \$37,530 (see Note 3). The deferred inflow of resources is being amortized to revenue on a straight-line basis over the term of the arrangement. Amortization in the amount of \$201,635 has been recognized in capital grants revenue in the accompanying statements of revenues, expenses and changes in net position for each of the years ended June 30, 2014 and 2013, respectively.

12. Interagency payables

MDFA

On November 22, 1996, the University signed a financing agreement to receive \$6,000,000 from a Massachusetts Development Finance Agency (MDFA) (formerly Massachusetts Health and Educational Facilities Authority (MHEFA)) bond issuance, to be used for the construction of the University's athletic facility. This obligation is being repaid solely by the University through an increase in student fees. Construction of the athletic facility was completed in August, 2000. MDFA retained \$502,899 of the bond proceeds for a debt service retirement fund.

In addition, the Commonwealth appropriated an additional \$6,000,000 on behalf of the University for its share of the cost of the athletic facility.

The net proceeds of the borrowing deposited by MDFA on behalf of the University were as follows:

Debt issue	\$ 6,000,000
Amount held by MDFA for debt service retirement fund (included in restricted cash and cash equivalents - noncurrent)	(502,899)
Origination fees paid to MDFA	(98,707)
Net proceeds	<u>\$ 5,398,394</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

12. Interagency payables - continued

MDFA - continued

The University is required to make annual funding payments of principal on this debt each July 1. The principal payment due July 1, 2014 of \$232,356 was made as scheduled. These payments are made to a restricted cash account held in escrow in the University's name and recorded on the books of the University. These amounts, along with the remaining balance of the initial deposit, are to be held in escrow until July 1, 2023, when the total debt is due and payable unless the University elects to release the funds in the debt service reserve to redeem portions of the debt obligation. Earnings on this balance are transferred and used by the University to offset the administrative costs associated with this debt. In a prior year, the University elected to release the annual funding payments from the reserve to redeem portions of the debt obligation. Accordingly, each year the funding payments are now being released from the debt service reserve to redeem portions of the outstanding debt obligation. The outstanding principal balance of this Interagency payable at June 30, 2014 and 2013 was \$3,382,021 and \$3,614,320, respectively.

Interest on the debt is paid every thirty-five days at a floating rate of interest subject to market conditions. The interest rate is determined by MDFA conducting a true auction of their debt issuance every thirty-five days, in which the University's obligation is pooled with other higher education institutions within the Commonwealth who have debt funded through MDFA. The most recent auctioned interest rate in effect at June 30, 2014 and 2013 was 0.265% and 0.345%, respectively. The University is also responsible to pay for program expenses at an annual rate of 0.854% (2014) and 0.845% (2013) of the outstanding principal balance, calculated and payable every thirty-five days when the rate is auctioned. The effective interest rate (including annual program expenses) for 2014 and 2013 amounted to 1.29% and 1.25%, respectively.

Principal funding payments and estimated interest, due to maturity, consist of the following:

For the year ending June 30,	<u>Principal</u>	<u>Estimated Interest (1)</u>	<u>Total</u>
2015	\$ 232,356	\$ 8,454	\$ 240,810
2016	246,298	7,801	254,099
2017	261,076	7,110	268,186
2018	276,740	6,376	283,116
2019	293,345	5,599	298,944
2020-2024	<u>1,760,035</u>	<u>14,581</u>	<u>1,774,616</u>
	3,069,850	49,921	3,119,771
Balance of restricted cash held for debt principal	<u>312,171</u>	<u>-</u>	<u>312,171</u>
Total	<u>\$ 3,382,021</u>	<u>\$ 49,921</u>	<u>\$ 3,431,942</u>

- (1) The interest rate in effect at June 30, 2014 of 0.265% was used to calculate the estimated interest on the debt obligation of \$3,382,021. The estimated interest also reflects the reduction of the outstanding debt obligation each year by the annual funding payments.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

12. Interagency payables - continued

MDFA - continued

MDFA is responsible to determine, subject to certain criteria, if income earned on unexpended bond proceeds exceeds the interest cost to the bondholders. Any excess income earned is held in a rebate fund by an appointed trustee. Such amounts are held until every fifth year, whereby payment is to be made as indicated by the bond indenture agreement.

MSCBA

During March 2005, the University signed a financing agreement to receive \$5,110,000 from a Massachusetts State College Building Authority (MSCBA) bond issuance. These funds were used for renovations of the athletic fields and dining hall (the Projects) at the University. This obligation will be repaid solely by the University through dedicated student fees. The University also provided equity contributions totaling \$5,582,838 to fund their portion of the total renovation costs of the Projects. Of this amount, \$1,582,838 was provided by the University's food service vendor for the dining facilities Project. The University also executed a management agreement with MSCBA whereby MSCBA will provide management services to the University for the Projects.

As of both June 30, 2014 and 2013, the MSCBA held debt service reserve funds in the amount of \$138,898. During fiscal 2012, \$249,437 of debt service reserve funds were transferred to the MSCBA as part of a bond refunding transaction. Other than the transfer of those funds to the MSCBA, the bond refunding by the MSCBA had no impact on the debt of the University. The University expects to benefit from interest savings on the bond refunding. The University expects to have a net interest credit in fiscal year 2025 as a result of the interest savings. The amounts held by MSCBA are included in the accompanying statements of net position at June 30, 2014 and 2013 as noncurrent restricted cash and cash equivalents.

The University is required to make annual principal payments on this debt each May 1. The final principal payment is due on May 1, 2025. Interest on the debt is payable May 1 and November 1 each year. Interest payments are based on an amortization schedule prepared by MSCBA using an increasing coupon rate of interest ranging from 3.5% to 5% over the term of the debt to maturity. Funds from the debt service reserve fund are expected to be applied to the final payment on the debt. Earnings on the balance in the debt service reserve fund are to be used to defray debt service costs. For the years ended June 30, 2014 and 2013, the effective interest rate on this debt was 3.89% and 3.83%, respectively. The outstanding balance of this Interagency payable was \$3,285,000 and \$3,520,000 at June 30, 2014 and 2013, respectively.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

12. Interagency payables - continued

MSCBA - continued

Principal and interest payments due to maturity consist of the following:

For the year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 240,000	\$ 127,588	\$ 367,588
2016	255,000	117,944	372,944
2017	260,000	107,848	367,848
2018	275,000	65,132	340,132
2019	285,000	57,208	342,208
2020-2024	1,600,000	100,550	1,700,550
2025	<u>370,000</u>	<u>(24,696)</u>	<u>345,304</u>
Total	<u>\$ 3,285,000</u>	<u>\$ 551,574</u>	<u>\$ 3,836,574</u>

During March 2006, the University signed a financing agreement to receive \$2,060,000 from a Massachusetts State College Building Authority (MSCBA) bond issuance. These funds were used for renovations of the dining hall (the Project) at the University. This obligation will be repaid solely by the University through dedicated student fees. The University also executed a management agreement with MSCBA whereby MSCBA will provide management services to the University for the Project.

As of June 30, 2014 and 2013, amounts held by MSCBA related to the debt issue and the Project are debt service reserve funds of \$144,841 for both years which are included as noncurrent restricted cash and cash equivalents in the accompanying statements of net position.

The University is required to make annual principal payments on this debt each May 1. The final principal payment is due on May 1, 2026. Interest on the debt is payable May 1 and November 1 each year. Interest payments are based on an amortization schedule prepared by MSCBA using an increasing coupon rate of interest ranging from 3.5% to 5% over the term of the debt to maturity. Funds from the debt service reserve fund are expected to be applied to the final payment on the debt. Earnings on the balance in the debt service reserve fund are to be used to defray debt service costs. For the years ended June 30, 2014 and 2013, the effective interest rate on this debt was 4.09% and 4.03%, respectively. The outstanding balance of this Interagency payable was \$1,511,303 and \$1,606,987 at June 30, 2014 and 2013, respectively, including unamortized premium.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

12. Interagency payables - continued

MSCBA - continued

Principal and interest payments due to maturity consist of the following:

For the year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 95,000	\$ 59,213	\$ 154,213
2016	95,000	54,899	149,899
2017	100,000	50,233	150,233
2018	105,000	48,375	153,375
2019	110,000	43,082	153,082
2020-2024	635,000	128,729	763,729
2025-2026	<u>305,000</u>	<u>5,139</u>	<u>310,139</u>
	1,445,000	389,670	1,834,670
Plus: Unamortized premiums	<u>66,303</u>	<u>-</u>	<u>66,303</u>
Total	<u>\$ 1,511,303</u>	<u>\$ 389,670</u>	<u>\$ 1,900,973</u>

During December, 2010, the University signed a financing agreement to receive \$15,935,656 from a Massachusetts State College Building Authority (MSCBA) bond issuance. These funds, net of bond issuance costs and a debt service reserve fund, are being used for renovations to the Hammond Campus Center. This obligation will be repaid solely by the University through dedicated student fees and operating funds. The University also executed a management agreement with MSCBA whereby MSCBA will provide management services to the University for the renovations.

As of June 30, 2013, unexpended net proceeds amounted to \$130,503.

As of June 30, 2014, amounts held by MSCBA related to the debt issue and the Project are as follows:

	<u>2014</u>	<u>2013</u>
Unexpended debt proceeds	\$ -	\$ 130,503
Debt service reserve fund	<u>1,449,777</u>	<u>1,449,777</u>
	<u>\$ 1,449,777</u>	<u>\$ 1,580,280</u>

The amounts held by MSCBA are included in the accompanying statements of net position at June 30, 2014 and 2013 as noncurrent restricted cash and cash equivalents.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

12. Interagency payables - continued

MSCBA - continued

The University is required to make annual principal payments on this debt each May 1. The final principal payment is due on May 1, 2030. Interest on the debt is payable May 1 and November 1 each year. Interest payments are based on an amortization schedule prepared by MSCBA with interest rates ranging from 3.0% to 6.54% over the term of the debt to maturity. Funds from the debt service reserve fund are expected to be applied to the final payment on the debt. Earnings on the balance in the debt service reserve fund are to be used to defray debt service costs. For the years ended June 30, 2014 and 2013, the effective interest rate on this debt was 3.47% and 3.46%, respectively. The outstanding balance of this Interagency payable was \$13,961,632 and \$14,626,127 at June 30, 2014 and 2013, respectively, including unamortized premium.

Principal and interest payments due to maturity consist of the following:

For the year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 631,315	\$ 474,683	\$ 1,105,998
2016	655,596	449,430	1,105,026
2017	682,085	423,207	1,105,292
2018	717,403	389,102	1,106,505
2019	752,721	374,041	1,126,762
2020-2024	4,165,351	1,466,519	5,631,870
2025-2029	5,028,442	603,237	5,631,679
2030	<u>1,132,393</u>	<u>28,966</u>	<u>1,161,359</u>
	13,765,306	4,209,185	17,974,491
Plus: Unamortized premiums	<u>196,326</u>	<u>-</u>	<u>196,326</u>
Total	<u>\$ 13,961,632</u>	<u>\$ 4,209,185</u>	<u>\$18,170,817</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

12. Interagency payables - continued

MSCBA - continued

During December, 2011, the University signed a financing agreement to receive \$7,043,416 from a Massachusetts State College Building Authority (MSCBA) bond issuance. These funds, net of bond issuance costs, are being used for renovations to the Hammond Campus Center. This obligation will be repaid solely by the University through dedicated student fees and operating funds. The University also executed a management agreement with MSCBA whereby MSCBA will provide management services to the University for the renovations.

As of June 30, 2013, unexpended net proceeds amounted to \$26.

The amounts held by MSCBA are included in the accompanying statement of net position at June 30, 2013 as noncurrent restricted cash and cash equivalents.

The University is required to make annual principal payments on this debt each May 1 which commenced in fiscal 2013. The final principal payment is due on May 1, 2031. Interest on the debt is payable May 1 and November 1 each year. Interest payments are based on an amortization schedule prepared by MSCBA with interest rates ranging from 3.0% to 5.0% over the term of the debt to maturity. For the years ended June 30, 2014 and 2013, the effective interest rate on this debt was 4.95% and 4.44%, respectively. The outstanding balance of this Interagency payable was \$6,589,864 and \$6,855,285 at June 30, 2014 and 2013, respectively, including unamortized premium.

Principal and interest payments due to maturity consist of the following:

For the year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 230,000	\$ 281,050	\$ 511,050
2016	240,000	269,550	509,550
2017	250,000	257,550	507,550
2018	265,000	245,050	510,050
2019	280,000	231,800	511,800
2020-2024	1,580,000	972,600	2,552,600
2025-2029	2,000,000	547,500	2,547,500
2030-2031	<u>950,000</u>	<u>71,750</u>	<u>1,021,750</u>
	5,795,000	2,876,850	8,671,850
Plus: Unamortized premiums	<u>794,864</u>	<u>-</u>	<u>794,864</u>
Total	<u>\$ 6,589,864</u>	<u>\$ 2,876,850</u>	<u>\$ 9,466,714</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

12. Interagency payables - continued

MSCBA - continued

During December, 2012, the University signed a financing agreement to receive \$13,864,033 from a Massachusetts State College Building Authority (MSCBA) bond issuance. These funds, net of bond issuance costs and a debt service reserve fund, are being used for Phase III of renovations to the Hammond Campus Center and parking expansion. This obligation will be repaid solely by the University through dedicated student fees and operating funds. The University also executed a management agreement with MSCBA whereby MSCBA will provide management services to the University for the renovations.

The net proceeds of the borrowing deposited by MSCBA on behalf of the University were as follows:

	<u>2013</u>
Debt issue	\$ 12,740,000
Amount held by MSCBA for debt service reserve fund (included in restricted cash and cash equivalents – noncurrent)	(214,164)
Debt issuance premium	1,124,033
Debt issuance costs	(149,868)
Net proceeds	<u>\$ 13,500,001</u>

As of June 30, 2014 and 2013, unexpended net proceeds amounted to \$2,319,217 and \$9,879,373, respectively.

As of June 30, 2014, amounts held by MSCBA related to the debt issue and the Project are as follows:

	<u>2014</u>	<u>2013</u>
Unexpended debt proceeds	\$ 2,319,217	\$ 9,879,373
Debt service reserve fund	<u>214,164</u>	<u>214,164</u>
	<u>\$ 2,533,381</u>	<u>\$ 10,093,537</u>

The amounts held by MSCBA are included in the accompanying statement of net position at June 30, 2014 as follows:

	<u>2014</u>	<u>2013</u>
Restricted cash and cash equivalents:		
Current	\$ 154,858	\$ 849,155
Noncurrent	<u>2,378,523</u>	<u>9,244,382</u>
	<u>\$ 2,533,381</u>	<u>\$ 10,093,537</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

12. Interagency payables - continued

MSCBA - continued

The University is required to make annual principal payments on this debt each May 1 commencing in fiscal 2014. The final principal payment is due on May 1, 2032. Interest on the debt is payable May 1 and November 1 each year. Interest payments are based on an amortization schedule prepared by MSCBA with interest rates ranging from 2.00% to 5.0% over the term of the debt to maturity. Funds from the debt service reserve fund are expected to be applied to the final payment on the debt. Earnings on the balance in the debt service reserve fund are to be used to defray debt service costs. For the years ended June 30, 2014 and 2013, the effective interest rate on this debt was 3.87% and 3.24%, respectively. The outstanding balance of this Interagency payable was \$13,455,048 and \$13,831,248 at June 30, 2014 and 2013, respectively, including unamortized premium.

Principal and interest payments due to maturity consist of the following:

For the year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 490,000	\$ 422,513	\$ 912,513
2016	515,000	398,012	913,012
2017	535,000	377,413	912,413
2018	560,000	356,012	916,012
2019	580,000	333,613	913,613
2020-2024	3,310,000	1,256,913	4,566,913
2025-2029	3,845,000	721,125	4,566,125
2030-2032	<u>2,585,000</u>	<u>156,750</u>	<u>2,741,750</u>
	12,420,000	4,022,351	16,442,351
Plus: Unamortized premiums	<u>1,035,048</u>	<u>-</u>	<u>1,035,048</u>
Total	<u>\$ 13,455,048</u>	<u>\$ 4,022,351</u>	<u>\$ 17,477,399</u>

During January, 2014, the University signed a financing agreement to receive \$12,235,614 from a Massachusetts State College Building Authority (MSCBA) bond issuance. These funds, net of bond issuance costs and a debt service reserve fund, are being used for Phase IV of renovations to the Hammond Campus Center. This obligation will be repaid solely by the University through dedicated student fees and operating funds. The University also executed a management agreement with MSCBA whereby MSCBA will provide management services to the University for the renovations.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

12. Interagency payables - continued

MSCBA - continued

The net proceeds of the borrowing deposited by MSCBA on behalf of the University were as follows:

	<u>2014</u>
Debt issue	\$ 10,945,000
Amount held by MSCBA for debt service reserve fund (included in restricted cash and cash equivalents - noncurrent)	(667,799)
Debt issuance premium	1,290,614
Debt issuance costs	(67,815)
Net proceeds	<u>\$ 11,500,000</u>

As of June 30, 2014, unexpended net proceeds amounted to \$10,793,563.

As of June 30, 2014, amounts held by MSCBA related to the debt issue and the Project are as follows:

	<u>2014</u>
Unexpended debt proceeds	\$ 10,793,563
Debt service reserve fund	<u>667,799</u>
	<u>\$ 11,461,362</u>

The amounts held by MSCBA are included in the accompanying statements of net position at June 30, 2014:

	<u>2014</u>
Restricted cash and cash equivalents:	
Current	\$ 1,228,972
Noncurrent	<u>10,232,390</u>
	<u>\$ 11,461,362</u>

During fiscal 2014, unexpended MSCBA bond proceeds from prior issuances in the amount of \$1,131,051 were transferred to Phase IV of renovations to the Hammond Campus Center project. From this amount, unexpended proceeds amounted to \$552,782 at June 30, 2014, which are included in the accompanying 2014 statement of net position as noncurrent restricted cash and cash equivalents.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

12. Interagency payables - continued

MSCBA - continued

The University is required to make annual principal payments on this debt each May 1 commencing in fiscal 2015. The final principal payment is due on May 1, 2033. Interest on the debt is payable May 1 and November 1 each year. Interest payments are based on an amortization schedule prepared by MSCBA with interest rates ranging from 2.00% to 5.0% over the term of the debt to maturity. Funds from the debt service reserve fund are expected to be applied to the final payment on the debt. Earnings on the balance in the debt service reserve fund are to be used to defray debt service costs. For the year ended June 30, 2014, the effective interest rate on this debt was 4.73%. The outstanding balance of this Interagency payable was \$12,203,349 at June 30, 2014, including unamortized premium.

Principal and interest payments due to maturity consist of the following:

For the year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 220,000	\$ 696,253	\$ 916,253
2016	390,000	524,400	914,400
2017	405,000	512,700	917,700
2018	420,000	496,500	916,500
2019	440,000	475,500	915,500
2020-2024	2,555,000	2,024,000	4,579,000
2025-2029	3,265,000	1,318,500	4,583,500
2030-2033	<u>3,250,000</u>	<u>416,250</u>	<u>3,666,250</u>
	10,945,000	6,464,103	17,409,103
Plus: Unamortized premiums	<u>1,258,349</u>	<u>-</u>	<u>1,258,349</u>
Total	<u>\$ 12,203,349</u>	<u>\$ 6,464,103</u>	<u>\$ 18,667,452</u>

The oversight of various capital projects on campus is provided by MSCBA. To fund these projects, the University provides equity contributions, by advancing funds to the MSCBA, which are then held by MSCBA until used for the payment of the capital project costs. During 2012, the University provided equity contributions totaling \$9,136,550 to fund their portion of the total renovation costs of the Hammond Campus Center Project. As of June 30, 2014, amounts held by MSCBA representing the unexpended portion of the University's contributions totaled \$963,385, of which \$79,235 is included in current restricted cash and cash equivalents and \$884,150 is included in noncurrent restricted cash and cash equivalents in the accompanying 2014 statement of net position. As of June 30, 2013, amounts held by MSCBA representing the unexpended portion of the University's contributions totaled \$1,764,208, of which \$548,771 is included in current restricted cash and cash equivalents and \$1,215,437 is included in noncurrent restricted cash and cash equivalents in the accompanying 2013 statement of net position.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

13. FSU Foundation long term debt

FSU Foundation's long-term debt consists of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
First mortgage notes payable	\$ 2,977,001	\$ 3,112,800
Notes payable - bank	<u>591,459</u>	<u>609,957</u>
	3,568,460	3,722,757
Less current portion	<u>427,660</u>	<u>154,304</u>
	<u>\$ 3,140,800</u>	<u>\$ 3,568,453</u>

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

The loan agreement has a term of twenty years and provides for a fixed rate of interest of 5.75% per annum for the first ten years of the loan term. Thereafter, the interest rate will be fixed at the Federal Home Loan Bank Ten Year Cost of Funds Rate in effect as of the first day of the final ten years of the term of the loan plus 118 basis points. The loan requires monthly installments of principal and interest of \$3,862. The monthly installments of principal and interest during the final ten years of the loan term shall be determined based on the interest rate then in effect to provide for the amortization of the then outstanding loan principal over the remaining term of the loan. The note matures on April 16, 2028. The note may be prepaid at any time, in whole or in part, without premium or penalty.

At June 30, 2014 and 2013, the outstanding principal balance of this mortgage note payable amounted to \$444,448 and \$464,245, respectively.

In August, 2006, the Foundation 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 (see Note 22). The University is currently using the property for its print services, maintenance, and 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 Massachusetts Development Finance Agency (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 Foundation Supporting Organization's obligations under the loan agreement have been guaranteed by the Foundation.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

13. FSU Foundation long term debt - continued

The loan agreement has a term of twenty 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. Commencing thereafter, the monthly installments of principal and interest are \$12,306 until the next five-year interval adjustment date of August 16, 2016. The loan matures on August 16, 2026. The loan agreement requires the Foundation Supporting 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.

At June 30, 2014 and 2013, the outstanding principal balance of this first mortgage note payable amounted to \$1,376,309 and \$1,459,087, respectively.

Workers' Credit Union (WCU) provided financing to the Foundation Supporting Organization in the form of a note, dated February 27, 2009, in the amount of \$750,000. The proceeds of the loan were used primarily to repay advances made to the Foundation Supporting Organization by the Foundation for the acquisition of four real estate properties. The note is secured by a first mortgage interest in certain real estate owned by the Foundation Supporting Organization and an assignment of certain leases and rents. The note is also collateralized by all funds held by the lender. At June 30, 2014 and 2013, the Foundation Supporting Organization has total cash balances of \$2,084 and \$41,980, respectively, held at WCU which serve as additional collateral for both WCU loans to the Foundation Supporting Organization (see below).

The mortgage note has a term of ten 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 twenty-year principal amortization. Commencing thereafter, the monthly installments of principal and interest are \$4,422, based on a twenty-year principal amortization. Pursuant to the provisions of the loan modification agreement, the Foundation Supporting Organization shall be responsible for a prepayment penalty equal to 3% of the outstanding principal balance of the loan in the event the loan is refinanced with another financial institution within three years of the loan modification date.

At June 30, 2014 and 2013, the outstanding principal balance of this first mortgage loan amounted to \$664,018 and \$683,416, respectively.

Workers' Credit Union provided financing to the Foundation Supporting Organization in the form of a note, dated February 19, 2010, in the amount of \$300,000. The proceeds of the loan were used to finance the acquisition of a real estate property. The note is secured by a first mortgage interest in the property and an

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

13. FSU Foundation long term debt - continued

assignment of leases and rents. In addition, the note is secured by a second mortgage interest in the real estate and related personal property located at 167 Klondike Avenue in Fitchburg, Massachusetts. The first mortgage on that property secures the Foundation Supporting Organization's obligations under the MDFA Revenue Bonds Issue. The Foundation Supporting Organization also provided WCU with a second assignment of leases and rents related to that property. The note is also collateralized by all funds held by the lender. At June 30, 2014 and 2013, the Foundation Supporting Organization has total cash balances of \$2,084 and \$41,980, respectively, held at WCU which serve as additional collateral for both WCU loans to the Foundation Supporting Organization.

The mortgage note has a term of ten years, expiring on February 19, 2020, and provided for a fixed rate of interest of 6.03% per annum. The interest rate was adjusted to 5.28% 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 \$1,939, through June 20, 2013, based on a twenty-year principal amortization. Commencing thereafter, the monthly installments of principal and interest are \$1,816, based on a twenty-year principal amortization. Pursuant to the provisions of the loan modification agreement, the Foundation Supporting Organization shall be responsible for a prepayment penalty equal to 3% of the outstanding principal balance of the loan in the event the loan is refinanced with another financial institution within three years of the loan modification date. The loan documents contain cross default - cross collateralization provisions with all other obligations of the Foundation Supporting Organization to WCU.

At June 30, 2014 and 2013, the outstanding principal balance of the mortgage loan amounted to \$273,725 and \$280,852, respectively.

The property acquired with the proceeds of this loan is under a Purchase and Sale Agreement to be sold. The sale is expected to close in fiscal 2015. The property is being held for sale and is included in other current assets in the accompanying 2014 statement of position of FSU Foundation (see Note 5). The loan is expected to be paid off upon the sale of the property. As a result, management has classified the entire outstanding principal balance of this mortgage loan as a current obligation in the accompanying 2014 statement of position of FSU Foundation.

In June, 2013, Rollstone Bank & Trust provided financing to the Foundation Supporting Organization in the form of a note, dated June 19, 2013, in the amount of \$142,000. The proceeds of the loan were used to repay an advance made to the Foundation Supporting Organization by the Foundation in May, 2013 for the acquisition of a real estate property. The note is secured by a first mortgage interest in the property and an assignment of leases and rents.

The mortgage note has a term of twenty years, maturing on June 19, 2033, and provides for a fixed rate of interest of 3.25% per annum. Commencing in July, 2013, the loan requires monthly installments of principal and interest of \$809 based on a twenty year principal amortization. The note provides for the payment of a prepayment penalty prior to the fifth anniversary of the loan term in the event the loan is refinanced with another financial institution. The amount of the penalty shall be a specified percentage of the outstanding principal balance with such percentage ranging from 5% during the first loan year and decreasing by 1% per year to 1% in the fifth loan year. There is no prepayment penalty after the fifth loan year. The loan agreement requires the Foundation 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.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

13. FSU Foundation long term debt - continued

At June 30, 2014 and 2013, the outstanding principal balance of the mortgage note payable amounted to \$136,886 and \$142,000, respectively.

In June, 2013, Fidelity Co-Operative Bank provided financing to the Foundation Supporting Organization in the form of a note, dated June 26, 2013, in the amount of \$83,200. The proceeds of the loan were used to repay an advance made to the Foundation Supporting Organization by the Foundation in May, 2013 for the acquisition of a real estate property. The note is secured by a first mortgage interest in the property and an assignment of leases and rents.

The mortgage note has a term of twenty 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. Commencing in July, 2013, 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.

At June 30, 2014 and 2013, the outstanding principal balance of the mortgage note payable amounted to \$81,615 and \$83,200, respectively.

Rollstone Bank & Trust provided financing to the Foundation in the form of a note dated January 5, 2010, in the amount of \$77,952. The proceeds of the loan were used to finance the purchase of computer software to be used in the Foundation's operations. The note was unsecured. The note had a term of three years, and matured on January 5, 2013. The note provided for a fixed rate of interest of 5% per annum. The note required monthly installments of principal and interest of \$2,339 based on a three year principal amortization. At June 30, 2013, the note was paid in full.

In May, 2007, the Foundation Supporting Organization acquired land and a building consisting of six apartment units and an adjacent parcel of land 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 Foundation 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 with an equivalent fair value of approximately \$2,011,000 at June 30, 2014. In addition, payment and performance of the Foundation Supporting Organization's obligations under the loan agreement have been guaranteed by the Foundation.

The promissory note has a term of thirty 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 rate was adjusted to 2.62% per annum on April 26, 2012 pursuant to

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

13. FSU Foundation long term debt - continued

the provisions of the loan agreement. The loan required monthly installments of principal and interest of \$4,122 through May 7, 2012. Commencing thereafter, the monthly installments of principal and interest are \$2,875 until the next five-year interval adjustment date of April 26, 2017. The note may be prepaid at any time, in whole or in part, without premium or penalty.

At June 30, 2014 and 2013, the outstanding principal balance of this note payable amounted to \$591,459 and \$609,957, respectively.

Principal funding payments and estimated interest, due to maturity, consist of the following:

For the year ending June 30,	<u>Principal</u>	<u>Estimated Interest (1)</u>	<u>Total</u>
2015	\$ 427,660	\$ 156,121	\$ 583,781
2016	160,736	135,048	295,784
2017	168,421	127,361	295,782
2018	176,195	119,587	295,782
2019	735,445	97,449	832,894
2020-2024	913,058	300,531	1,213,589
2025-2029	654,854	98,163	753,017
2030-2034	235,374	31,927	267,301
2035-2037	<u>96,717</u>	<u>3,907</u>	<u>100,624</u>
Total	<u>\$ 3,568,460</u>	<u>\$ 1,070,094</u>	<u>\$ 4,638,554</u>

- (1) The interest rates in effect at June 30, 2014 of 5.75%, 4.5%, 4.99%, 5.28%, 3.5% and 3.25% on the first mortgage notes payable and 2.62% on the note payable - bank were used to calculate the estimated interest on these debt obligations.

14. FSU Foundation line of credit

On April 4, 2013, the Foundation renewed, under substantially the same terms, its existing revolving working capital line of credit agreement with Workers' Credit Union which permits the Foundation to borrow up to \$250,000. 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. At June 30, 2014, \$225,000 was outstanding on the line of credit. At June 30, 2013, there were no borrowings outstanding under the line of credit. The line of credit provides for interest at the Wall Street Journal Prime Rate, but in no event less than 6% per annum. At both June 30, 2014 and 2013, the effective interest rates were 6% per annum. Borrowings are secured by investments with an equivalent fair value of \$6,847,000. The line of credit is also collateralized by all funds held by the lender. At June 30, 2014 and 2013, the Foundation has total cash balances of \$57,477 and \$57,263, respectively, held by the lender. The line of credit agreement expires on March 17, 2015. The Foundation may prepay outstanding revolving loans under the agreement in whole or in part at any time without premium or penalty.

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YEARS ENDED JUNE 30, 2014 AND 2013

15. Long term liabilities

Long-term liability activity of the University for the year ended June 30, 2014 included the following:

	<u>Totals</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Totals June 30, 2014</u> <u>Ending</u> <u>Balance</u>	<u>Current</u> <u>Portion</u>
Interagency payables	<u>\$ 44,053,967</u>	<u>\$ 12,235,614</u>	<u>\$ 1,901,364</u>	<u>\$ 54,388,217</u>	<u>\$ 2,367,969</u>
Total	<u>44,053,967</u>	<u>12,235,614</u>	<u>1,901,364</u>	<u>54,388,217</u>	<u>2,367,969</u>
Other liabilities:					
Workers' compensation	744,725	99,860	146,711	697,874	137,481
Compensated absences	5,183,284	3,187,526	3,323,893	5,046,917	3,236,890
Loan payable - federal financial assistance	<u>1,927,071</u>	<u>38,612</u>	<u>7,601</u>	<u>1,958,082</u>	<u>-</u>
Total other liabilities	<u>7,855,080</u>	<u>3,325,998</u>	<u>3,478,205</u>	<u>7,702,873</u>	<u>3,374,371</u>
Long term obligations	<u>\$ 51,909,047</u>	<u>\$ 15,561,612</u>	<u>\$ 5,379,569</u>	<u>\$ 62,091,090</u>	<u>\$ 5,742,340</u>

Long-term liability activity of the University for the year ended June 30, 2013 included the following:

	<u>Totals</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Totals June 30, 2013</u> <u>Ending</u> <u>Balance</u>	<u>Current</u> <u>Portion</u>
Interagency payables	<u>\$ 31,576,638</u>	<u>\$ 13,864,033</u>	<u>\$ 1,386,704</u>	<u>\$ 44,053,967</u>	<u>\$ 1,856,004</u>
Total	<u>31,576,638</u>	<u>13,864,033</u>	<u>1,386,704</u>	<u>44,053,967</u>	<u>1,856,004</u>
Other liabilities:					
Workers' compensation	678,517	199,876	133,668	744,725	146,711
Compensated absences	4,210,153	3,558,001	2,584,870	5,183,284	3,323,893
Loan payable - federal financial assistance	<u>1,902,808</u>	<u>58,082</u>	<u>33,819</u>	<u>1,927,071</u>	<u>-</u>
Total other liabilities	<u>6,791,478</u>	<u>3,815,959</u>	<u>2,752,357</u>	<u>7,855,080</u>	<u>3,470,604</u>
Long term obligations	<u>\$ 38,368,116</u>	<u>\$ 17,679,992</u>	<u>\$ 4,139,061</u>	<u>\$ 51,909,047</u>	<u>\$ 5,326,608</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

15. Long term liabilities - continued

Long-term liability activity of FSU Foundation for the year ended June 30, 2014 included the following:

	<u>Totals</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Totals June 30, 2014</u> <u>Ending</u> <u>Balance</u>	<u>Current</u> <u>Portion</u>
First mortgage notes payable	\$ 3,112,800	\$ -	\$ 135,799	\$ 2,977,001	\$ 408,651
Notes payable - bank	<u>609,957</u>	<u>-</u>	<u>18,498</u>	<u>591,459</u>	<u>19,009</u>
Long-term obligations	<u>\$ 3,722,757</u>	<u>\$ -</u>	<u>\$ 154,297</u>	<u>\$ 3,568,460</u>	<u>\$ 427,660</u>

Long-term liability activity of FSU Foundation for the year ended June 30, 2013 included the following:

	<u>Totals</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Totals June 30, 2013</u> <u>Ending</u> <u>Balance</u>	<u>Current</u> <u>Portion</u>
First mortgage notes Payable	\$ 3,008,325	\$ 225,200	\$ 120,725	\$ 3,112,800	\$ 135,792
Notes payable - bank	<u>644,051</u>	<u>-</u>	<u>34,094</u>	<u>609,957</u>	<u>18,512</u>
Long-term obligations	<u>\$ 3,652,376</u>	<u>\$ 225,200</u>	<u>\$ 154,819</u>	<u>\$ 3,722,757</u>	<u>\$ 154,304</u>

16. Net position

Unrestricted net position is comprised of net assets that are not subject to externally imposed stipulations; however, they may be subject to internal restrictions. For example, unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Certain unrestricted net assets are internally designated for academic and research programs and initiatives, and graduate and continuing education programs. Designated unrestricted net assets were \$9,380,848 and \$8,576,678 at June 30, 2014 and 2013, respectively. Undesignated unrestricted net assets were \$12,874,163 and \$11,396,414 at June 30, 2014 and 2013, respectively.

At June 30, 2014 and 2013, the net investment in capital assets amount of \$110,513,323 and \$95,932,514, respectively, includes the effect of deferring the recognition of revenue from the installment payments associated with the dining facilities service concession arrangement. At June 30, 2014 and 2013, \$1,821,862 and \$1,861,423, respectively, of the balance of the deferred inflow of resources has been included, as a reduction, in the calculation of net investment in capital assets. This amount will be recognized as revenue and increase the net investment in capital assets net position over the remaining term of the arrangement.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

17. Net position restricted by enabling legislation

Fitchburg State University Foundation, Inc.'s consolidated statements of net position as of June 30, 2014 and 2013 reflect a restricted net position of \$13,738,391 and \$12,526,759, respectively. Of these amounts, \$2,357,931 for each year, are restricted by enabling legislation for the State Matching Funds Program.

18. Operating expenses

The University's operating expenses for the years ended June 30, 2014 and 2013, on a natural classification basis, are comprised of the following:

	<u>2014</u>	<u>2013</u>
Salaries:		
Faculty	\$ 19,756,667	\$ 19,156,231
Exempt wages	3,459,351	2,771,706
Non-exempt wages	18,021,665	17,318,153
Benefits	9,796,325	9,140,747
Scholarships	1,732,292	1,518,302
Utilities	4,966,295	4,611,655
Supplies and other services	18,111,769	19,091,415
Depreciation	<u>7,209,319</u>	<u>5,544,522</u>
Total operating expenses	<u>\$ 83,053,683</u>	<u>\$ 79,152,731</u>

19. State controlled accounts

Certain significant costs and benefits associated with the operations of the University are appropriated, expended, controlled, and reported by the Commonwealth through non-University line items in the Commonwealth's budget. Under generally accepted accounting principles, such transactions must be recorded in the financial statements of the University. These transactions include payments by the Commonwealth for the employer's share of funding the Massachusetts State Employees' Retirement System and for the employer's share of health care premiums.

The estimated amounts of funding attributable for the Commonwealth's retirement system contribution and the employer's share of health care premiums for the years ended June 30, 2014, 2013 and 2012 were as follows (See State appropriations under Note 23):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Commonwealth's retirement system contributions	\$ 2,509,629	\$ 2,041,396	\$ 2,313,614
Employers share of health care premium	\$ 5,012,146	\$ 4,766,752	\$ 5,278,725

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

20. Retirement plan

Substantially all of the University's full-time employees are covered by the Massachusetts State Employees' Retirement System (SERS). SERS, a single employer defined benefit public employee retirement system, is administered by the Massachusetts State Retirement Board and covers substantially all non-student employees. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Chapter 32A of the General Laws of the Commonwealth of Massachusetts assigns the authority to establish and amend benefit provisions to the Massachusetts Legislature. The University is not required to contribute from its appropriation allocation or other University funds to SERS for employees compensated from State appropriations. For University employees covered by SERS but compensated from a trust fund or other source, the University is required to contribute an amount determined as a percentage of compensation in accordance with a fringe benefit rate established by the State. The total amount of current funding by the State related to the University's employees was \$2,509,629, \$2,041,396, and 2,313,614 during 2014, 2013 and 2012, respectively. Annual covered payroll was approximately 69%, 67%, and 63% of total payroll for the University for the years ended June 30, 2014, 2013 and 2012, respectively.

The Commonwealth does not issue separately audited financial statements for the plan. The financial position and results of operations of the plan are incorporated into the Commonwealth's financial statements, a copy of which may be obtained from the Office of the State Comptroller, Commonwealth of Massachusetts, One Ashburton Place, Room 901, Boston, MA 02108.

Substantially all full-time staff are covered by and must participate in SERS. Benefits fully vest after 10 years of full-time employment. An employee may receive retirement benefits after 20 years of service, or after 10 years of service and having attained the age of 55.

Based on State statute, covered employees of the University contribute an amount ranging from 5% to 9% (depending on date of employment) of their eligible compensation to SERS. Employees hired after January 1, 1979, are required to contribute an additional 2% for the eligible compensation over \$30,000 per year. The State is required to make actuarially determined contributions that maintain the financial integrity of the retirement system.

21. Fringe benefits for current employees and post employment obligations - pension and non-pension

The University participates in the Commonwealth's Fringe Benefit programs, including active employee and post - employment health insurance, unemployment, pension, and workers' compensation benefits. Health insurance and pension costs for active employees and retirees are paid through a fringe benefit rate charged to the University by the Commonwealth and currently the liability is borne by the Commonwealth.

On-behalf payments of fringe benefits for benefited employees on the Commonwealth's payroll are recognized as revenues and expenses in the University's financial statements in each of the fiscal years presented.

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

21. Fringe benefits for current employees and post employment obligations - pension and non-pension - continued

Post Employment Other than Pensions

In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities, and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefit costs which is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies.

The Commonwealth's Group Insurance Commission (GIC) was established by the Legislature in 1955 to provide and administer health insurance and other benefits to the Commonwealth's employees and retirees, and their dependents and survivors. The GIC also covers housing and redevelopment authorities' personnel, certain authorities and other offline agencies, retired municipal teachers from certain cities and towns and a small amount of municipalities as an agent multiple employer program, accounted for as an agency fund activity of the Commonwealth, not the University.

The GIC administers a plan included within the State Retire Benefits Trust Fund, an irrevocable trust. Any assets accumulated in excess of liabilities to pay premiums or benefits or administrative expenses are retained in that fund. The GIC's administrative costs are financed through Commonwealth appropriations and employee investment returns. The Legislature determines employees' and retirees' contribution ratios.

The GIC does not issue separately audited financial statements. The financial position and results of operations of the plan are incorporated in the Commonwealth's financial statements, a copy of which may be obtained from the Office of the State Comptroller, Commonwealth of Massachusetts, One Ashburton Place, Room 901, Boston, MA 02108.

The GIC is a quasi-independent state agency governed by an eleven-member body (the Commission) appointed by the Governor. The GIC is located administratively within the Executive Office of Administration and Finance, and is responsible for providing health insurance and other benefits to the Commonwealth's employees and retirees and their survivors and dependents. During the fiscal years ended on June 30, 2014 and 2013, the GIC provided health insurance for its members through indemnity, PPO, and HMO plans. The GIC also administered carve-outs for the pharmacy benefit and mental health and substance abuse benefits for certain of its health plans. In addition to health insurance, the GIC sponsors life insurance, long-term disability insurance (for active employees only), dental and vision coverage for employees not covered by collective bargaining, a retiree discount vision plan and retiree dental plan, and finally, a pre-tax health care spending account and dependent care assistance program (for active employees only).

The amount of funding by the University related to benefits other than pensions for the years ended June 30, 2014, 2013 and 2012 were \$9,796,325, \$9,140,747, and \$10,242,524, respectively, which equaled the required contributions each year charged to it through the Commonwealth's fringe benefit recovery program.

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

22. Lease and license agreements

As disclosed in Note 13, the Foundation Supporting Organization entered into a long-term operating lease agreement with DCAM on behalf of the University. The lease commenced on August 16, 2006. The lease is for a term of ten years and provides for base rent of \$165,000 per year, payable in monthly installments of \$13,750, for the entire lease term. The University is also responsible for the payment of normal operating, maintenance and repair costs associated with its use of the property. At the expiration of the lease term, the Foundation Supporting Organization expects the lease will be renewed with DCAM on behalf of the University. For the years ended June 30, 2014 and 2013, rental income for the Foundation Supporting Organization amounted to \$165,000 in each year. The rental income is reflected in revenue from sales and services of educational departments in the accompanying statements of revenues, expenses and changes in net position. The corresponding rent expense of the University is reflected in operations and maintenance of plant.

The following is a schedule of future minimum rent on this lease:

Year ending <u>June 30,</u>	<u>Amount</u>
2015	\$ 165,000
2016	165,000
2017	<u>20,625</u>
	<u>\$ 350,625</u>

On August 6, 2008, the Foundation Supporting Organization entered into a ten 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 shall expire 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 provides 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 terms payable in monthly installments of \$1,579. On November 1, 2014, the monthly rent on the lease shall increase to \$1,697. The Foundation 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 Foundation Supporting Organization may cancel the lease at any time with the payment of two months' base rent as a termination charge. The Foundation 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, 2014 and 2013, rent expense amounted to \$18,947 in each year.

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

22. Lease and license agreements - continued

The following is a schedule of future minimum rental payments under this operating lease agreement:

<u>Year ending June 30,</u>	<u>Amount</u>
2015	\$ 19,895
2016	20,368
2017	20,368
2018	21,386
2019	<u>7,299</u>
	<u>\$ 89,316</u>

On February 1, 2013, the Foundation Supporting Organization entered into a ten 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 Foundation 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 Foundation 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 Foundation 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, 2014 and 2013, rent expense amounted to \$5,696 and \$2,373, respectively.

The following is a schedule of future minimum rental payments under this operating lease agreement:

<u>Year ending June 30,</u>	<u>Amount</u>
2015	\$ 5,696
2016	5,696
2017	5,696
2018	5,696
2019	5,696
2020 - 2023	<u>20,411</u>
	<u>\$ 48,891</u>

The Foundation Supporting Organization and the University are parties to License Agreements whereby the Foundation Supporting Organization granted to the University irrevocable and exclusive licenses to occupy, manage, maintain and operate certain property owned by the Foundation 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 twelve equal monthly installments. All costs to operate and maintain the property, including any capital improvements made thereto, shall be borne by the

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

22. Lease and license agreements - continued

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, 2014 and 2013, license fee income for the Foundation Supporting Organization amounted to \$241,189 and \$181,150, respectively. The license fee income is reflected in revenue from sales and services of educational departments in the accompanying statements of revenue, expenses and changes in net position. The corresponding license fee expense of the University is reflected in operations and maintenance of plant.

23. Management Accounting and Reporting System

Section 15C of Chapter 15A of the Massachusetts General Laws requires Commonwealth Colleges and Universities to report activity of campus based funds to the Comptroller of the Commonwealth on the Commonwealth's Statewide Accounting System, Massachusetts Management Accounting and Reporting System (MMARS) on the statutory basis of accounting. The statutory basis of accounting is a modified accrual basis of accounting and differs from the information included in these financial statements. The amounts reported on MMARS meet the guidelines of the Comptroller's Guide for Higher Education Audited Financial Statements.

State appropriations

The University's State appropriations are comprised of the following for the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Gross State appropriations	\$ 28,386,564	\$ 27,388,323
Add: Fringe benefits for benefited employees on the Commonwealth payroll	7,521,775	6,808,148
Less: Day school tuition remitted to the Commonwealth and included in tuition and fee revenue	(1,044,720)	(1,151,022)
Net State appropriations	<u>\$ 34,863,619</u>	<u>\$ 33,045,449</u>

\$33,907,878 and \$30,587,728 represent appropriations for maintenance and payroll during 2014 and 2013, respectively, \$836,048 and \$2,257,801 represent appropriations for capital improvements for 2014 and 2013, respectively, and \$119,693 and \$199,920 represent appropriations for other noncapital appropriations for 2014 and 2013, respectively. These amounts are presented separately in the accompanying statements of revenues, expenses and changes in net position.

Day school tuition receipts and transfers have been recorded in an agency fund during the year and had no material balance outstanding at June 30, 2014 and 2013.

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

24. Risk management

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Commonwealth is self-insured. In addition, the University maintains commercial insurance coverage for certain of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. The separate insurance policies maintained by the University consist of Educator's Legal Liability, commercial crime, general liability, automobile liability, excess liability, and a foreign package policy. There were no significant reductions in insurance coverage from coverage in the prior year. The costs of settled claims have not exceeded policy coverages in any of the past three years.

The University also participates in the Commonwealth's self-insured programs for employees workers' compensation, health care and other insurance. The Commonwealth assesses the costs of workers' compensation and unemployment insurance to the University based on the University's actual experience (see Note 7). The Commonwealth manages workers' compensation as part of its general operations. No separate fund for workers' compensation is provided for in Massachusetts General Laws. The Commonwealth assesses the costs of health care insurance to the University through a fringe benefit rate and the liability for such coverage is borne by the Commonwealth. The Commonwealth's Group Insurance Commission manages health insurance and other benefits for the Commonwealth's active and retired employees (see Note 21).

Massachusetts General Laws limit the risk assumed by the Commonwealth for claims of personal injury or property damages to \$100,000 per occurrence, in most circumstances.

25. Commitments and contingencies

Pending or threatened lawsuits against governmental agencies arise in the ordinary course of operations. In the opinion of the University's administration, the ultimate resolution of any legal actions at this date will not result in a material loss to the University since most of any obligation is expected to be paid from state appropriated funds.

The University receives significant financial assistance from federal and state agencies in the form of grants. Expenditure of funds under these programs require compliance with the grant agreements and are subject to audit by representatives of these federal and state agencies. Any disallowed expenditures resulting from such audits become a liability of the University. In the opinion of management, such liabilities, if any, are not expected to materially affect the financial condition of the University.

The University participates in the Massachusetts College Savings Prepaid Tuition Program. This program allows participants to pay in advance (against a bond) for future tuition at the cost of tuition at the time of the bond purchase, increased by changes in the Consumer Price Index plus 2%. The University is obligated to accept as payment of tuition the amount determined by this program without regard to the standard tuition rate in effect at the time of the individual's enrollment at the University. The effect of this program cannot be determined as it is contingent on future tuition increases and the bond purchasers who attend the University.

The University can perform capital projects that are funded and controlled by another State agency. These projects would be paid from funds appropriated and under the control of the Department of Capital Asset Management (DCAM). The projects generally consist of renovations and improvements and have been recorded in the respective accounts.

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

25. Commitments and contingencies - continued

During 2014, an agreement was signed between the Department of Higher Education and an Employee Union in which certain employees would be given various increases in salary, retroactive to January 1, 2014. The increases were subject to approval by the Massachusetts Legislature and ratification by the Governor of the Commonwealth. The increases were approved by the Massachusetts Legislature and ratified by the Governor. The University has estimated the retroactive increases to be approximately \$66,000 which are expected to be paid from the University's fiscal 2015 State appropriation and University funds.

26. McKay Agreement

The University has an agreement with the City of Fitchburg, whereby the City can use the McKay building to provide elementary education to local residents on a year to year basis. The University receives quarterly payments from the City to reimburse the University for its share of payroll and related operating expenses (the McKay School expenditures). Reimbursements received for the years ended June 30, 2014 and 2013 were \$819,487 for both years. These reimbursements are included in the Sales and Services of Educational Departments revenue amount and the McKay School expenditures are included in the appropriate categories under Operating Expenses in the accompanying statements of revenues, expenses and changes in net position.

27. Civic Center

In August 2006, the University and the City of Fitchburg entered into a Memorandum of Understanding in which the University would assume responsibility for the operations, management and maintenance of the George R. Wallace, Jr. Civic Center and the Alice G. Wallace Planetarium (collectively, the Civic Center). The Civic Center includes two skating rinks and the adjoining planetarium. The Commonwealth of Massachusetts acting by and through its Division of Capital Asset Management and Maintenance (DCAM) on behalf of the University entered into a lease agreement for the Civic Center with the City of Fitchburg and the Board of Trustees of the Civic Center. The lease commenced on October 1, 2007 and is for a term of 99 years. The lease provided for an initial nominal rent payment and is otherwise a net lease. Pursuant to the terms of the lease, the University has complete authority, at its sole discretion, to do all such acts and deeds as it deems reasonably necessary to manage, maintain and operate the Civic Center for the permitted uses specified in the lease agreement. The University is responsible for payment, from net revenues generated by its operation of the Civic Center, of all costs associated with the maintenance and operation of the Civic Center, and certain other payments as specified in the lease agreement. DCAM, at the instruction of the University and with 60 days prior written notice, may terminate the lease in the event that the University, in its sole discretion, determines that continuation of the lease is not in the interest of the University.

During fiscal 2007, the University commenced initial management, maintenance and operations activities at the Civic Center in anticipation of the lease agreement being executed. The Commonwealth of Massachusetts Legislature appropriated an aggregate amount of \$2,500,000 for repairs and upgrades to the Civic Center. During fiscal 2008, the University made repairs and upgrades to the Civic Center for an aggregate cost of \$2,477,381. The University engaged the services of a professional management company, Facilities Management Corporation (FMC), to assist with management, maintenance and operations activities of the ice-skating rink program at the Civic Center. The initial management contract expired on December 31, 2008.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013

27. Civic Center - continued

On February 1, 2009, the Commonwealth of Massachusetts acting by and through its Division of Capital Asset Management and Maintenance on behalf of the University entered into a sublease agreement with FMC for a term of twenty-five years commencing on the date of the agreement. The sublease agreement is a net lease and, accordingly, FMC is responsible for all costs associated with the operations, management, and maintenance of the sublease premises as well as repairs and required capital improvements. The sublease premises consist of the facilities and related equipment associated with the operation of a public ice-skating rink program. The planetarium is not part of the sublease premises and it is not currently operational. FMC is also responsible for certain other payments for and on behalf of the University related to obligations in existence at the date the University initially assumed management of the Civic Center. During the term of the sublease agreement, FMC is required to pay the University monthly percentage rent based upon the actual gross revenues from its operations, as defined. During each of the first ten years of the sublease term, no percentage rent is required.

Thereafter, for each of the years eleven through twenty-five, percentage rent at the rate of 1% of actual gross revenues shall be due and payable on a monthly basis. However, in no event shall the aggregate amount of percentage rent paid by FMC during the sublease term be less than \$107,155.

The University, officials of the City of Fitchburg, and the Board of Trustees of the Civic Center believe that their collective efforts will return the Civic Center to a vibrant place where the citizenries of the City of Fitchburg and its surrounding cities and towns can enjoy athletic, educational and cultural activities.

SUPPLEMENTAL INFORMATION - OTHER

FITCHBURG STATE UNIVERSITY
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RESIDENCE HALL FUND AND RESIDENCE HALL DAMAGE FUND ACTIVITY

JUNE 30, 2014

The University's Residence Hall Fund and Residence Hall Damage Fund non-classified Statements of Net Position at June 30, 2014 are as follows:

Statements of Net Position

	<u>Residence Hall Fund</u>	<u>Residence Hall Damage Fund</u>
Assets:		
Cash	\$ 409,098	\$ 45,333
Cash held by State Treasurer	164,875	-
Investments	1,210,235	77,533
Prepaid expenses	483	-
Accounts receivable, net	<u>76,664</u>	<u>10,844</u>
Total assets	1,861,355	133,710
Liabilities:		
Accounts payable	44,123	-
Deposits	310,715	-
Salaries payable	87,610	-
Compensated absences	<u>126,093</u>	<u>-</u>
Total liabilities	<u>568,541</u>	<u>-</u>
Net position	<u>\$ 1,292,814</u>	<u>\$ 133,710</u>

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RESIDENCE HALL FUND AND RESIDENCE HALL DAMAGE FUND ACTIVITY - CONTINUED

JUNE 30, 2014

The University's Residence Hall Fund and Residence Hall Damage Fund Statements of Revenues, Expenses and Changes in Net Position (presented in accordance with the Commonwealth of Massachusetts' Expenditure Classification plan) for the year ended June 30, 2014 are as follows:

	<u>Residence Hall Fund</u>	<u>Residence Hall Damage Fund</u>
Revenues:		
Student fees	\$ 8,505,893	\$ -
Interest	22,153	929
Investment income (loss)	115,480	4,843
Commissions	32,965	50
Rentals	41,180	-
Room damage assessments	-	22,569
Miscellaneous	<u>29,492</u>	<u>-</u>
Total revenues	<u>8,747,163</u>	<u>28,391</u>
Expenses:		
Regular employee compensation	1,130,402	-
Regular employee related expenses	5,074	-
Special employee/contract services	125,757	-
Pension and insurance	308,462	-
Facility operating supplies and related expenses	11,682	-
Administrative expenses	57,890	-
Energy and space rental	1,083,792	-
Consultant services	2,200	-
Operational services	14,602	-
Equipment purchases	18,136	7,921
Equipment lease - purchase, lease, rent, repair	10,744	-
Purchased client services and programs	-	-
Construction and improvements	402,750	11,845
Benefit program	43,650	-
Loans and special payments	5,476,967	-
Other - bad debt expense (recovery)	11,436	(734)
Information technology expenses	<u>22,377</u>	<u>-</u>
Total expenses	<u>8,725,921</u>	<u>19,032</u>
Transfers (in)/out:		
Interdepartmental rental income	(73,278)	-
Printing	<u>6,237</u>	<u>-</u>
Total transfers	<u>(67,041)</u>	<u>-</u>
Total expenses and transfers	<u>8,658,880</u>	<u>19,032</u>
Increase (decrease) in net position	88,283	9,359
Net position - beginning of year	<u>1,204,531</u>	<u>124,351</u>
Net position - end of year	<u>\$ 1,292,814</u>	<u>\$ 133,710</u>

The above Statements of Revenues, Expenses and Changes in Net Position do not include an allocation of the current year charge for workers' compensation as estimated by the Commonwealth's actuarial review. It is not practical to allocate any such amount to any specific trust fund.

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Supplemental Statistical Information - Unaudited

	Fiscal Year									
Schedule of Net Position by Category	2005	2006	2007	2008	2009	2010	2011 ^a	2012 ^a	2013 ^a	2014 ^a
Net investment in capital assets	\$ 20,186,185	\$ 20,360,103	\$ 25,806,513	\$ 30,983,682	\$ 39,530,560	\$ 43,903,456	\$ 52,186,987	\$ 72,858,018	\$ 95,932,514	\$ 110,513,323
Restricted-expendable	7,138,933	9,083,307	10,946,782	9,850,228	6,515,426	4,262,842	6,128,825	11,907,794	5,780,921	5,679,477
Restricted-nonexpendable	588,587	597,461	600,377	511,206	437,045	470,158	458,004	448,121	465,051	474,297
Unrestricted	11,085,627	14,253,916	12,699,422	11,914,978	9,755,072	18,305,109	21,356,150	19,638,177	19,973,092	22,255,011
Total net position	\$ 38,999,332	\$ 44,294,787	\$ 50,053,094	\$ 53,260,094	\$ 56,238,103	\$ 66,941,564	\$ 80,129,966	\$ 104,852,110	\$ 122,151,578	\$ 138,922,108

Note: This schedule does not include the component unit, the Fitchburg State University Foundation, Inc.

Sources and Uses of Funds

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Source of Revenue										
Student charges (net of scholarships)	\$ 18,083,828	\$ 20,877,997	\$ 22,942,610	\$ 25,033,128	\$ 26,737,289	\$ 28,372,042	\$ 29,985,296	\$ 30,680,511	\$ 31,359,985	\$ 32,944,475
Grants & contracts	3,831,266	3,486,257	3,656,979	3,951,007	4,483,292	6,112,586	6,616,044	6,477,571	7,060,325	8,040,446
Stimulus grants	-	-	-	-	-	6,666,991	3,098,023	210,343	-	-
Auxiliary enterprises	5,027,889	5,485,605	5,946,282	6,085,147	6,467,184	8,046,782	8,042,922	8,117,577	8,534,660	8,806,774
Other operating revenue	1,889,756	1,927,868	1,987,191	1,963,274	2,098,358	2,096,607	2,169,883	1,874,840	1,913,401	1,941,041
Total operating revenue	28,832,739	31,777,727	34,533,062	37,032,556	39,786,123	51,295,008	49,912,168	47,360,842	48,868,371	51,732,736
State appropriations	27,375,808	29,645,087	31,702,393	34,063,661	29,415,783	24,622,349	29,332,885	29,797,174	30,787,648	34,027,571
State capital appropriations	407,191	1,195,000	1,799,754	475,000	497,822	-	140,046	6,768,104	2,257,801	836,048
Capital grants	121,217	123,535	123,535	178,264	325,351	1,683,802	5,319,402	15,135,437	14,301,814	12,361,251
Other non-operating revenue	510,689	1,078,894	1,393,662	819,844	(179,115)	1,329,091	1,125,671	611,447	1,283,549	1,988,235
Total non-operating revenue	28,414,905	32,042,516	35,019,344	35,536,769	30,059,841	27,635,242	35,918,004	52,312,162	48,630,812	49,213,105
Total revenue	\$ 57,247,644	\$ 63,820,243	\$ 69,552,406	\$ 72,569,325	\$ 69,845,964	\$ 78,930,250	\$ 85,830,172	\$ 99,673,004	\$ 97,499,183	\$ 100,945,841
Functional Expense										
Instruction	\$ 18,847,979	\$ 22,856,426	\$ 24,193,071	\$ 26,699,550	\$ 25,010,246	\$ 25,682,331	\$ 27,138,609	\$ 28,023,197	\$ 29,842,993	\$ 31,734,485
Research	164,787	165,550	61,077	37,104	99,265	106,458	68,156	35,654	4,951	2,346
Public service	636,765	598,273	486,633	558,388	390,127	409,901	456,372	469,699	594,615	548,735
Academic support	4,607,796	4,631,842	5,108,978	5,344,027	4,538,538	4,361,103	4,806,942	4,761,045	4,944,159	4,864,473
Student services	5,980,391	6,560,972	7,022,806	7,478,709	7,299,258	7,445,019	8,030,813	8,598,075	9,078,713	9,194,763
Institutional support	7,179,198	6,169,474	6,648,295	7,228,110	6,464,395	5,988,283	6,767,632	6,866,058	7,605,890	7,664,431
Operations and maintenance of plant	7,246,710	8,185,991	9,699,216	11,040,391	11,306,190	10,818,202	10,881,270	11,401,192	11,246,151	11,376,771
Scholarships	949,222	971,606	1,198,719	1,280,862	1,456,842	1,608,419	1,618,980	1,518,783	1,481,570	1,688,642
Sub-total	45,612,848	50,140,134	54,418,795	59,667,141	56,564,861	56,419,716	59,768,774	61,673,703	64,799,042	67,074,646
Auxiliary enterprises	4,762,364	5,419,873	5,714,435	5,809,898	6,200,539	7,411,777	8,048,914	8,459,573	8,809,167	8,769,718
Total operating expense	50,375,212	55,560,007	60,133,230	65,477,039	62,765,400	63,831,493	67,817,688	70,133,276	73,608,209	75,844,364
Interest expense & debt issue costs	307,292	316,491	548,265	657,783	545,680	384,861	583,060	298,325	1,046,984	1,001,592
Transfers (to)/from State Agencies								249,437		120,036
Total non-operating expense	307,292	316,491	548,265	657,783	545,680	384,861	583,060	547,762	1,046,984	1,121,628
Total expenses	\$ 50,682,504	\$ 55,876,498	\$ 60,681,495	\$ 66,134,822	\$ 63,311,080	\$ 64,216,354	\$ 68,400,748	\$ 70,681,038	\$ 74,655,193	\$ 76,965,992

Note: This schedule does not include the component unit, the Fitchburg State University Foundation, Inc.; total operating expense does not include depreciation.

^a Beginning in 2011, the University began reporting net position rather than net assets, in conformity with GASB Statement 60. Prior to that time, net investment in capital assets was labeled "invested in capital assets, net of related debt."

FITCHBURG STATE UNIVERSITY
(a department of the Commonwealth of Massachusetts)

Supplemental Statistical Information - Unaudited

Schedule of Capital Asset Information

	Academic Year
	2014
Land (acreage)	222
Buildings (square feet)	
100 Instruction /classroom	89,607
200 Labs	104,998
300 Administrative	119,127
400 Study facilities	60,109
52x Athletic	48,778
5xx Other Special Use	9,228
600 General Use	128,289
700 Support facilities	25,615
800 Health Care	717
000 Unclassified	2,956
Unassigned/ unassignable	343,884
Total Sq Ft	933,308
Residence Halls	438,140
Rental space	111,775

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Dormitories - # of residents	1,434	1,443	1,466	1,499	1,483	1,639	1,620	1,568	1,577	1,559

Note: Classification of facilities space is consistent with Facilities Inventory & Classification Code guide.

Number of residents is an average of total fall and spring residency counts as reported to the Massachusetts State College Building Authority.

FITCHBURG STATE UNIVERSITY
(a department of the Commonwealth of Massachusetts)

Supplemental Statistical Information - Unaudited

Schedule of Tuition & Mandatory Fees

	Academic Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<i>Resident Undergraduate</i>										
Tuition	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970
Mandatory Fees	3,618	4,032	4,572	5,022	5,430	5,930	6,830	7,330	7,740	8,015
<i>Total</i>	\$ 4,588	\$ 5,002	\$ 5,542	\$ 5,992	\$ 6,400	\$ 6,900	\$ 7,800	\$ 8,300	\$ 8,710	\$ 8,985
<i>Non Resident Undergraduate</i>										
Tuition	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050
Mandatory Fees	3,618	4,032	4,572	5,022	5,430	5,930	6,830	7,330	7,740	8,015
<i>Total</i>	\$ 10,668	\$ 11,082	\$ 11,622	\$ 12,072	\$ 12,480	\$ 12,980	\$ 13,880	\$ 14,380	\$ 14,790	\$ 15,065
<i>Resident Graduate</i>										
Tuition	\$ 900	\$ 900	\$ 900	\$ 900	\$ 900	\$ 900	\$ 900	\$ 900	\$ 960	\$ 960
Mandatory Fees	432	510	510	653	653	720	762	762	774	774
<i>Total</i>	\$ 1,332	\$ 1,410	\$ 1,410	\$ 1,553	\$ 1,553	\$ 1,620	\$ 1,662	\$ 1,662	\$ 1,734	\$ 1,734

Note: Undergraduate tuition & fees is per academic year and excludes dormitory fees. Graduate tuition and fees is based on a six credit course load.

FITCHBURG STATE UNIVERSITY
(a department of the Commonwealth of Massachusetts)

Supplemental Statistical Information - Unaudited

Admissions, Enrollment, and Degree Statistics

	Fall Term									
Admissions-Freshman (1)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Applications	3,514	3,859	3,880	4,057	4,342	4,572	4,193	3,814	4,271	4,565
Applications accepted	2,468	2,777	2,795	2,838	2,982	3,152	3,034	2,797	3,188	3,523
Accepted as a percentage of applications	70%	72%	72%	70%	69%	69%	72%	73%	75%	77%
Students enrolled (2)	1,016	1,007	1,086	1,067	1,133	1,163	1,085	1,053	1,110	1,200
Enrolled as a percentage of accepted	41%	36%	39%	38%	38%	37%	36%	38%	35%	34%

(1) Includes all undergraduate admissions including transfer students.

(2) Includes only students who were accepted and enrolled. Non degree seeking students are excluded.

	Annual									
Enrollment	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Full-time equivalent	4,670	5,029	5,018	5,159	5,305	5,461	5,287	5,128	5,005	5,075
Unduplicated credit headcount	11,272	12,578	11,906	11,756	12,140	11,855	11,784	11,623	11,268	11,178
Percent undergraduate (3)	68%	68%	68%	57%	60%	41%	42%	42%	43%	44%
Percent graduate	32%	32%	32%	43%	40%	59%	58%	58%	57%	56%

(3) Percent undergraduate/graduate based on Fall semester registration, unduplicated headcount

	Fall Term									
Student Population Demographics (4)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Percentage of men	38%	38%	38%	37%	39%	39%	39%	37%	37%	37%
Percentage of women	62%	62%	62%	63%	61%	61%	61%	63%	63%	63%
Percentage of African-American	3%	3%	3%	3%	3%	3%	3%	3%	3%	5%
Percentage of White	92%	92%	92%	92%	92%	92%	89%	89%	87%	83%
Percentage of Latino	3%	3%	3%	3%	3%	3%	5%	5%	5%	7%
Percentage of Other (5)	2%	2%	2%	2%	2%	2%	3%	3%	5%	5%
< 20	22%	21%	21%	18%	18%	19%	18%	16%	19%	21%
20 to 24	36%	38%	40%	35%	36%	34%	37%	37%	31%	35%
25 to 44	30%	29%	29%	33%	33%	33%	32%	33%	36%	31%
44 & Over	12%	12%	10%	14%	13%	14%	13%	14%	14%	13%

(4) Percents within category are based on population of students who reported this information (gender, race/ethnicity, and age).

(5) Other includes Asian or Pacific Islander, American Indian, Alaskan Native, and Cape Verdean.

Degrees Granted	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Bachelor's	489	553	622	628	640	696	696	812	817	751
Master's	368	484	475	370	531	460	506	435	440	360

FITCHBURG STATE UNIVERSITY
(a department of the Commonwealth of Massachusetts)

Supplemental Statistical Information - Unaudited

Schedule of Employment

	2003	2005	2006	2007	2008	2009	2010	2011	2012	2013
Faculty - Primary Instruction (1)	283	252	269	266	350	377	369	422	380	350
Part-time	115	86	95	90	166	197	193	236	196	158
Full-time	168	166	174	176	184	180	176	186	184	192
Staff and Administrators	329	439	385	386	410	419	394	395	435	400
Part-time	13	143	81	75	93	112	77	95	125	82
Full-time	316	296	304	311	317	307	317	300	310	318
Total Employees	612	691	654	652	760	796	763	817	815	750
Part-time	128	229	176	165	259	309	270	331	321	240
Full-time	484	462	478	487	501	487	493	486	494	510

(1) Includes Instruction, Research & Public Service


Notes: This schedule reflects personnel as of November 1, Full-Time Equivalent Employees is as of June 30.

**SUPPLEMENTAL INFORMATION AND REPORTS
REQUIRED BY OMB CIRCULAR A-133**

INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION
REQUIRED BY THE U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133

To the Board of Trustees
Fitchburg State University
Fitchburg, Massachusetts

We have audited the financial statements of the business-type activities and the discretely presented component unit of Fitchburg State University (a department of the Commonwealth of Massachusetts) as of and for the year ended June 30, 2014, which collectively comprise Fitchburg State University's basic financial statements, and our report thereon dated October 15, 2014, which appears on page 1, expressed unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the 2014 financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 2014 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2014 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2014 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2014 financial statements or to the 2014 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the 2014 financial statements as a whole.



Boston, Massachusetts
October 15, 2014

FITCHBURG STATE UNIVERSITY
(a department of the Commonwealth of Massachusetts)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass through Agency Number	Federal Expenditures
U.S. Department of Justice			
Direct Programs			
Grants to reduce domestic violence, dating violence, sexual assault and stalking on campus	16.525	16	\$ 71,285
Subtotal Direct Programs			<u>71,285</u>
Total U.S. Department of Justice			<u>\$ 71,285</u>
U.S. Department of Education			
Direct Programs			
Transforming Education and Schools for English Learners	84.365Z	84	\$ 329,807
<u>TRIO Cluster:</u>			
TRIO - Student Support Services	84.042	84	\$ 248,784
TRIO - Upward Bound	84.047	84	<u>357,379</u>
Total TRIO Cluster			<u>606,163</u>
<u>Student Financial Assistance Cluster:</u>			
Federal Supplemental Educational Opportunity Grants	84.007	84	\$ 237,431
Federal Work-Study Program	84.033	84	234,112
Federal Pell Grant Program	84.063	84	5,824,677
Nursing Student Loans	93.364	93	<u>50,975</u>
Total Student Financial Assistance Cluster			<u>6,347,195</u>
Subtotal Direct Programs			<u>7,283,165</u>
Total U.S. Department of Education			<u>\$ 7,283,165</u>
Total Federal Expenditures			<u>\$ 7,354,450</u>

See independent auditor's report on supplemental information on page 83
and notes to schedule of expenditures of federal awards.

FITCHBURG STATE UNIVERSITY
(a department of the Commonwealth of Massachusetts)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA or Schedule) includes the federal grant activity of Fitchburg State University (the University) for the year ended June 30, 2014 and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Matching costs

Matching costs, i.e., the nonfederal share of certain program costs, are not included in the accompanying Schedule.

3. Relationship to federal financial reports

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule.

4. Federal Direct Student Loans (FDL)

The Schedule does not include FDL (CFDA 84.268) which are made directly to individual students. FDL loans are made directly by the U.S. Department of Education. FDL loans made to students enrolled at Fitchburg State University during fiscal year 2014 totaled \$20,393,906.

5. Federal Perkins Loan Program

The Federal Perkins Loan Program (CFDA 84.038) is administered by Fitchburg State University. Fiscal year 2014 activity included loan repayments of \$200,601 and loan funds disbursed of \$232,235. Loans outstanding at June 30, 2014 totaled \$1,647,880. For the year ended June 30, 2014, the University received an administrative cost allowance totaling \$38,734 for reimbursement of costs of administering the program. This administrative cost allowance has not been included on the accompanying schedule.

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 Trustees
Fitchburg State University
Fitchburg, Massachusetts

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 the business-type activities and discretely presented component unit of Fitchburg State University (the University) (a department of the Commonwealth of Massachusetts), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon, dated October 15, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University'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 University'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 the University'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 University'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 University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "CohnReznick LLP". The signature is written in a cursive, flowing style.

Boston, Massachusetts

October 15, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Trustees
Fitchburg State University
Fitchburg, Massachusetts

Report on Compliance for Each Major Federal Program

We have audited Fitchburg State University's compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Fitchburg State University's major federal programs for the year ended June 30, 2014. Fitchburg State University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Fitchburg State University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Fitchburg State University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Fitchburg State University's compliance.

Opinion on Each Major Federal Program

In our opinion, Fitchburg State University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-01. Our opinion on each major federal program is not modified with respect to this matter.

Fitchburg State University's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Fitchburg State University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Fitchburg State University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Fitchburg State University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Fitchburg State University's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Boston, Massachusetts

October 15, 2014

FITCHBURG STATE UNIVERSITY
(a department of the Commonwealth of Massachusetts)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

A. Summary of auditor's results

1. The auditor's report expresses an unmodified opinion on the financial statements of Fitchburg State University.
2. No material weaknesses relating to the audit of the financial statements are reported in the Schedule of Findings and Questioned Costs.
3. No significant deficiencies relating to the audit of the financial statements are reported in the Schedule of Findings and Questioned Costs.
4. No instances of noncompliance material to the financial statements of Fitchburg State University were disclosed during the audit.
5. No material weaknesses relating to the audit of the major federal award programs are reported in the Schedule of Findings and Questioned Costs.
6. No significant deficiencies relating to the audit of the major federal award programs are reported in the Schedule of Findings and Questioned Costs.
7. The auditor's report on compliance for the major federal award programs for Fitchburg State University is unmodified.
8. There is one audit finding (Finding 2014-01) disclosed relating to the major federal award programs for Fitchburg State University that is required to be reported in accordance with Section 510(a) of OMB Circular A-133.
9. The programs tested as major federal programs for Fitchburg State University for the year ended June 30, 2014 are:

<u>Agency</u>	<u>Title</u>	<u>CFDA #</u>
U.S. Department of Education	Transforming Education and Schools for English Learners	84.365Z

FITCHBURG STATE UNIVERSITY
(a department of the Commonwealth of Massachusetts)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

YEAR ENDED JUNE 30, 2014

A. Summary of auditor's results - continued

<u>Agency</u>	<u>Title</u>	<u>CFDA #</u>
<u>Student Financial Assistance Cluster:</u>		
U.S. Department of Education	Federal Supplemental Educational Opportunity Grants	84.007
U.S. Department of Education	Federal Work-Study Program	84.033
U.S. Department of Education	Federal Perkins Loan Program	84.038
U.S. Department of Education	Federal Pell Grant Program	84.063
U.S. Department of Education	Federal Direct Student Loans	84.268
U.S. Department of Education	Nursing Student Loans	93.364

10. The threshold for distinguishing Type A and Type B programs for Fitchburg State University was \$300,000.

11. Fitchburg State University qualified as a low-risk auditee.

B. Findings - audit of financial statements

None

C. Findings and questioned costs - audit of major federal award programs

See Finding 2014-01 on the schedule of findings and questioned costs.

FITCHBURG STATE UNIVERSITY
(a department of the Commonwealth of Massachusetts)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

YEAR ENDED JUNE 30, 2014

Federal Work Study Program (84.033)

Federal Award Number: P033A131863 **Award Year:** 2014

U.S. Department of Education

Finding Reference: 2014-01

Requirement:

In administering its Federal Work Study Program (FWS), an institution shall establish and maintain an internal control system of checks and balances that insures that no office can both authorize payments and disburse funds to students (34CFR 675.19 (a)).

The institution must also establish and maintain program and fiscal records that; (i) Include a certification by the student's supervisor, an official of the institution or off-campus agency, that each student has worked and earned the amount being paid. The certification must include or be supported by, for students paid on an hourly basis, a time record showing the hours each student worked in clock time sequence, or the total hours worked per day; (ii) Include a payroll voucher containing sufficient information to support all payroll disbursements; (iii) Include a noncash contribution record to document any payment of the institution's share of the student's earnings in the form of services and equipment (see Sec 675.27(a)); and (iv) Are reconciled at least monthly (34 CFR 675.19 (b)(2)).

Further, in general, students are not permitted to work in FWS positions during scheduled class times.

Finding:

Fitchburg State University has established policies and procedures for maintaining, monitoring and controlling student Federal Work Study payroll records and files in accordance with both federal and state regulations. Fitchburg State University also has established policies and procedures that govern the practice of students not working during class time. These policies and procedures include requirements that Federal Work Study supervisors sign time sheets and that class schedules be provided to the supervisors to enable them to determine that there are no conflicts between class and work schedules.

Our audit procedures included tests for proper authorization, supporting documentation, accuracy, completeness, timeliness, and adherence to award specifications and campus policies. In our sample of 10 students, we noted 4 instances in which students worked during scheduled classroom hours.

Cause:

Fitchburg State University did not adequately monitor its policies and procedures governing the Federal Work Study Program requirement that students not work during scheduled class times.

Effect:

The University is not in compliance with U.S. Department of Education regulations.

Auditor's Recommendation:

We recommend that Fitchburg State University emphasize to Federal Work Study supervisors the importance of more careful review of the students' class and work schedules to ensure that students do not work during scheduled class hours.

FITCHBURG STATE UNIVERSITY
(a department of the Commonwealth of Massachusetts)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

YEAR ENDED JUNE 30, 2014

Questioned Costs:

None

Views of Responsible Officials and Corrective Actions

The University agrees with the finding. Commencing immediately, the Office of Student Financial Aid will update their policies and procedures to reflect that students cannot work during scheduled class times regardless of early release or class cancellation. This will be included in the Federal Work Study Supervisors Manual as well as in the agreement the supervisors sign annually. Appropriate University personnel will also be made aware of existing policies and procedures regarding the Federal Work Study Program employment practices.

Contact:

Pamela McCafferty
Assistance Vice President and Dean of Enrollment Management

Implementation dates:

Fall, 2014.

FITCHBURG STATE UNIVERSITY
(a department of the Commonwealth of Massachusetts)
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2014

There were no findings noted in the audit report for the year ended June 30, 2013.