

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.
REPORT ON AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION
YEAR ENDED JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Fitchburg State University Foundation, Inc.
Fitchburg, Massachusetts

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Fitchburg State University Foundation, Inc. (Foundation) (a not-for-profit organization), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fitchburg State University Foundation, Inc. as of June 30, 2014, and changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The consolidated financial statements of Fitchburg State University Foundation, Inc. as of June 30, 2013, were audited by other auditors whose report dated October 15, 2013, expressed an unmodified opinion on those consolidated financial statements. The prior year summarized comparative consolidated information presented herein as of and for the year ended June 30, 2013 should be read in conjunction with the audited consolidated financial statements from which the summarized information was derived.

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 Foundation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended June 30, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fitchburg State University Foundation, Inc.'s internal control over financial reporting and compliance.



Boston, Massachusetts
October 15, 2014

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

JUNE 30, 2014

(with comparative totals as of June 30, 2013)

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
Cash and equivalents	\$ 2,130,990	\$ 2,468,384
Investments	14,499,064	12,601,686
Accrued investment income receivable	28,930	34,123
Accounts receivable	4,875	6,000
Contributions receivable, net	108,095	240,339
Land and buildings held for sale	300,465	-
Prepaid expenses and other current assets	30,579	28,301
Property and equipment, net of accumulated depreciation	5,701,437	5,227,189
Deferred financing costs, net of accumulated amortization of \$24,526 and \$21,056, respectively	34,208	37,678
Other assets	<u>91,891</u>	<u>93,376</u>
Total assets	<u>\$ 22,930,534</u>	<u>\$ 20,737,076</u>
<u>LIABILITIES AND NET ASSETS</u>		
Bank line of credit	\$ 225,000	\$ -
Accounts payable, trade	39,504	57,758
Accounts payable, construction	127,075	-
Accrued interest payable	9,279	9,583
Advance payable to Fitchburg State University	100,000	-
Deposit on sale of land	35,000	-
Deferred revenue	86,255	104,729
Notes payable - bank	591,459	609,957
First mortgage notes payable	<u>2,977,001</u>	<u>3,112,800</u>
Total liabilities	<u>4,190,573</u>	<u>3,894,827</u>
Net assets:		
Unrestricted	4,796,895	4,293,133
Temporarily restricted	5,006,444	3,655,765
Permanently restricted	<u>8,936,622</u>	<u>8,893,351</u>
Total net assets	<u>18,739,961</u>	<u>16,842,249</u>
Total liabilities and net assets	<u>\$ 22,930,534</u>	<u>\$ 20,737,076</u>

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

(with comparative totals for the year ended June 30, 2013)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014 Total</u>	<u>2013 Total</u>
Revenue and support:					
Program revenues:					
Gifts and donations	\$ 207,554	\$ 269,035	\$ 90,377	\$ 566,966	\$ 802,637
Grants and contracts	-	225,229	-	225,229	193,395
Sales and services	126,784	190,774	-	317,558	319,135
Rental income	165,000	-	-	165,000	165,000
Residence hall income	206,071	-	-	206,071	223,825
License fee income	241,189	-	-	241,189	181,150
Other revenue:					
Interest and dividends	86,271	222,143	-	308,414	313,418
Gain (loss) on investments	446,287	1,219,730	-	1,666,017	821,638
Increase in cash surrender value of life insurance	-	-	-	-	4,442
Net assets released from restrictions	771,279	(770,979)	(300)	-	-
Reclassification of net assets	52,059	(5,253)	(46,806)	-	-
Total revenue and support	<u>2,302,494</u>	<u>1,350,679</u>	<u>43,271</u>	<u>3,696,444</u>	<u>3,024,640</u>
Expenses:					
Program services	1,500,869	-	-	1,500,869	1,385,271
Management and general	226,262	-	-	226,262	281,320
Fundraising	71,601	-	-	71,601	88,459
Total expenses	<u>1,798,732</u>	<u>-</u>	<u>-</u>	<u>1,798,732</u>	<u>1,755,050</u>
Increase (decrease) in net assets	503,762	1,350,679	43,271	1,897,712	1,269,590
Net assets at beginning of year	<u>4,293,133</u>	<u>3,655,765</u>	<u>8,893,351</u>	<u>16,842,249</u>	<u>15,572,659</u>
Net assets at end of year	<u>\$ 4,796,895</u>	<u>\$ 5,006,444</u>	<u>\$ 8,936,622</u>	<u>\$ 18,739,961</u>	<u>\$ 16,842,249</u>

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2014

(with comparative totals for the year ended June 30, 2013)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 1,897,712	\$ 1,269,590
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
(Gain) loss on investments	(1,666,017)	(821,638)
Impairment loss	63,465	-
Depreciation	115,393	103,971
Discount on pledges	(1,175)	(3,582)
Bad debt expense	9,505	12,225
Amortization of deferred financing costs	3,470	3,470
Contributions restricted for long term purposes	(90,377)	(403,560)
Contributions of investment securities	-	(3,399)
Contribution of property and equipment	(15,500)	-
(Increase) decrease in cash surrender value of life insurance	1,485	22,454
(Increase) decrease in accounts receivable	1,125	(2,217)
(Increase) decrease in accrued investment income receivable	5,193	(455)
(Increase) decrease in contributions receivable	123,875	84,818
(Increase) decrease in prepaid expenses and other current assets	722	47,427
Increase (decrease) in accounts payable, trade	(18,254)	(5,181)
Increase (decrease) in accrued interest payable	(304)	489
Increase (decrease) in deferred revenue	(18,474)	39,505
Net cash provided by (used in) operating activities	<u>411,844</u>	<u>343,917</u>
Cash flows from investing activities:		
Payments for property and equipment	(810,996)	(559,533)
Deposit paid for purchase of property	(3,000)	-
Deposit received for sale of property	35,000	-
Proceeds from sale of investments	3,163,185	2,432,741
Purchase of investments	(3,394,546)	(2,645,830)
Life insurance premiums	-	(81,247)
Proceeds on surrender of life insurance policy	-	79,373
Net cash provided by (used in) investing activities	<u>(1,010,357)</u>	<u>(774,496)</u>

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS - CONTINUED
YEAR ENDED JUNE 30, 2014
(with comparative totals for the year ended June 30, 2013)

	<u>2014</u>	<u>2013</u>
Cash flows from financing activities:		
Proceeds of first mortgage notes payable	\$ -	\$ 225,200
Proceeds of bank line of credit	225,000	-
Payments on first mortgage notes payable	(135,799)	(120,725)
Payments on notes payable - bank	(18,498)	(34,094)
Advance from Fitchburg State University	100,000	-
Collections of contributions restricted for long term purposes	<u>90,416</u>	<u>413,560</u>
 Net cash provided by (used in) financing activities	 <u>261,119</u>	 <u>483,941</u>
 Net increase (decrease) in cash and equivalents	 (337,394)	 53,362
 Cash and equivalents, beginning of year	 <u>2,468,384</u>	 <u>2,415,022</u>
 Cash and equivalents, end of year	 <u>\$ 2,130,990</u>	 <u>\$ 2,468,384</u>

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

1. Organization and summary of significant accounting policies

Organization

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

FSU Foundation Supporting Organization, Inc. (the Supporting Organization) was organized on October 29, 1999 to be a supporting organization operated, supervised and controlled for the exclusive benefit of the Foundation and all of its educational and charitable activities. As of June 30, 2014, the Supporting Organization's sole program activity has been to acquire, hold, operate and lease real estate and related improvements for the benefit of the Foundation and Fitchburg State University.

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

Summary of significant accounting policies

Principles of consolidation

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

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

Use of estimates

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

Method of accounting

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

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

1. Organization and summary of significant accounting policies - continued

Basis of presentation

The consolidated financial statements of the Organization are presented in accordance with guidance issued by the Financial Accounting Standards Board (FASB) for the presentation of financial statements of Not-for-Profit Entities. Under this guidance, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets represent the portion of expendable funds available for support of the Organization.

Temporarily restricted net assets represent contributions specifically restricted by the donor. Programs supported by the Organization operate under budgetary restrictions except for the Women in Today's Society program. Income earned from support derived by the Women in Today's Society program is restricted; ninety percent (90%) of such income is available for the Women in Today's Society program with ten percent (10%) available for general Organization expenses.

Permanently restricted net assets represent funds that are subject to restrictions of gift instruments requiring in perpetuity that the principal be invested and the income, only, be used primarily for the granting of scholarships and to fund other academic and cultural programs. Earnings on certain permanently restricted net assets are specifically restricted by the donor.

Risks and uncertainties

The Organization maintains an investment portfolio consisting of a combination of U.S. Treasury securities and other government obligations, corporate bonds, equity securities and mutual funds that are invested in equity securities, bonds and other investment securities. The Organization's investments in equity securities, corporate bonds and mutual funds include both domestic and foreign investments. In addition, the Organization has an investment in a real estate fund that is invested in a diversified portfolio of office, residential, industrial and retail properties. Investment securities and real estate investments are exposed to various risks, such as interest rate, market, and credit risks. Real estate investments are exposed to additional risks based on investment concentrations by specific property type and geographic area. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the value of these investments will occur in the near term and such changes could materially affect the Organization's investment account balances.

Revenue recognition

Contributions and bequests

Contributions are recognized when the donor makes a promise to give, that is, in substance, unconditional. Unconditional promises to give are reported at net realizable value if at the time the promise is made collection is expected to be received in one year or less. Unconditional promises to give that are expected to be collected in more than one year are reported at fair value using present value techniques and a discount rate determined by management of the Organization. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Conditional promises to give are recognized only when the conditions on which they depend are substantially met. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

1. Organization and summary of significant accounting policies - continued

Revenue recognition - continued

Contributions and bequests - continued

of fund-raising activity. Contributions in the form of property and equipment and other assets are recorded at fair value on the date the donation is received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. It is the Organization's policy to imply a time restriction, based on the assets' estimated useful lives, on donations of property and equipment that are not restricted as to their use by the donor. Accordingly, those donations are recorded as increases in temporarily restricted net assets. The Organization reclassifies temporarily restricted net assets to unrestricted net assets each year for the amount of depreciation expense relating to the donated property and equipment. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Sales and services

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

Rental and license fee income

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

Residence hall income

Residence hall fees are recognized when earned.

Cash and investments

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

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

1. Organization and summary of significant accounting policies - continued

Accounts receivable

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

Investments

Investments consist of debt, marketable equity securities, mutual funds, 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 assets, unless a donor or law temporarily or permanently restricts their use. Gains and losses on the disposition of investments are principally determined based on the first-in, first-out method or specific identification of securities sold. Investment income is recognized when earned. Dividends are recorded on the ex-dividend date.

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

Endowments

The Organization's endowments consist of approximately 90 individual funds that are restricted by donors to function as endowments primarily for the granting of scholarships and to fund other academic and cultural programs. No funds have been designated by the Board of Directors to function as endowments as of June 30, 2014. In accordance with accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the Massachusetts Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

1. Organization and summary of significant accounting policies - continued

Endowments - continued

Interpretation of Relevant Law - continued

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

Investment and Spending Policies

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

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

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

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

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

1. Organization and summary of significant accounting policies - continued

Endowments - continued

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Massachusetts General Laws requires the Organization to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. As of June 30, 2014 and 2013, there were no deficiencies of this nature.

Property and equipment

Property and equipment are recorded at cost, if purchased or constructed and, if donated, at fair value at the time of the donation. Property and equipment are depreciated on the straight-line method over their estimated useful lives of 40 years for buildings, 20 years for building and land improvements, 7 years for furniture and fixtures, 5 years for equipment and 3 years for computer software and equipment. Depreciation commences when the asset is placed in service.

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

Impairment of long-lived assets

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

Deferred financing costs

Deferred financing costs consist of costs incurred to obtain the first mortgage notes payable. These costs are being amortized on a straight-line basis over the terms of the related debt.

Statement of cash flows

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

Income taxes

The Foundation and the Supporting Organization are classified by the Internal Revenue Service as "publicly supported organizations" exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code. However, income from certain activities not directly related to the Foundation or Supporting Organization's tax-exempt purposes are subject to taxation as unrelated business income. The Foundation

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

1. Organization and summary of significant accounting policies - continued

Income taxes - continued

has unrelated business income for the year ended June 30, 2014. The income and related income taxes thereon, which are not material, are included in the accompanying financial statements. The Supporting Organization had no unrelated business income for the year ended June 30, 2014.

Management has evaluated significant tax positions against the criteria established by professional standards and believes there are no such tax positions requiring accounting recognition in the consolidated financial statements. Management does not believe its evaluation of tax positions will significantly change within twelve months of June 30, 2014. Any changes in tax positions will be recorded when the ultimate outcome becomes known. The Foundation and Supporting Organization's income tax returns are subject to examination by taxing authorities generally for the years ended June 30, 2011, 2012 and 2013.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Summarized comparative financial information

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2013, from which the summarized information was derived.

Subsequent events

The Organization has evaluated subsequent events through October 15, 2014, which is the date these consolidated financial statements were available to be issued.

Recent accounting pronouncements

Recently adopted accounting pronouncements

In October, 2012, the FASB issued guidance which will require a not-for-profit entity to classify cash receipts from the sale of donated financial assets, such as securities, consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of the donated financial assets that upon receipt were directed without any not-for-profit entity-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Donated financial assets that are not converted nearly immediately into cash but are subsequently converted into cash should be classified as cash flows from investing activities in the statement of cash flows. The guidance is effective prospectively for fiscal years and interim periods beginning after June 15, 2013. Adoption by the Organization of this guidance in fiscal year 2014 had no impact on the Organization's financial statements.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

1. Organization and summary of significant accounting policies - continued

Recent accounting pronouncements not yet adopted

In April, 2013, the FASB issued guidance which will require a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service. The guidance is effective prospectively for fiscal years beginning after June 15, 2014, and interim and annual periods thereafter. Management is currently evaluating the impact of this FASB guidance on the Organization's fiscal year 2015 consolidated financial statements.

2. Cash and equivalents

Cash and equivalents consist of the following at June 30:

	<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>

Money market funds include the SSgA US Government Money Market Fund in the aggregate amount of \$74,518 and \$197,538 at June 30, 2014 and June 30, 2013, respectively. The SSgA US Government Money Market Fund invests in obligations of the U.S. Government, or its instrumentalities with remaining maturities of one year or less. The fund seeks to maximize current income to the extent consistent with the preservation of capital and liquidity, and the maintenance of a stable \$1.00 per share net asset value. At June 30, 2014 and 2013, the fund's investment securities had a weighted average maturity of 36 days and 47 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 Schwab Advisor Cash Reserves Fund in the aggregate amount of \$58,867 and \$26,748 at June 30, 2014 and June 30, 2013, respectively. The Schwab Advisor Cash Reserves Fund invests in high-quality short-term money market investments issued by U.S. and foreign issuers. The fund's goal is to seek the highest current income consistent with stability of capital and liquidity, and the maintenance of a stable \$1.00 per share net asset value. At June 30, 2014 and June 30, 2013, the fund's investment securities had a weighted average maturity of 47 days and 54 days, respectively. The fund was not rated for average credit quality at June 30, 2014 and June 30, 2013, respectively.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

2. Cash and equivalents - continued

Money market funds include the Dreyfus Cash Management Institutional - Shares Fund in the aggregate amount of \$255,643 and \$179,039 at June 30, 2014 and June 30, 2013, respectively. The Dreyfus Cash Management Institutional - Shares Fund 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. The fund's goal is to seek as high a level of income as is consistent with the preservation of capital and the maintenance of liquidity. The fund seeks to preserve the value of the fund at \$1.00 per share net asset value. At June 30, 2014 and June 30, 2013, the fund's investment securities had a weighted average maturity of 39 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 also include the Fidelity Bank LifeDesign Business Cash Management money market account with a balance of \$1,011,302 and \$1,007,383 at June 30, 2014 and June 30, 2013, respectively.

The Organization maintains its operating cash balances in financial institutions located in Massachusetts. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. 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, the Organization's overnight repurchase agreements were fully collateralized under an agreement between Sovereign Bank and Fitchburg State University. At June 30, 2014 and 2013, the Organization'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.

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

3. Investments

Investments are included at their fair values in the accompanying consolidated financial statements and consist of 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>

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

3. Investments - continued

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

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 the Organization's investment portfolio.

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

Investments with an equivalent fair value of \$8,858,000 at June 30, 2014 collateralize certain debt agreements (see Notes 8 and 10).

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 have been 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, the Organization 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 significant, continuing disruptions in the global capital, credit and real estate markets. In the opinion of management, the decline in fair value of this investment was considered to be other-than-temporary. During fiscal 2014, the Organization received capital gain distributions from Commonfund Realty Investors, LLC totaling \$1,579, which are included in net realized gains (losses) in 2014.

At June 30, 2014, the fair value of 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
U.S. government Securities	179,083	898,556	238,498	-	1,316,137
Mortgage backed Securities	<u>-</u>	<u>-</u>	<u>-</u>	<u>89,006</u>	<u>89,006</u>
	<u>\$ 342,006</u>	<u>\$ 1,735,558</u>	<u>\$ 421,708</u>	<u>\$ 89,006</u>	<u>\$ 2,588,278</u>

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

3. Investments - continued

Realized and unrealized gains (losses) on investments are shown net in the consolidated statement of activities. The components (representing the year to year activity) for the years ended June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Net realized gains (losses)	\$ 275,184	\$ 18,492
Net unrealized gains (losses)	<u>1,390,833</u>	<u>803,146</u>
Net gains (losses) on investments	<u>\$ 1,666,017</u>	<u>\$ 821,638</u>

The Organization incurred investment management fees of \$88,307 in 2014 and \$80,067 in 2013 which are included in management and general expenses in the consolidated statement of activities.

The following table presents the gross unrealized losses and fair values of the Organization's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that the investments have been in a continuous unrealized loss position at June 30, 2014.

<u>Description of Investments</u>	<u>Less than 12 months</u>		<u>12 months or greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Equities	\$ 691,631	\$ 57,297	\$ -	\$ -	\$ 691,631	\$ 57,297
Preferred stocks	6,365	19	66,398	3,600	72,763	3,619
Mutual funds	99,814	186	381,717	33,794	481,531	33,980
Corporate bonds	20,793	82	162,136	6,086	182,929	6,168
U.S. government securities	95,497	723	546,805	34,305	642,302	35,028
Mortgage backed securities	<u>50,043</u>	<u>16</u>	<u>38,963</u>	<u>135</u>	<u>89,006</u>	<u>151</u>
Total	<u>\$ 964,143</u>	<u>\$ 58,323</u>	<u>\$1,196,019</u>	<u>\$ 77,920</u>	<u>\$ 2,160,162</u>	<u>\$ 136,243</u>

The following table presents the gross unrealized losses and fair values of the Organization's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that the investments have been in a continuous unrealized loss position at June 30, 2013.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

3. Investments - continued

<u>Description of Investments</u>	<u>Less than 12 months</u>		<u>12 months or greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Equities	\$ 177,071	\$ 8,044	\$ 588,836	\$ 88,548	\$ 765,907	\$ 96,592
Preferred stocks	133,705	6,241	-	-	133,705	6,241
Mutual funds	261,290	6,829	803,264	92,649	1,064,554	99,478
Corporate bonds	135,987	5,626	263,550	7,759	399,537	13,385
U.S. government securities	418,014	16,350	502,702	28,849	920,716	45,199
Mortgage backed securities	<u>46,118</u>	<u>601</u>	<u>-</u>	<u>-</u>	<u>46,118</u>	<u>601</u>
Total	<u>\$ 1,172,185</u>	<u>\$ 43,691</u>	<u>\$ 2,158,352</u>	<u>\$ 217,805</u>	<u>\$ 3,330,537</u>	<u>\$ 261,496</u>

Equities and preferred stocks

The Organization has ninety-nine investments in equities of which twelve were in an unrealized loss position at June 30, 2014. The Organization also has nineteen investments in preferred stocks of which twelve were in an unrealized loss position at June 30, 2014. The fluctuation in the equity securities and preferred stocks reflects general economic conditions and current changes in the industries of the companies in which the securities are held. The Organization has evaluated the severity and duration of the impairments. Based on that evaluation and the Organization's ability and intent to hold these investments for a reasonable period of time sufficient for a recovery of fair value, the Organization does not consider these investments to be other-than-temporarily impaired at June 30, 2014.

Mutual funds

The Organization has twenty-two mutual fund investments of which five are in an unrealized loss position at June 30, 2014. The mutual funds are invested in equities and debt securities of companies in diverse industries and reflect current general economic conditions. The Organization has evaluated the severity and duration of the impairments. Based on that evaluation and the Organization's ability and intent to hold the investments for a reasonable period of time sufficient for a recovery of fair value, the Organization does not consider these investments to be other-than-temporarily impaired at June 30, 2014.

Corporate bonds

At June 30, 2014, the Organization's investments in corporate debt securities were in the form of interest bearing securities of top-rated corporate issuers. The Organization has thirty-seven corporate debt security investments of which ten are in an unrealized loss position at June 30, 2014. The securities in an unrealized loss position are comprised of fixed-rate debt securities of varying maturities. The value of fixed income securities is sensitive to interest rate fluctuations and the credit rating of the issuer.

There have been no indications of default on interest or principal payments by the issuers. The Organization does not intend to sell nor does it believe it would be required to sell the corporate bonds before their anticipated market value recovery. Accordingly, the Organization does not consider these investments to be other-than-temporarily impaired at June 30, 2014.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

3. Investments - continued

Mortgage backed securities

The Organization has two investments in mortgage backed securities both of which are in unrealized loss positions at June 30, 2014. The investment balances and unrealized losses at June 30, 2014 are not material to the Organization's financial position or results of operations.

U.S. government obligations

The Organization has nineteen U.S. government investment securities at June 30, 2014, of which twelve were in an unrealized loss position as a result of interest rate fluctuations. The contractual terms of the investments do not allow the issuer to settle the securities at a price less than the amortized cost of the investment. The Organization does not intend to sell nor does it believe it would be required to sell these investment securities before their anticipated market value recovery. Accordingly, the Organization does not consider the investments to be other-than-temporarily impaired at June 30, 2014.

The endowment net asset composition by type of fund at June 30, 2014 is as follows:

<u>Fund Type</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowments	\$ <u>3,997,075</u>	\$ <u>8,936,622</u>	\$ <u>12,933,697</u>

Changes in the endowment net assets for the year ended June 30, 2014 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,881,113	\$ 8,893,351	\$ 11,774,464
Investment return:			
Investment income	219,111	-	219,111
Appreciation (depreciation), realized and unrealized	<u>1,202,972</u>	<u>-</u>	<u>1,202,972</u>
Total investment return	1,422,083	-	1,422,083
Contributions	1,890	90,377	92,267
Other income	7,256	-	7,256
Appropriation of endowment assets for expenditure	(232,904)	-	(232,904)
Investment management fees	(63,809)	-	(63,809)
Reclassification of net assets	(7,545)	(46,806)	(54,351)
Transfer upon removal of donor restrictions	<u>(11,009)</u>	<u>(300)</u>	<u>(11,309)</u>
Endowment net assets, end of year	<u>\$ 3,997,075</u>	<u>\$ 8,936,622</u>	<u>\$ 12,933,697</u>

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

3. Investments - continued

The endowment net asset composition by type of fund at June 30, 2013 is as follows:

<u>Fund Type</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowments	\$ <u>2,881,113</u>	\$ <u>8,893,351</u>	\$ <u>11,774,464</u>

Changes in the endowment net assets for the year ended June 30, 2013 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,338,127	\$ 8,509,371	\$ 10,847,498
Investment return:			
Investment income	222,922	-	222,922
Appreciation (depreciation), realized and unrealized	<u>572,117</u>	<u>-</u>	<u>572,117</u>
Total investment return	795,039	-	795,039
Contributions	1,383	403,560	404,943
Other income	4,860	-	4,860
Appropriation of endowment assets for expenditure	(161,840)	-	(161,840)
Investment management fees	(57,631)	-	(57,631)
Reclassification of net assets	-	(19,580)	(19,580)
Transfer upon removal of donor restrictions	<u>(38,825)</u>	<u>-</u>	<u>(38,825)</u>
Endowment net assets, end of year	\$ <u>2,881,113</u>	\$ <u>8,893,351</u>	\$ <u>11,774,464</u>

4. Contributions receivable, net

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

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

4. Contributions receivable, net - continued

Contributions receivable consist of the following at June 30:

	<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	<u>(2,258)</u>	<u>(3,433)</u>
	<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 the contribution ranging from 1% to 2%.

5. Fair value measurements

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

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

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

The fair value hierarchy under the guidance is as follows:

Level 1 - Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly; and

Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

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

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

5. Fair value measurements - continued

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

When quoted market prices are unobservable, the Organization uses quotes from independent pricing vendors based on recent trading activity and other relevant information including market interest rate curves, referenced credit spreads and estimated prepayment rates where applicable. At June 30, 2014 and 2013, Level 2 securities consist primarily of corporate fixed income securities, U.S. government securities, preferred stocks and mortgage backed securities.

At June 30, 2014 and 2013, the Organization's assets included in Level 3 of the fair value measurement hierarchy consisted of its investment in Commonfund Realty Investors, LLC. As discussed in Note 3, the Organization wrote down its investment in Commonfund Realty Investors, LLC to zero at June 30, 2010 representing its estimate of the fair value of the investment at that date.

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

The fair value of assets measured on a recurring basis at June 30, 2014 is as follows:

<u>Investments</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Equities	\$ 8,124,323	\$ 8,124,323	\$ -	\$ -
Preferred stocks	118,223	-	118,223	-
Mutual funds	3,668,240	3,668,240	-	-
Corporate bonds	1,183,135	-	1,183,135	-
U.S government securities	1,316,137	-	1,316,137	-
Mortgage backed securities	89,006	-	89,006	-
Commonfund Realty Investors, LLC	-	-	-	-
Total	<u>\$ 14,499,064</u>	<u>\$ 11,792,563</u>	<u>\$ 2,706,501</u>	<u>\$ -</u>

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

5. Fair value measurements - continued

The fair value of assets measured on a recurring basis at June 30, 2013 is as follows:

<u>Investments</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Equities	\$ 6,677,258	\$ 6,677,258	\$ -	\$ -
Preferred stocks	239,236	-	239,236	-
Mutual funds	2,965,625	2,965,625	-	-
Corporate bonds	1,272,140	-	1,272,140	-
U.S government securities	1,401,309	-	1,401,309	-
Mortgage backed securities	46,118	-	46,118	-
Commonfund Realty Investors, LLC	-	-	-	-
Total	<u>\$ 12,601,686</u>	<u>\$ 9,642,883</u>	<u>\$ 2,958,803</u>	<u>\$ -</u>

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

6. Property and equipment and land and buildings held for sale

Property and equipment at June 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Real estate under lease:		
Land	\$ 402,663	\$ 402,663
Building	1,557,724	1,557,724
Building improvements	<u>100,452</u>	<u>100,452</u>
	<u>2,060,839</u>	<u>2,060,839</u>
Real estate used for student housing:		
Land	253,555	253,555
Building	434,225	434,225
Building improvements	<u>28,600</u>	<u>28,600</u>
	<u>716,380</u>	<u>716,380</u>
Other:		
Land	1,872,490	1,946,785
Land improvements	61,899	61,899
Buildings	893,022	810,923
Building improvements	39,569	39,569
Equipment	116,330	98,354
Computer software	526,929	361,845
Furniture and fixtures	26,277	26,277
Library materials	6,570	6,570
Construction in progress	<u>398,777</u>	<u>-</u>
	<u>3,941,863</u>	<u>3,352,222</u>
	6,719,082	6,129,441
Less accumulated depreciation	<u>1,017,645</u>	<u>902,252</u>
Property and equipment, net	<u>\$ 5,701,437</u>	<u>\$ 5,227,189</u>

Accumulated depreciation on real estate under lease amounted to \$341,049 and \$297,084 at June 30, 2014 and 2013, respectively. Accumulated depreciation on real estate used for student housing amounted to \$83,806 and \$71,520 at June 30, 2014 and 2013, respectively.

At June 30, 2014 and 2013, property and equipment with a cost of approximately \$335,500 and \$332,500, respectively, were fully depreciated and still in service.

In fiscal 2014, the Supporting Organization acquired six properties in close proximity to the Fitchburg State University campus consistent with the Supporting Organization's mission and the University's strategic plan which includes campus expansion. Three properties, including land only, were acquired for a cost of \$20,931, \$10,915 and \$5,093, respectively. These properties will be used for green space at the University. The land acquired for \$20,931 consisted of a cash payment of \$5,431 and a charitable donation of \$15,500 received from the seller of the property. Two properties, each of which includes land and a building, were purchased for an aggregate cost of \$100,865 and \$133,065, respectively (see Note 13). These two properties are currently under negotiations to be sold to the Commonwealth of Massachusetts acting by and through DCAM on behalf of Fitchburg State University (see below). The Supporting Organization anticipates the sale of these properties to occur by October 31, 2014. The sixth property, which includes land and a

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

6. Property and equipment and land and buildings held for sale - continued

building, was purchased for an aggregate cost of \$100,865 (see Note 13). This property will be rehabilitated by the University in accordance with the terms and conditions of the License Agreement between the University and Supporting Organization (see Note 11) and it will be used for faculty and staff housing. The property is not in service at June 30, 2014.

During fiscal 2013, the Supporting Organization acquired three properties in close proximity to the Fitchburg State University campus. Two of the properties, each of which included land and a building, were purchased for an aggregate cost of \$172,483, and \$144,975, respectively (see Notes 9 and 13). These two properties will be used for conference, meeting and office space and an on campus residence for the President of the University. The third property, which included land and a building, was purchased for an aggregate cost of \$216,415. The University subsequently razed the building and is in the process of using the land to expand an existing parking lot.

At June 30, 2014, the Supporting Organization has construction in progress totaling \$398,777 related to the rehabilitation of property that will become the campus residence for the University President. The University has advanced \$100,000 to the Supporting Organization to fund a portion of the rehabilitation costs (see Note 13). The rehabilitation of the property was completed as of September 30, 2014 (see Note 17).

In December, 2013, the Supporting Organization entered into a Purchase and Sale Agreement to sell a certain parcel of land to an unrelated third party (the Buyer) in exchange for \$800,000 in cash. The land is located at 161 - 181 Main Street in Fitchburg, Massachusetts and is secured by a first mortgage loan provided by Workers' Credit Union. The loan has an outstanding principal balance of \$273,725 at June 30, 2014 (see Note 9). The loan is expected to be paid off upon the sale of this property. Pursuant to the Second Amendment to the Purchase and Sale Agreement, dated as of August 25, 2014, the parties agreed, among other items, to extend the term of the Option Period, as defined in the Purchase and Sale Agreement, from August 31, 2014 to November 30, 2014. The Purchase and Sale Agreement also contains certain other conditions precedent to closing the transaction as more fully described in the agreement. The land is currently being used as green space and it has a carrying value of \$130,000 (see below). The Supporting Organization has received a deposit of \$35,000 from the Buyer as of June 30, 2014.

Land and buildings held for sale at June 30, 2014 consist of the following:

Land	\$ 184,490
Buildings	<u>115,975</u>
	<u>\$ 300,465</u>

The Supporting Organization 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.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

6. Property and equipment and land and buildings held for sale - continued

The Supporting Organization received a letter of intent from DCAM, dated August 29, 2014, to purchase one of the two properties referred to above and recorded on the books of the Supporting Organization at June 30, 2014 in the amount of \$133,065. DCAM has agreed to pay the 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, in accordance with the requirements of FASB accounting guidance, that the property is impaired and should be written down to \$69,600 at June 30, 2014. The impairment charge (a noncash accounting charge) to operations in the amount of \$63,465 had no impact on the Organization's fiscal 2014 cash flow or its ability to generate cash flow in the future.

The fair value of the property was measured using significant other observable inputs (Level 2) pursuant to the FASB's guidance on fair value measurements. The fair value of the property was determined based upon the negotiated sale price. Management expects the direct costs to sell the asset will not be material.

7. Other assets

Other assets at June 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Cash surrender value of life insurance	\$ 52,866	\$ 54,351
Art collection	<u>39,025</u>	<u>39,025</u>
	<u>\$ 91,891</u>	<u>\$ 93,376</u>

8. 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 June 30, 2014 and 2013, the effective interest rate was 6% per annum. For the years ended June 30, 2014 and 2013, interest expense incurred on borrowings under this line of credit amounted to \$5,881 and \$1,493, respectively. The borrowings under the line, during 2014, were advanced to the Supporting Organization. The borrowings under the line, during 2013, were advanced to and subsequently repaid by the Supporting Organization (see Note 9). The interest expense incurred on the borrowings has been reflected as an expense on the books of the Supporting Organization. Borrowings are secured by investments with 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, the Foundation has total cash balances of \$57,477 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.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

9. First mortgage notes payable

Foundation

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

The loan agreement has a term of 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.

For the years ended June 30, 2014 and 2013, interest expense on this mortgage note payable amounted to \$26,504 and \$27,700, respectively.

Aggregate principal maturities on the loan for each of the next five years, using the interest rate in effect at June 30, 2014, are estimated to be as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 20,986
2016	21,176
2017	23,570
2018	24,981
2019	26,477

Supporting Organization

In August, 2006, the Supporting Organization acquired land and a building consisting of 4,179 square feet of office space and 53,429 square feet of warehouse space located in Fitchburg, Massachusetts near the University campus. The entire property has been leased to DCAM on behalf of the University (see Note 11). 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

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

9. First mortgage notes payable - continued

Supporting Organization - continued

as security for repayment of the bonds. The loan is secured by a first mortgage interest in the real estate and related personal property located thereon, and an assignment of leases and rents. Payment and performance of the Supporting Organization's obligations under the loan agreement have been guaranteed by the Foundation.

The loan agreement has a term of 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 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 mortgage note payable amounted to \$1,376,309 and \$1,459,087, respectively.

For the years ended June 30, 2014 and 2013, interest expense on this mortgage note payable amounted to \$64,743 and \$69,300, respectively.

Aggregate principal maturities on the loan for each of the next five years, using the interest rate in effect at June 30, 2014, are estimated to be as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 86,635
2016	90,516
2017	94,888
2018	99,309
2019	103,936

Workers' Credit Union (WCU) provided financing to the Supporting Organization in the form of a note, dated February 27, 2009, in the amount of \$750,000. The proceeds of the loan were used primarily to repay advances made to the 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 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, the Supporting Organization has total cash balances of \$2,084 held at WCU which serve as additional collateral for both WCU loans to the Supporting Organization.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

9. First mortgage notes payable - continued

Supporting Organization - continued

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 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 mortgage note payable amounted to \$664,018 and \$683,416, respectively.

For the years ended June 30, 2014 and 2013, interest expense on this mortgage note payable amounted to \$33,638 and \$38,564, respectively.

Aggregate principal maturities on the loan for each of the next five years are as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 20,391
2016	21,433
2017	22,527
2018	23,677
2019	575,990

Workers' Credit Union provided financing to the 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 located at 161-181 Main Street in Fitchburg, Massachusetts and an assignment of leases and rents on this property (see Note 6). 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 Supporting Organization's obligations under the MDFA Revenue Bonds Issue. The 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, the Supporting Organization has total cash balances of \$2,084 held at WCU which serve as additional collateral for both WCU loans to the 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 Supporting Organization shall be responsible for a prepayment penalty equal to 3% of the outstanding principal balance of the loan in

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

9. First mortgage notes payable - continued

Supporting Organization - continued

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 Supporting Organization to WCU.

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

For the years ended June 30, 2014 and 2013, interest expense on this mortgage note payable amounted to \$14,605 and \$17,773, respectively.

Aggregate principal maturities on the loan for each of the next five years are as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 7,514
2016	7,920
2017	8,349
2018	8,800
2019	9,276

In June, 2013, Rollstone Bank & Trust provided financing to the 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 Supporting Organization by the Foundation in May, 2013 for the acquisition, at a cost of \$172,483, of a real estate property located at 131 Highland Avenue in Fitchburg, Massachusetts. The note is secured by a first mortgage interest in the property and an assignment of leases and rents on the property.

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 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.

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

For the years ended June 30, 2014 and 2013, interest expense on this mortgage note payable amounted to \$4,586 and \$132, respectively.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

9. First mortgage notes payable - continued

Supporting Organization - continued

Aggregate principal maturities on the loan for each of the next five years are as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 5,272
2016	5,437
2017	5,630
2018	5,819
2019	6,013

In June, 2013, Fidelity Co-Operative Bank provided financing to the Supporting Organization in the form of a note, dated June 26, 2013, in the amount of \$83,200. The proceeds of the loan were used to repay an advance made to the Supporting Organization by the Foundation in May, 2013 for the acquisition, at a cost of \$144,975, of a real estate property located at 340 Highland Avenue in Fitchburg, Massachusetts. The note is secured by a first mortgage interest in the property and an assignment of leases and rents on the property.

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.

For the years ended June 30, 2014 and 2013, interest expense on this mortgage note payable amounted to \$2,927 and \$32, respectively.

Aggregate principal maturities on the loan for each of the next five years, using the interest rate in effect at June 30, 2014, are estimated to be as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 1,642
2016	1,694
2017	1,762
2018	1,826
2019	1,892

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

10. Notes payable - bank

Foundation

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.

For the year ended June 30, 2013, interest expense on this note payable amounted to \$218.

Supporting Organization

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

The acquisitions were funded with the proceeds of a note payable in the amount of \$680,000, dated April 26, 2007, with Enterprise Bank and Trust Company. The note is secured by investments with a fair value of approximately \$2,011,000 at June 30, 2014. In addition, payment and performance of the Supporting Organization's obligations under the loan agreement have been guaranteed by the Foundation.

The promissory note has a term of 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 interest rate was adjusted to 2.62% per annum on April 26, 2012 pursuant to the provisions of the loan agreement. The loan required monthly installments of principal and interest of \$4,122 through May 7, 2012. 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.

For the years ended June 30, 2014 and 2013, interest expense on this note payable amounted to \$15,943 and \$15,568, respectively.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

10. Notes payable - bank - continued

Supporting Organization - continued

Aggregate principal maturities on the loan for each of the next five years, using the interest rate in effect at June 30, 2014, are estimated to be as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 19,009
2016	19,480
2017	20,044
2018	20,583
2019	21,137

11. Lease and license agreements

As disclosed in Note 10, the Supporting Organization entered into a long-term operating lease agreement with DCAM on behalf of the University. The lease commenced on August 16, 2006. 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 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 amounted to \$165,000 in each year.

The following is a schedule of future minimum rental payments to be received on this lease:

<u>Year ending 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 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 term, payable in monthly installments of \$1,579. On November 1, 2014, the monthly rent on the lease shall increase to \$1,697. The Supporting Organization may extend the initial term of the lease, under the same terms and conditions, for successive periods of one year provided it is not then in default of the lease terms and it gives proper notice. The Supporting Organization may cancel the lease at

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

11. Lease and license agreements - continued

any time with the payment of two months' base rent as a termination charge. The Supporting Organization is also responsible for the payment of normal operating, maintenance and repair costs associated with the use of the property. For the years ended June 30, 2014 and 2013, rent expense amounted to \$18,947 in each year.

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

Year ending <u>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 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 Supporting Organization may extend the initial term of the lease, under the same terms and conditions, for successive periods of one year provided it is not then in default of the lease terms and it gives proper notice. The Supporting Organization may cancel the lease at any time after February 1, 2014 with the payment of two months' base rent as a termination charge. The Supporting Organization is also responsible for the payment of normal operating, maintenance and repair costs associated with the use of the property. For the years ended June 30, 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:

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

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

11. Lease and license agreements - continued

The Supporting Organization and the University are parties to License Agreements whereby the Supporting Organization granted to the University irrevocable and exclusive licenses to occupy, manage, maintain and operate certain property owned by the Supporting Organization. The License Agreements provide for initial terms of one year and automatic annual renewals thereafter. The License Agreements provide for annual license fees payable, in arrears, in twelve equal monthly installments. All costs to operate and maintain the property, including any capital improvements made thereto, shall be borne by the University. The License Agreements may be terminated by either party upon the expiration of the initial term of the agreements and any subsequent renewal term with the giving of proper notice. In addition, the University may terminate the agreements at any time with the giving of proper notice. For the years ended June 30, 2014 and 2013, license fee income amounted to \$241,189 and \$181,150, respectively.

12. Restricted net assets

Temporarily restricted net assets in the amount of \$5,006,444, as of June 30, 2014, are available as follows: equipment which use is restricted, in the amount of \$204,676; and scholarships to qualified students and to promote cultural programs within Fitchburg State University in the amount of \$4,801,768. Temporarily restricted net assets in the amount of \$3,655,765, as of June 30, 2013, were available as follows: equipment which use is restricted, in the amount of \$34,493; and scholarships to qualified students and to promote cultural programs within Fitchburg State University in the amount of \$3,621,272.

Temporarily restricted net assets released from restrictions during 2014 represent the satisfaction of program restrictions in the amount of \$505,613; the satisfaction of scholarship-related restrictions in the amount of \$252,491, and the satisfaction of equipment donation restrictions in the amount of \$12,875.

Permanently restricted net assets in the amounts of \$8,936,622 and \$8,893,351 as of June 30, 2014 and 2013, respectively, are invested in perpetuity. Income from the investments is expendable for the program services of the Organization, including the granting of scholarships and to fund other academic and cultural programs.

During 2014, \$7,545 was reclassified from temporarily restricted net assets to permanently restricted net assets. In accordance with the donor's restrictions, this amount together with current year donations met the Organization's minimum requirement to establish permanent endowments. Accordingly, the \$7,545 was reclassified to permanently restricted net assets. In addition, \$2,292 was reclassified from unrestricted net assets to temporarily restricted net assets during the year reflecting a change in donor intentions. During 2014, management determined that certain net assets of the Organization in the amount of \$54,351 should be classified as unrestricted net assets. Management reclassified this amount from permanently restricted net assets. Management believes that this reclassification has no material impact on the Organization's consolidated financial statements.

13. Transactions with a related party

Fitchburg State University renders certain administrative services to the Organization at no cost. The monetary value of such services is not clearly measurable and, therefore, is not reflected in the accompanying consolidated financial statements.

For the years ended June 30, 2014 and 2013, the Supporting Organization incurred expenses totaling \$29,492 and \$29,245, respectively, to Fitchburg State University for maintenance services provided to the Supporting Organization for the real estate used for student housing.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

13. Transactions with a related party - continued

During 2014, the University made a noninterest bearing advance to the Supporting Organization in the amount of \$100,000 to fund a portion of the rehabilitation costs of the campus residence for the University President (see Note 6). As of June 30, 2014, the entire amount of this advance is outstanding. The outstanding advance does not have any specified repayment provisions and due date.

As of June 30, 2014 and 2013, the Supporting Organization has miscellaneous accounts receivable in the amounts of \$3,795 and \$6,000 from Fitchburg State University, which are reflected as accounts receivable in the accompanying 2014 and 2013 consolidated statements of financial position, respectively.

At June 30, 2014 and 2013, the Foundation has miscellaneous payables to Fitchburg State University in the amounts of \$2,927 and \$30,818, which are included in accounts payable, trade in the accompanying 2014 and 2013 consolidated statements of financial position, respectively.

14. Major donors

During fiscal 2014, the Organization received temporarily restricted donations of \$174,544 from two donors which represent approximately 31% of total gifts and donations revenue during 2014.

During fiscal 2013, the Organization received temporarily restricted donations of \$205,331 from two donors and a permanently restricted donation of \$315,061 from one donor. The total of these donations of \$520,392 represent approximately 65% of total gifts and donations revenue during 2013.

15. Donated materials and services

The value of donated materials and services included in temporarily restricted donations for the year ended June 30, 2014 totaled \$17,500 and has been reflected in program expenses as follows:

<u>Functional Expense Category</u>	<u>Nature of expense</u>	<u>Amount</u>
Speakers and cultural programs	Advertising	\$ <u>17,500</u>

The value of donated materials and services included in temporarily restricted donations for the year ended June 30, 2013 totaled \$17,500 and has been reflected in program expenses as follows:

<u>Functional Expense Category</u>	<u>Nature of expense</u>	<u>Amount</u>
Speakers and cultural programs	Advertising	\$ <u>17,500</u>

16. Supplemental cash flows information

	<u>2014</u>	<u>2013</u>
Cash paid for interest during the year	\$ <u>169,131</u>	\$ <u>170,290</u>

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

16. Supplemental cash flows information - continued

Schedule of noncash investing and financing activities:

	<u>2014</u>		<u>2013</u>
Acquisition of property and equipment	\$ 953,571		
Accounts payable thereon:			
Beginning of year	-		
End of year	(127,075)		
Donation of property and equipment	<u>(15,500)</u>		
Cash paid for property and equipment	<u>\$ 810,996</u>		
Donations of publicly traded common stock at their readily determinable fair value			<u>\$ 3,399</u>

During fiscal 2014, the Supporting Organization has committed to a plan to sell certain of its land and buildings. The assets, with an aggregate carrying value of \$363,930, have been reclassified from property and equipment to land and buildings held for sale in the accompanying 2014 consolidated statement of financial position.

17. Commitments

During fiscal 2014, the Supporting Organization commenced a project to substantially rehabilitate one of its properties which will be used as the campus residence of the University President. In connection with this project, the Supporting Organization entered into a home improvement contract with a contractor in the total amount of \$881,407, including change orders. The total rehabilitation project cost amounted to \$926,034 and was completed as of September 30, 2014. As of June 30, 2014, the Supporting Organization incurred total costs on the project of \$398,777 which have been reflected as construction in progress in the accompanying 2014 consolidated statement of financial position. Of this amount, \$354,150 was incurred on the contract. As of June 30, 2014, the Supporting Organization had an aggregate liability for costs associated with this project of \$127,075, all of which was payable to the contractor and reflected as accounts payable - construction in the accompanying 2014 consolidated statement of financial position. At June 30, 2014, the Organization had a remaining outstanding contract commitment to the contractor of \$527,257.

18. Subsequent events

On July 24, 2014, the Supporting Organization closed on the purchase of a property, including land and a building, for an aggregate cost of \$100,940. The Organization made a deposit of \$3,000 on the property during fiscal 2014 which is included in prepaid expenses and other current assets in the accompanying 2014 consolidated statement of financial position. The University intends to raze the building that is currently located on the property and create green space.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2014

18. Subsequent events - continued

On August 28, 2014, the Supporting Organization closed on the purchase of a property, including land and a building, for an aggregate cost of \$51,218. The University intends to raze the building that is currently located on the property and create green space.

ADDITIONAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

To the Board of Directors
Fitchburg State University Foundation, Inc.
Fitchburg, Massachusetts

We have audited the consolidated financial statements of Fitchburg State University Foundation, Inc. as of and for the year ended June 30, 2014, and our report thereon dated October 15, 2014, which appears on page 1, expressed an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the 2014 consolidated financial statements as a whole. The information for the year ended June 30, 2014 contained on page 40 is presented for purposes of additional analysis and is not a required part of the 2014 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2014 consolidated 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 consolidated financial statements or to the 2014 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2014 consolidated financial statements as a whole. The prior year summarized comparative information has been derived from the additional information accompanying the Foundation's 2013 consolidated financial statements which were audited by other auditors whose report on additional information dated October 15, 2013 expressed an opinion that such information was fairly stated in all material respects in relation to the 2013 consolidated financial statements as a whole. Such information should be read in conjunction with the Foundation's consolidated financial statements and accompanying additional information for the year ended June 30, 2013, from which the summarized information was derived.



Boston, Massachusetts
October 15, 2014

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2014

(with comparative totals for the year ended June 30, 2013)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>2014 Consolidated Total</u>	2013 <u>Consolidated Total</u>
Scholarships	\$ 252,491	\$ -	\$ -	\$ 252,491	\$ 248,144
Speakers and cultural programs	130,897	-	-	130,897	113,028
Outside services	75,150	7,375	4,359	86,884	143,364
Accounting and audit	-	19,384	-	19,384	19,387
Insurance	26,274	11,074	-	37,348	54,219
Supplies	104,401	4	-	104,405	73,130
Postage	15,196	800	14,818	30,814	25,335
Equipment and maintenance	29,508	17,216	295	47,019	67,231
Printing and publications	114,544	-	22,193	136,737	131,830
Travel	111,868	391	-	112,259	158,718
Meetings and conferences	62,658	241	29,681	92,580	115,381
Professional and consulting services	2,070	5,620	-	7,690	1,231
Awards and grants	171,828	-	-	171,828	118,819
Real estate and other taxes	5,326	-	-	5,326	2,989
Repairs and maintenance	29,492	-	-	29,492	29,245
Rent	24,643	-	-	24,643	21,320
Utilities	25,962	-	-	25,962	21,554
Interest	142,323	26,504	-	168,827	170,780
Miscellaneous	23,529	16,600	255	40,384	48,467
Investment management fees	-	88,307	-	88,307	80,067
Other financial fees	-	3,127	-	3,127	3,370
	<u>1,348,160</u>	<u>196,643</u>	<u>71,601</u>	<u>1,616,404</u>	<u>1,647,609</u>
Impairment loss	63,465	-	-	63,465	-
Depreciation and amortization	<u>89,244</u>	<u>29,619</u>	<u>-</u>	<u>118,863</u>	<u>107,441</u>
	<u>\$ 1,500,869</u>	<u>\$ 226,262</u>	<u>\$ 71,601</u>	<u>\$ 1,798,732</u>	<u>\$ 1,755,050</u>

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Fitchburg State University Foundation, Inc.
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 consolidated financial statements of Fitchburg State University Foundation, Inc., which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated 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 consolidated financial statements, we considered Fitchburg State University Foundation, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Fitchburg State University Foundation, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Fitchburg State University Foundation, Inc.'s internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fitchburg State University Foundation, Inc.'s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated 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 Fitchburg State University Foundation, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fitchburg State University Foundation, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Cohn Reznick LLP".

Boston, Massachusetts
October 15, 2014