

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

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

YEARS ENDED JUNE 30, 2012 AND 2011



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

Introduction

The following discussion and analysis are intended to provide an overview of the financial position and results of operations of Fitchburg State University (the "University") for the fiscal years ended June 30, 2012, 2011 and 2010. This discussion is provided by the management of the University and should be read in conjunction with the financial statements and notes thereto. The purpose of this document is to give some background to the financial statements, and foster an understanding of how these statements relate to the mission and activities of the University.

The University, located in North Central Massachusetts, is one of the nine comprehensive public universities in the Commonwealth of Massachusetts (the "Commonwealth"). These institutions, along with the five-campus University of Massachusetts system and the fifteen community colleges comprise public higher education in Massachusetts. The University offers approximately 49 undergraduate degree programs in eighteen academic departments, 20 Masters' degree programs and several Graduate Certificates of Advanced Study. During fiscal 2012, there were approximately 3,700 full-time students and thousands of part-time students enrolled in degree programs, for a combined full-time equivalent enrollment of approximately 5,100. Thousands more non-matriculated students take advantage of professional development programs through the Division of Graduate and Continuing Education (DGCE). The University awarded approximately 1,250 graduate and undergraduate degrees in fiscal 2012. The University is accredited by the New England Association of Schools and Colleges (NEASC) and many of the University's programs are accredited by program-specific accrediting bodies.

Financial Highlights

The University experienced positive results from operations in fiscal 2012 and remains on firm financial ground. The following are key financial highlights for the current period:

- General appropriations from the Commonwealth are approved by the legislature to help fund the day-to-day operations of the University. The University received appropriations of \$23.5 million in fiscal 2012. In addition, the University received \$6.7 million in capital appropriations to fund various renovation projects. General appropriations were \$24.3 million in fiscal 2011 and \$21.4 million in fiscal 2010.
- Fees were increased to fund academic and capital initiatives. Total mandatory per semester fees were \$3,665, \$3,415, and \$2,965 in fiscal 2012, 2011 and 2009, respectively. Fees were also increased for undergraduate continuing education students. Tuition, which is controlled by the Commonwealth, has not increased since the fall of 2001 and remains at \$485 per semester for in-state students.
- The University expended \$25.7 million from current funds for capital additions in fiscal 2012. Projects completed during the year included the Highland Avenue closure project, renovation to the Weston Auditorium lobby and renovations to the Conlon roof and lobby. An additional \$14.8 million was spent on the University's behalf by the Massachusetts Division of Capital Asset Management (DCAM) for the Science Center modernization project. Projects remaining in process at June 30, 2012 include the Hammond Campus Center renovations, the Science Center modernization project and continued renovations to Miller Hall.
- Total assets at the end of fiscal 2012 were \$156.4 million and exceeded liabilities and deferred inflows of resources of \$51.5 million by \$104.9 million (i.e. net position). Unrestricted net position available to support short-term operations totaled \$19.6 million, of which \$8.6 million has been designated for specific purposes.

- Total operating, non-operating, and gift revenue for fiscal 2012 was \$99.7 million, while expenses totaled \$75.0 million, resulting in an increase to net position of \$24.7 million. The increase in net position includes a 2.3% increase in student tuition and fee revenues.
- The consolidated financial information of the Fitchburg State University Foundation, Inc. is included in the University's financial statements as a component unit of the University. It is important to reiterate that the Foundation is a separate organization. Foundation funds are largely restricted, and unrestricted funds can only be expended by vote of the Board of Directors of the Foundation.

Using the Financial Statements

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

The Massachusetts Department of Higher Education has instituted the use of certain core financial ratios as part of their performance measures for public universities and colleges in the Commonwealth. Analysis using these ratios, as well as other commonly accepted ratios, has been incorporated throughout this document.

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

Statement of Net Position

The statement of net position presents the financial position of the University at the end of the year and includes all assets, liabilities and deferred inflows of resources of the University, with the difference reported as net position. Assets, liabilities and deferred inflows are generally measured using current values, with a notable exception in capital assets, which are stated at historical cost less an allowance for depreciation. Net position is one indicator of the financial condition of the University, while the change in net position from one period to the next is an indicator of whether the financial condition has improved or worsened. The statements of net position (condensed, in thousands) at June 30, 2012, 2011 and 2010, are as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets			
Current assets	\$ 21,669	\$ 29,673	\$ 20,743
Capital assets, net	103,170	66,192	55,386
Other	<u>31,545</u>	<u>29,702</u>	<u>16,708</u>
Total Assets	<u>156,384</u>	<u>125,567</u>	<u>92,837</u>
 Liabilities			
Current liabilities	14,786	13,817	10,659
Long term liabilities	<u>34,326</u>	<u>28,999</u>	<u>14,258</u>
Total Liabilities	<u>49,112</u>	<u>42,816</u>	<u>24,917</u>
 Deferred Inflows of Resources	<u>2,420</u>	<u>2,621</u>	<u>978</u>
 Net Position			
Net investment in capital assets	72,858	52,187	43,904
Restricted:			
Nonexpendable	448	458	470
Expendable	11,908	6,129	4,263
Unrestricted:			
Designated	8,594	8,488	8,135
Undesignated	<u>11,044</u>	<u>12,868</u>	<u>10,170</u>
Total net position	<u>\$ 104,852</u>	<u>\$ 80,130</u>	<u>\$ 66,942</u>

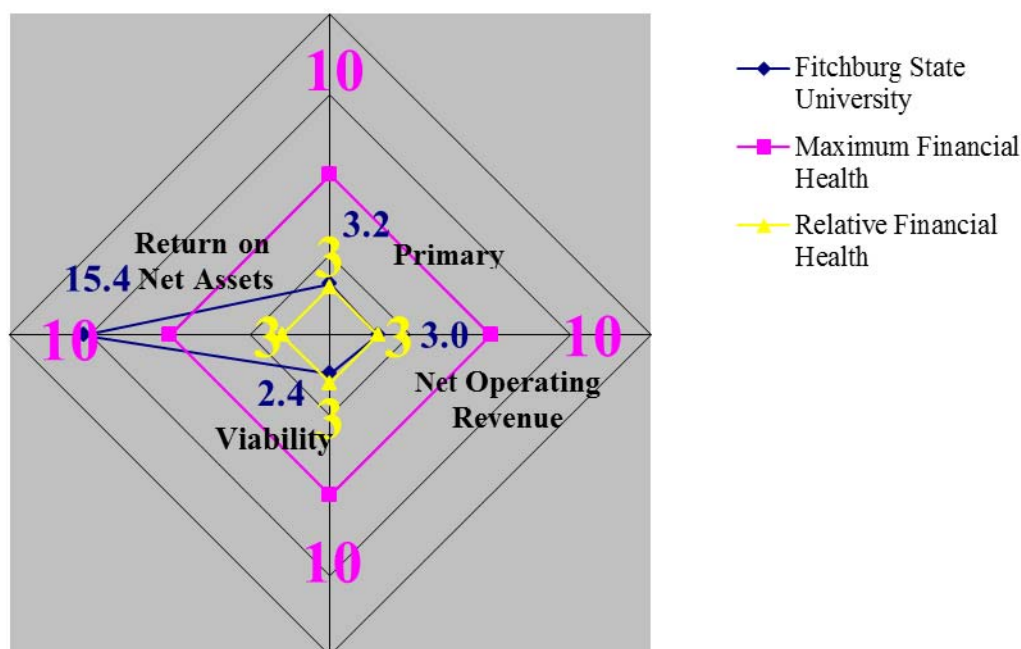
Current assets consist primarily of cash and cash equivalents (92.5%). Other assets include non current restricted cash and cash equivalents, investments in marketable securities and loans receivable. Capital assets are used to provide services to students, faculty and staff. These assets are not available for current or future spending. Current liabilities primarily include trade accounts and salaries payable, accounts payable - construction, the current portion of compensated absences and accrued faculty payroll. In the normal course of events and based on a consistent past history in this regard, it is anticipated that obligations due to employees will be funded by state appropriations. Deferred inflows of resources represent the acquisition of net assets applicable to future periods and are distinct from assets and liabilities. The increase in net position over the past three periods is indicative of the capital improvement initiatives undertaken during this time.

Ratio analysis measures certain elements of an institution's financial health. The analysis illustrates positive results of operations and remain indicators of the overall financial health of the institution.

- **Current Ratio:** An excess of current assets over current liabilities (the current ratio) is a measure of liquidity and provides a buffer against future uncertainties. The University's current assets of \$21.7 million are sufficient to cover current liabilities of \$14.8 million. The University's current ratio at June 30 is 1.5 to 1 for 2012, 2.2 to 1 for 2011, and 1.9 to 1 for 2010.

- **Return on Net Position Ratio:** Net position represents the residual interest in the University's assets after liabilities and deferred inflows of resources are deducted. Comparing the current change in total net position to total net position at the beginning of the period (return on net position) is an economic measure that determines if the University is financially better off than in previous years. The University's return on net position at June 30, 2012, 2011 and 2010 was 30.8%, 19.7% and 19.0%, respectively. The ratio remains well above industry benchmarks.
- **Primary Reserve Ratio:** This ratio indicates how long the University could function using its expendable reserves without relying on additional net position generated by operations. The University's primary reserve ratio at June 30, 2012, 2011 and 2010 was 42.2%, 37.8% and 33.1%, respectively. An improving trend indicates the University has been able to increase its expendable net position in proportion to the rate of growth in total operating expenditures.
- **Secondary Reserve Ratio:** This ratio measures the significance of non expendable net position in relation to an institution's operating size. An improving trend shows an improved capital base and the higher the ratio value, the better the long term financial condition. The University's secondary reserve ratio at June 30, 2012, 2011 and 2010 was 98.1%, 72.5% and 65.0%, respectively.
- In order to assess and evaluate the total financial health of an institution, core financial ratios are weighted and combined into a single factor called the Composite Financial Index (CFI). When calculated, a strength factor of three indicates a relatively healthy institution that can sustain moderate growth with expendable net position exceeding debt levels, although not by excessive amounts. The University's CFI at June 30, 2012, 2011 and 2010 was 5.3, 4.6 and 5.4, respectively. The following graph illustrates the four core financial ratios after they have been weighted and strength factors calculated.

Composite Financial Index



Statement of Revenues, Expenses and Changes in Net Position

The following Statements of Revenues, Expenses and Changes in Net Position (condensed, in thousands) presents information showing the University's results of operations for the fiscal years ended June 30, 2012, 2011 and 2010. Changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will result in cash flows in future periods (e.g. the accrual for compensated absences).

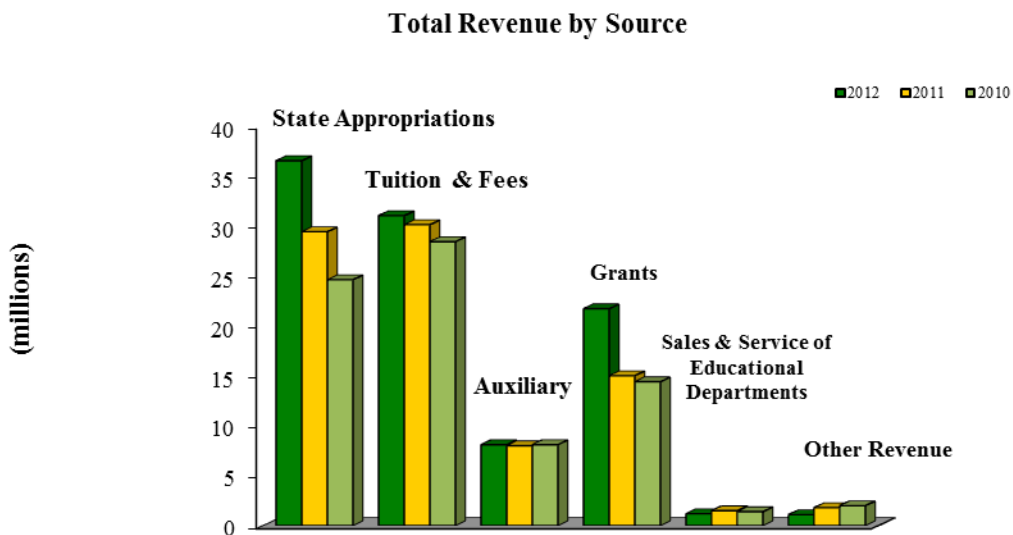
	<u>2012</u>	<u>2011</u>	<u>2010</u>
<u>Operating revenues:</u>			
Tuition & fees (net)	\$ 30,681	\$ 29,985	\$ 28,372
Grants	6,688	9,714	12,780
Sales & service of educational department	1,188	1,458	1,416
Auxiliary	8,117	8,043	8,047
Other operating revenue	<u>687</u>	<u>712</u>	<u>680</u>
Total operating revenue	<u>47,361</u>	<u>49,912</u>	<u>51,295</u>
<u>Operating expenses:</u>			
Instruction	28,023	27,139	25,682
Research & public service	505	524	517
Academic support	4,761	4,807	4,361
Student services	8,598	8,031	7,445
Scholarships	1,519	1,619	1,609
Institutional support	6,866	6,768	5,988
Operations & maintenance	11,445	10,881	10,818
Depreciation	4,270	4,241	4,010
Auxiliary	<u>8,460</u>	<u>8,049</u>	<u>7,412</u>
Total operating expenses	<u>74,447</u>	<u>72,059</u>	<u>67,842</u>
Net operating loss	<u>(27,086)</u>	<u>(22,147)</u>	<u>(16,547)</u>
<u>Non-operating revenue & expenses:</u>			
State appropriations	29,797	29,333	24,622
Gifts	1	3	1
Investment income	611	1,123	1,329
Interest expense	(255)	(583)	(385)
State capital appropriations	6,768	140	-
Capital gifts & grants	15,135	5,319	1,684
Interagency transfers	<u>(249)</u>	<u>-</u>	<u>-</u>
Total non-operating revenue	<u>51,808</u>	<u>35,335</u>	<u>27,251</u>
<u>Increase in net position</u>	<u>24,722</u>	<u>13,188</u>	<u>10,704</u>
Net position, beginning of the year	<u>80,130</u>	<u>66,942</u>	<u>56,238</u>
Net position, end of the year	\$ <u>104,852</u>	\$ <u>80,130</u>	\$ <u>66,942</u>

State appropriations are reported net of the amount of in state day school tuition collected by the University on behalf of the Commonwealth. The tuition collected (for in state supported courses taught by state employees) is then remitted to the Commonwealth as required by Massachusetts General Law. The following schedule details the Commonwealth appropriations received by the University. Included in appropriations are the fringe benefit costs for University employees, which are paid by the Commonwealth. The Commonwealth appropriates general funds to cover the cost of fringe benefits for state employees, but these funds are not appropriated directly to the University. Non-state employees who are paid from trust funds, grants or other sources receive the same fringe benefits. The University reimburses the Commonwealth for the benefit costs associated with these employees. The fringe benefit rate charged by the Commonwealth, exclusive of compensated absences, for fiscal years 2012, 2011 and 2010 was 33.0%, 31.8% and 26.4%, respectively. The current fringe benefit rate includes group medical insurance (22.9%); retirement (9.0%) and terminal leave (1.1%).

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Commonwealth general appropriations	\$ 23,468	\$ 24,315	\$ 21,429
Appropriations to cover fringe benefits provided to employees of the Commonwealth	<u>7,592</u>	<u>7,486</u>	<u>5,581</u>
	31,060	31,801	27,010
Tuition remitted back to the Commonwealth	<u>(1,263)</u>	<u>(2,468)</u>	<u>(2,388)</u>
Net appropriations	29,797	29,333	24,622
Additional state capital appropriations	<u>6,768</u>	<u>140</u>	<u>-</u>
Total appropriations	<u>\$ 36,565</u>	<u>\$ 29,473</u>	<u>\$ 24,622</u>

The following is a graphic illustration of total revenue (operating, non-operating and capital) by source. Total revenue for the fiscal years ended June 30, 2012, 2011 and 2010 was \$99.7, \$85.8 and \$78.9 million, respectively.



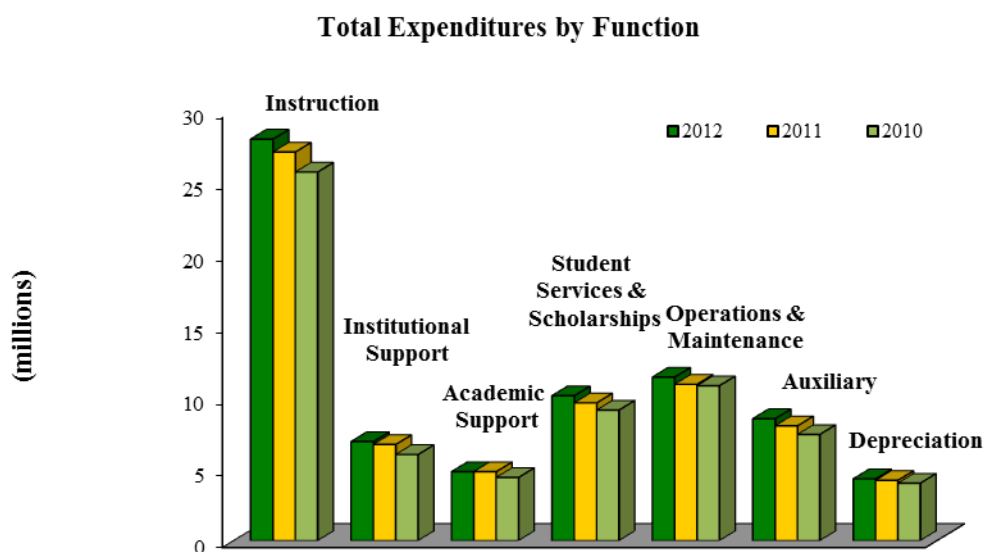
For the fiscal year ended June 30, 2012, total appropriations increased by 24.1% due the receipt of \$6.8 million in capital appropriations. General appropriations were reduced by 3.5% from 2011 funding levels. The reduction represents the change in the amount of tuition remitted back to the Commonwealth. Beginning in fiscal 2012, the University retains all out of state tuition collected and general appropriations were reduced accordingly. Even with this change, state support continues to trend down forcing the University to rely more heavily on student fees to support operations. Whereas state appropriations funded 61.5% of the total expenses in fiscal 2001, in fiscal 2012 that percentage is now 39.9%. All other operating costs incurred by the University are funded from other non state revenue sources. Tuition and fees are reported net of tuition waivers, exemptions, and scholarship allowances. The amount of tuition charged per student is controlled at the state level and remains unchanged. The increase in total tuition and fee revenue (2.3%) is due to increases in student fees. During fiscal year 2012, 2011 and 2010, in-state tuition and fees for full time resident students was \$8,320, \$7,953 and \$7,385 per semester, respectively. In-state tuition and fees for commuting students in fiscal years 2012, 2011 and 2010 was \$4,150, \$3,900 and \$3,450 per semester, respectively.

Auxiliary revenue represents revenue received from the operations of the University's residence halls. Auxiliary revenue does not include fees charged for the student housing facility owned and operated by the FSU Supporting

Organization, Inc. (the “Supporting Organization”). The average residence hall occupancy rate for the year was 100% capacity.

Grant revenue is made up of federal, state and private grants. In fiscal 2011 the University received \$3.1 million in ARRA stabilization funds to help offset decreases in state appropriations. Those funds were used to fund faculty payroll and fringe benefit costs and are now depleted. ARRA funds awarded in fiscal 2012 amounted to \$210,343. Grant revenue includes PELL, SEOG and Federal Work Study financial aid programs. Grant revenue also includes \$15.1 million in capital grant funds used primarily for the construction of the new science building.

The following is a graphic illustration of total expenditures (operating and non-operating) by function. Total expenditures for the fiscal years ended June 30, 2012, 2011 and 2010 were \$75.0, \$72.6 and \$68.2 million, respectively.



Total expenditures, exclusive of depreciation, increased by 3.3% primarily due to increases in payroll, fringe benefit and utility costs. The most significant area of expense remains Instruction, which represents 37.6% of total operating expenses. Faculty payroll (\$18.0 million) and related benefits (\$5.9 million) represent approximately 85.5% of instructional expenditures. Institutional Support consists of the day-to-day operational support of the institution, excluding physical plant operations. Scholarships are funded from Title V entitlement programs such as PELL and SEOG, as well as, from institutional operating funds. Operations and Maintenance consists of expenditures related to physical plant. Expenditures in this functional area include general repair costs and deferred maintenance costs that are below the capitalization threshold of \$50,000. The financial statements include \$4.3, \$4.2 and \$4.0 million in depreciation expense for 2012, 2011 and 2010, respectively.

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

The following schedule (condensed, in thousands) illustrates the University's incurred losses from operations for the fiscal years ended June 30, 2012, 2011 and 2010.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Tuition & fees revenue, net	\$ 30,681	\$ 29,985	\$ 28,372
Other operating revenue	<u>16,680</u>	<u>19,927</u>	<u>22,923</u>
Total operating revenue	47,361	49,912	51,295
Operating expenses	<u>(74,447)</u>	<u>(72,059)</u>	<u>(67,842)</u>
Operating loss	(27,086)	(22,147)	(16,547)
Total state appropriations	29,797	29,333	24,622
Other revenue (expense), net	<u>22,011</u>	<u>6,002</u>	<u>2,629</u>
Increase in net position	\$ <u>24,722</u>	\$ <u>13,188</u>	\$ <u>10,704</u>

Net Operating Revenues Ratio: This ratio indicates whether total operating activities resulted in a surplus or deficit. A positive ratio indicates that the institution experienced an operating surplus and is indicative of efficient and effective operations. For the fiscal years ended June 30, 2012, 2011 and 2010, the University's net operating revenues ratio was 4.0%, 9.6% and 11.7%, respectively.

Statement of Cash Flows

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

The following are the University's statements of cash flows (condensed, in thousands) for the fiscal years ended June 30, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash received from operations	\$ 47,691	\$ 50,760	\$ 50,918
Cash expended for operations	<u>(61,682)</u>	<u>(59,930)</u>	<u>(57,112)</u>
Net cash used by operations	(13,991)	(9,170)	(6,194)
Net cash provided by non-capital financing activities	22,199	21,850	19,043
Net cash used by capital and related financing activities	(13,222)	6,822	(5,895)
Net cash (used) provided by investing activities	<u>(3,504)</u>	<u>294</u>	<u>1,563</u>
Net increase (decrease) in cash and equivalents	(8,518)	19,796	8,517
Cash and equivalents, beginning of the year	<u>41,686</u>	<u>21,890</u>	<u>13,373</u>
Cash and equivalents, end of the year	\$ <u>33,168</u>	\$ <u>41,686</u>	\$ <u>21,890</u>

The University's cash and cash equivalents decreased by approximately \$8.5 million during fiscal 2012, resulting in the cash and cash equivalents balance of \$33.1 million at fiscal year end. The decrease is primarily due to construction costs related to the renovation of the Hammond Campus Center. Non-capital financing activities, as defined by GASB, include state appropriations. These appropriations fund the operating activities of the University. Investing activities include interest and dividends received from portfolio investments, as well as,

interest earned on University funds held in the Massachusetts Municipal Depository Trust (MMDT), a short-term money management vehicle provided by the Commonwealth.

Capital Assets

Capital assets consist of land, land improvements, buildings and building improvements, equipment, library materials, and construction in progress. As of June 30, 2012, net capital assets increased to \$103.2 million after depreciation expense of \$4.3 million. During the current fiscal year there were \$41.2 million in additions to capital assets. Major capital initiatives either continuing or undertaken during 2012 include:

- Continuing construction for the Science Center Modernization project, \$21.5 million (to date)
- Continuing renovation of the Hammond Campus Center, \$22.6 million (to date)
- Miller Hall renovations, \$3 million (to date)
- Highland Avenue closure, \$943,000

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

Physical Asset Renewal Ratio: The extent to which capital renewal is occurring as compared to physical usage (depreciation) can be measured by the physical asset renewal ratio. A ratio above 1:1 indicates increasing investment in plant facilities. The University's physical asset renewal ratio for fiscal years ended June 30, 2012, 2011 and 2010 was 9.8, 3.1 and 1.3, respectively.

Long Term Debt

The University has long term debt obligations issued for various capital projects. The debt was issued through several financing agreements with the Massachusetts Development Finance Agency (MDFA) (formerly the Massachusetts Health and Educational Facilities Authority (MHEFA)) and the Massachusetts State College Building Authority (MSCBA). The interest rate on the MDFA debt is a floating rate set every thirty five days based on market conditions. The interest rate on the MSCBA debt is based on an increasing coupon rate ranging from 3.00% to 6.54 % over the term of the debt as set by MSCBA. The debt is being repaid by the University primarily through dedicated student fees (DSF). The following table summarizes the various debt vehicles, interest rates, debt service and debt outstanding at June 30, 2012 and is inclusive of any bond premiums or discounts.

Issuing Agency	Construction Project	Fiscal Year Issued	Original Issue	Funding Source	Effective Interest Rate	Debt Service	Debt Outstanding	Maturity
MDFA	Recreation Center	1997	\$6,000,000	DSF	1.44%	\$213,456	\$3,845,302	2023
MSCBA	Holmes Dining Hall Renovations	2005	\$1,090,000	DSF	4.31%	\$81,319	\$800,000	2025
MSCBA	Elliot Athletic Field Improvements	2005	\$4,020,000	DSF	4.30%	\$303,594	\$2,940,000	2025
MSCBA	Holmes Dining Hall Renovations	2006	\$2,060,000	DSF	4.47%	\$161,812	\$1,697,670	2026
MSCBA	Hammond Campus Center Renovations	2011	\$15,935,656	DSF & operating funds	3.44%	\$1,105,512	\$15,272,961	2030
MSCBA	Hammond Campus Center Renovations	2012	\$7,043,416	DSF & operating funds	3.41%	-	\$7,020,705	2031
Total			\$36,149,072			\$1,865,693	\$31,576,638	

The University acquired equipment through capital lease agreements with various financing companies. The capital lease agreements allowed for the acquisition of telephone, printing and computer equipment, software and implementation costs, and various other furniture and equipment costs. Capital lease agreements were generally paid from operating funds and had terms ranging from three to five years. The following table summarizes the various capital lease agreements, interest rates, debt service and amounts outstanding at June 30, 2012.

Financing Agreement	Equipment Acquisition	Initial Lease Year	Original Amount Financed	Funding Source	Interest Rate	Debt Service	Debt Outstanding	Maturity
1	Residence Hall Furniture	2009	\$499,938	Operating funds	2.85%	\$340,544	-	2014
2	Telephone, computer and other	2005 to 2009	\$538,455	Operating funds	3.27% - 6.29%	\$66,339	-	2010-2012
Total			\$1,038,393			\$406,883	-	

For the fiscal years ended June 30, 2012, 2011 and 2010, the total debt (current and long term) attributable to interagency payments, capital leases and bond premiums amounted to \$31.6, \$26.1 and \$11.2 million, respectively.

Additional information on Fitchburg State University's long term debt activity can be found in footnotes 12 and 13 to the accompanying financial statements.

Viability Ratio: The availability of expendable net position to cover debt (the viability ratio) is a basic determinant of financial health. A viability ratio of 1.0 indicates that, as of the statement of net position date, the University has sufficient net position to satisfy its debt obligations. As of June 30, 2012, 2011 and 2010, the University's viability ratio was 1.0, 1.0 and 2.0, respectively.

Debt Burden: The debt burden ratio measures an institution's dependence on borrowed funds by comparing the level of debt service to total expenditures. In order to effectively manage resources, including debt, the Massachusetts Department of Higher Education recommends a debt burden ratio of no more than 5%. As of June 30, 2012, 2011 and 2010, the University's debt burden was 3.2%, 2.2% and 4.3%, respectively.

Looking Forward

The renaissance of the Fitchburg State University campus continues, with the new Science Center rapidly taking shape and on target to open in the fall of 2013. The structural steel framing was completed in December and interior construction is well underway. The \$57 million project is within budget and construction is ahead of schedule. The building now represents a striking new presence on North Street. At the same time the Hammond Campus Center is undergoing major renovations which, when complete, will create a new identifiable entrance to the campus, improve circulation through the building and provide an accessible pathway to the campus quadrangle. Phase I was completed for the opening of the fall 2012 semester. Phase II renovations will begin in the fall of 2012 and will include the replacement of the entire roof and associated mechanical infrastructure. Phase III renovations will begin thereafter with continued renovations to various office suites, meeting rooms and student activity areas. Other projects scheduled for completion in fiscal 2013 include various academic office renovations, renovations to the Edgerly Plaza and the Highland Gateway project.

The University continues the initiative to reduce its carbon footprint by investing in energy efficient programs and processes. Fiscal 2012 was the first full year of operation for the solar photovoltaic systems (PV) installed on the Anthony and Sanders administration buildings. The PV systems produced over 98,000 kilowatts of electricity, saving the University significant energy costs. Future plans for additional solar PV systems include seeking power purchase agreements with third party vendors that will allow the University to install additional units on various campus buildings without the upfront costs. This will provide electricity to the campus at a cost that is reduced from what is normally available through the energy grid. The Hammond renovation project was designed

according to LEED commercial interior standards. Leadership in Energy and Environmental Design (LEED) is an independent rating system for evaluating building sustainability under the direction of the United States Green Building Council (USGC) and includes factors such as water use reduction, energy star appliances, lighting controls and occupancy sensors. The application for LEED certification for the Hammond building will be submitted to the USGC in the fall of 2012. If successful this will be the second major facility on campus to receive LEED certification.

The University continues to employ innovative uses of technology to maximize student learning. The University completed the deployment of virtual workstations and replaced existing classroom systems with new high definition technology to create numerous “smart classrooms” across campus. In the coming year the University will be upgrading its electronic security with a new intrusion prevention system, redesigning the University’s backup systems in preparation for cloud storage and instituting electronic testing using iPad technology for the Nursing program. In addition, the University will be implementing a new mobile website and applications for students, faculty and staff.

The University completed its NEASC accreditation process and now awaits its final report from the New England Association of Schools and Colleges (NEASC). The goal is to receive another ten year accreditation based on the self-study completed this past year. The process was labor intensive but offered a valuable opportunity to examine the University’s mission as well as its strengths and weaknesses based on a focused, standard set of criteria. The initial exit reviews were positive. A closing meeting with the NEASC evaluation team is scheduled for the fall of 2012 and a final determination will be issued thereafter.

Finally, the Board of Trustees recently approved a proposal to offer a new Game Design degree. If approved by the Department of Higher Education, Fitchburg State University will be the only public institution in New England to offer the degree. The degree will prepare students to enter an industry that has not only shown growth over the last five years but is also well established in the Commonwealth. The Gaming industry in Massachusetts currently employs approximately 1,300 people and there are upwards of 110 companies across the state identifying themselves as participants in the sector. The University expects to implement the new program in September 2013 with an anticipated initial enrollment of sixteen to thirty two students.

Fitchburg State University continues to be a leader in public education in Massachusetts. The commitment to excellence in teaching and learning prepares its students to lead and serve by fostering lifelong learning, global responsibility and civic engagement. By partnering with the local community, as well as collaborating with local businesses, industries, school districts and other segments of state government, the institution has been able to accomplish, in just a few years, what could have taken decades. A commitment to innovative thinking coupled with strategic use of limited resources has transformed a once aging campus into a modern facility with state of the art technologies. As a community resource, Fitchburg State University continues to provide leadership and support to the economic, environmental, social and cultural needs of North Central Massachusetts and the Commonwealth of Massachusetts.

Requests for Information

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Fitchburg State University
Fitchburg, Massachusetts

We have audited the accompanying financial statements of the business-type activities of Fitchburg State University (the University) (a department of the Commonwealth of Massachusetts) as of and for the years ended June 30, 2012 and 2011, and the discretely presented component unit as of and for the years ended June 30, 2012 and 2011, which collectively comprise Fitchburg State University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Fitchburg State University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of Fitchburg State University and its discretely presented component unit are intended to present the respective financial position, results of operations and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts that is attributable to the transactions of Fitchburg State University and its discretely presented component unit. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Massachusetts as of June 30, 2012 and 2011, the change in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of Fitchburg State University as of June 30, 2012 and 2011, and the respective results of operations and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, in fiscal 2012, the University elected to early implement the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

In accordance with Government Auditing Standards, we have also issued a report dated October 16, 2012 on our consideration of Fitchburg State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters for the year ended June 30, 2012. 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 and should be considered in assessing the results of our 2012 audit.

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

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The residence hall fund and residence hall damage fund activity on pages 78 and 79, and the statistical section on pages 80 through 84 are presented for purposes of additional analysis and are not a required part of the 2012 financial statements. The residence hall fund and residence hall damage fund activity are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 2012 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2012 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2012 financial statements or to the 2012 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the residence hall fund and residence hall damage fund activity are fairly stated in all material respects in relation to the 2012 financial statements as a whole. The statistical section has not been subjected to the auditing procedures applied in the audit of the 2012 financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Ercolini & Company LLP

Boston, Massachusetts
October 16, 2012

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

STATEMENTS OF NET POSITION

JUNE 30, 2012 AND 2011

ASSETS	<u>2012</u>	Component Unit Fitchburg State University Foundation, Inc. <u>2012</u>	<u>2011</u>	Component Unit Fitchburg State University Foundation, Inc. <u>2011</u>
<u>Current Assets</u>				
Cash and cash equivalents	\$ 14,861,891	\$ 2,415,022	\$ 22,481,590	\$ 2,270,542
Restricted cash and cash equivalents	5,188,966	-	3,867,412	-
Investments	-	3,148,963	-	2,996,227
Accounts receivable, net	1,488,663	37,452	3,045,758	10,911
Contributions receivable, net	-	190,173	-	1,396,439
Loans receivable - current portion	2,406	-	4,189	-
Other current assets	<u>127,261</u>	<u>75,727</u>	<u>273,857</u>	<u>33,665</u>
Total current assets	<u>21,669,187</u>	<u>5,867,337</u>	<u>29,672,806</u>	<u>6,707,784</u>
<u>Noncurrent Assets</u>				
Restricted cash and cash equivalents	13,116,648	-	15,336,664	-
Investments	15,284,234	-	11,142,978	-
Endowment investments	749,353	8,414,597	699,432	7,122,220
Contributions receivable, net	-	153,627	-	104,426
Accounts receivable, net of current portion	424,805	-	408,721	-
Loans receivable, net of current portion	1,962,680	-	1,937,582	-
Capital assets, net	103,169,734	4,771,627	66,192,103	4,815,752
Other noncurrent assets	<u>7,102</u>	<u>155,104</u>	<u>177,185</u>	<u>153,737</u>
Total noncurrent assets	<u>134,714,556</u>	<u>13,494,955</u>	<u>95,894,665</u>	<u>12,196,135</u>
Total assets	<u>156,383,743</u>	<u>19,362,292</u>	<u>125,567,471</u>	<u>18,903,919</u>

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

STATEMENTS OF NET POSITION - CONTINUED

JUNE 30, 2012 AND 2011

LIABILITIES	<u>2012</u>	Component Unit Fitchburg State University Foundation, Inc. <u>2012</u>	<u>2011</u>	Component Unit Fitchburg State University Foundation, Inc. <u>2011</u>
<u>Current Liabilities</u>				
Interagency payables - current portion	\$ 1,323,735	\$ -	\$ 1,146,738	\$ -
Accounts payable and accrued liabilities	3,335,788	72,033	2,488,414	80,981
Accounts payable - construction	2,722,077	-	2,495,246	-
Accrued workers' compensation - current portion	133,668	-	148,183	-
Compensated absences - current portion	2,584,870	-	2,664,148	-
Faculty payroll accrual	2,840,378	-	2,624,441	-
Revenue received in advance	1,404,623	65,224	1,642,678	22,405
Capital leases - current portion	-	-	166,275	-
Long-term debt - current portion	-	154,816	-	150,153
Deposits	292,725	-	259,160	-
Bank line of credit	-	-	-	-
Other current liabilities	148,296	-	182,007	-
Total current liabilities	<u>14,786,160</u>	<u>292,073</u>	<u>13,817,290</u>	<u>253,539</u>
<u>Noncurrent Liabilities</u>				
Interagency payables, net of current portion	30,252,903	-	24,553,224	-
Accrued workers' compensation, net of current portion	544,849	-	604,015	-
Compensated absences, net of current portion	1,625,283	-	1,709,652	-
Rebate payable	-	-	17,993	-
Capital leases, net of current portion	-	-	231,978	-
Long-term debt, net of current portion	-	3,497,560	-	3,653,458
Loan payable - federal financial assistance programs	1,902,808	-	1,882,087	-
Total noncurrent liabilities	<u>34,325,843</u>	<u>3,497,560</u>	<u>28,998,949</u>	<u>3,653,458</u>
Total liabilities	<u>49,112,003</u>	<u>3,789,633</u>	<u>42,816,239</u>	<u>3,906,997</u>
DEFERRED INFLOWS OF RESOURCES				
Service concession arrangement	<u>2,419,630</u>	-	<u>2,621,266</u>	-
Total deferred inflows of resources	<u>2,419,630</u>	-	<u>2,621,266</u>	-

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

STATEMENTS OF NET POSITION - CONTINUED

JUNE 30, 2012 AND 2011

NET POSITION	<u>2012</u>	Component Unit Fitchburg State University Foundation, Inc. <u>2012</u>	<u>2011</u>	Component Unit Fitchburg State University Foundation, Inc. <u>2011</u>
Net investment in capital assets	\$ 72,858,018	\$ 1,119,251	\$ 52,186,987	\$ 1,012,141
Restricted for:				
Non-expendable				
Scholarships and fellowships	448,121	4,219,397	458,004	4,078,595
Cultural programs	-	2,612,069	-	2,563,762
Centennial endowments	-	1,592,974	-	1,592,974
Other	-	84,931	-	80,095
Expendable				
Scholarships and fellowships	452,425	1,684,771	428,682	1,632,517
Cultural programs	-	1,172,367	-	1,090,192
Loans	259,783	-	256,995	-
Capital projects	8,723,917	-	491,442	-
Debt service	2,470,739	-	4,950,776	-
Other	930	266,100	930	327,139
Unrestricted	<u>19,638,177</u>	<u>2,820,799</u>	<u>21,356,150</u>	<u>2,619,507</u>
Total net position	<u>\$ 104,852,110</u>	<u>\$ 15,572,659</u>	<u>\$ 80,129,966</u>	<u>\$ 14,996,922</u>

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEARS ENDED JUNE 30, 2012 AND 2011

		Component Unit Fitchburg State University Foundation, Inc.		Component Unit Fitchburg State University Foundation, Inc.
<u>OPERATING REVENUES</u>	<u>2012</u>	<u>2012</u>	<u>2011</u>	<u>2011</u>
Student tuition and fees	\$ 34,957,350	\$ -	\$ 34,909,405	\$ -
Student fees restricted for repayment of Interagency payables	2,278,715	-	1,453,795	-
Less: Scholarship allowances	(6,555,554)	-	(6,377,904)	-
Net student tuition and fees	30,680,511	-	29,985,296	-
Federal grants and contracts	5,953,575	-	6,282,893	-
State and local grants and contracts	276,885	47,836	88,284	44,036
Stimulus grants	210,343	-	3,098,023	-
Nongovernmental grants and contracts	247,111	-	244,867	-
Sales and services of educational departments	1,188,283	616,283	1,457,855	654,575
Gifts and contributions	-	3,451,722	-	3,313,136
Auxiliary enterprises:				
Residential life	8,086,217	198,537	8,010,522	200,120
Alcohol awareness and other programs	31,360	-	32,400	-
Other operating revenues	686,557	4,836	712,028	6,909
Total operating revenues	47,360,842	4,319,214	49,912,168	4,218,776
<u>OPERATING EXPENSES</u>				
Educational and general:				
Instruction	28,023,197	2,915,898	27,138,609	2,896,430
Research	35,654	-	68,156	-
Public service	469,699	191,187	456,372	237,621
Academic support	4,761,045	20,782	4,806,942	13,985
Student services	8,598,075	135,624	8,030,813	127,590
Institutional support	6,866,058	339,698	6,767,632	313,982
Operations and maintenance of plant	11,444,608	45,019	10,881,270	69,092
Depreciation and amortization	4,269,822	104,910	4,241,022	101,729
Scholarships and awards	1,518,783	228,509	1,618,980	228,695
Auxiliary enterprises:				
Residential life	8,431,071	55,733	8,018,729	46,399
Alcohol awareness and other programs	28,502	-	30,185	-
Total operating expenses	74,446,514	4,037,360	72,058,710	4,035,523
Operating income (loss)	(27,085,672)	281,854	(22,146,542)	183,253

See notes to financial statements.

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

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

YEARS ENDED JUNE 30, 2012 AND 2011

<u>NONOPERATING REVENUES (EXPENSES)</u>	<u>2012</u>	<u>Component Unit Fitchburg State University Foundation, Inc. 2012</u>	<u>2011</u>	<u>Component Unit Fitchburg State University Foundation, Inc. 2011</u>
State appropriations	\$ 29,797,174	\$ -	\$ 29,332,885	\$ -
Gifts	75	-	2,740	-
Investment income (loss), net of investment expense	509,941	116,770	1,008,505	437,376
Investment income (loss) on restricted assets	101,431	305,286	114,426	1,099,417
Interest expense on Interagency payables and capital asset related debt	(254,909)	(197,369)	(583,060)	(228,580)
Net nonoperating revenues before capital and endowment additions	<u>30,153,712</u>	<u>224,687</u>	<u>29,875,496</u>	<u>1,308,213</u>
<u>INCOME BEFORE CAPITAL AND ENDOWMENT ADDITIONS</u>	<u>3,068,040</u>	<u>506,541</u>	<u>7,728,954</u>	<u>1,491,466</u>
State capital appropriations	6,768,104	-	140,046	-
Capital grants	15,135,437	-	5,319,402	-
Transfers (to)/from state agencies	(249,437)	-	-	-
Private gifts for endowment purposes	-	69,196	-	150,716
Total capital and endowment additions	<u>21,654,104</u>	<u>69,196</u>	<u>5,459,448</u>	<u>150,716</u>
<u>INCREASE (DECREASE) IN NET POSITION</u>	<u>24,722,144</u>	<u>575,737</u>	<u>13,188,402</u>	<u>1,642,182</u>
<u>NET POSITION - BEGINNING OF YEAR</u>	<u>80,129,966</u>	<u>14,996,922</u>	<u>66,941,564</u>	<u>13,354,740</u>
<u>NET POSITION - END OF YEAR</u>	<u>\$ 104,852,110</u>	<u>\$ 15,572,659</u>	<u>\$ 80,129,966</u>	<u>\$ 14,996,922</u>

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

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2012</u>	<u>2011</u>
Tuition and fees	\$ 30,922,198	\$ 29,920,906
Research grants and contracts	5,983,030	6,545,425
Stimulus funds	537,717	3,147,054
Payments to suppliers	(16,529,167)	(17,001,488)
Payments to utilities	(4,464,061)	(4,075,803)
Payments to employees	(36,191,851)	(34,404,372)
Payments for benefits	(2,643,013)	(2,449,114)
Payments for scholarships	(1,557,085)	(1,653,433)
Loans issued to students	(296,504)	(281,579)
Collection of loans to students	252,099	250,169
Auxiliary enterprise receipts:		
Residential life	8,091,540	8,022,787
Alcohol awareness program	31,360	32,400
Receipts from sales and services of educational departments	1,188,968	2,133,342
Other payments	(145)	(64,703)
Other receipts	<u>683,743</u>	<u>708,171</u>
Net cash provided by (used in) operating activities	<u>(13,991,171)</u>	<u>(9,170,238)</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	23,467,647	24,314,689
Tuition remitted to State	(1,269,170)	(2,467,840)
Gifts from grants for other than capital purposes	<u>75</u>	<u>2,740</u>
Net cash provided by (used in) noncapital financing activities	<u>22,198,552</u>	<u>21,849,589</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State capital appropriations	6,768,104	140,046
Loan programs net funds received	23,509	34,418
Capital grants	1,172,153	573,382
Interagency payable proceeds received	7,043,416	15,935,656
Payments for capital assets	(25,681,938)	(8,194,122)
Principal paid on capital debt and leases	(1,457,350)	(981,453)
Interest paid on Interagency payables and capital leases	(815,226)	(507,920)
Bond issuance costs	(43,416)	(178,440)
Transfers to other state agencies	(249,437)	-
Refund of arbitrage account	<u>17,998</u>	<u>-</u>
Net cash provided by (used in) capital and related financing activities	<u>(13,222,187)</u>	<u>6,821,567</u>

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

STATEMENTS OF CASH FLOWS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

CASH FLOWS FROM INVESTING ACTIVITIES	<u>2012</u>	<u>2011</u>
Purchase of investments	(\$ 17,173,199)	(\$ 575,000)
Proceeds from sale of investments	13,340,503	575,000
Earnings on investments	<u>329,341</u>	<u>294,358</u>
Net cash provided by (used in) investing activities	(3,503,355)	<u>294,358</u>
Net increase (decrease) in cash and cash equivalents	(8,518,161)	19,795,276
Cash and cash equivalents - beginning of year	<u>41,685,666</u>	<u>21,890,390</u>
Cash and cash equivalents - end of year	<u>\$ 33,167,505</u>	<u>\$ 41,685,666</u>

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

Operating loss	(\$ 27,085,672)	(\$ 22,146,542)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Bad debt expense	84,899	47,067
Depreciation and amortization	4,269,822	4,241,022
Miscellaneous other	44,324	-
Fringe benefits paid by the Commonwealth of Massachusetts	7,592,339	7,486,036
Changes in assets and liabilities:		
Receivables	318,582	162,305
Other current and noncurrent assets	350,088	207,012
Accounts payable and accrued liabilities	736,942	(96,610)
Accrued workers' compensation	(73,681)	91,093
Compensated absences	(163,647)	358,761
Accrued faculty payroll	215,937	135,887
Revenue received in advance	(238,054)	439,468
Other current liabilities	(33,710)	(4,014)
Deposits	33,565	(60,690)
Loans to students	<u>(42,905)</u>	<u>(31,033)</u>
Net cash used in operating activities	<u>(\$ 13,991,171)</u>	<u>(\$ 9,170,238)</u>

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

STATEMENTS OF CASH FLOWS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

<u>SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:</u>	<u>2012</u>	<u>2011</u>
Acquisition of capital assets	\$ 41,247,453	\$ 15,046,875
Accounts payable thereon:		
Beginning of year	2,495,246	516,138
End of year	(2,722,077)	(2,495,246)
Capital grants from DCAM	(14,781,397)	(4,873,645)
Net interest earned and incurred, capitalized in construction in progress	(557,287)	-
Payments for capital assets	<u>\$ 25,681,938</u>	<u>\$ 8,194,122</u>
Unrealized gain (loss) on investments	<u>\$ 358,481</u>	<u>\$ 738,899</u>
Fringe benefits paid by the Commonwealth of Massachusetts	<u>\$ 7,592,339</u>	<u>\$ 7,486,036</u>
Capital grants - amortization of deferred inflows of resources - service concession arrangement	<u>\$ 201,636</u>	<u>\$ 172,374</u>

RECONCILIATION OF CASH AND CASH EQUIVALENT BALANCES:

	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 14,861,891	\$ 22,481,590
Restricted cash and cash equivalents	5,188,966	3,867,412
Noncurrent assets:		
Restricted cash and cash equivalents	<u>13,116,648</u>	<u>15,336,664</u>
Total cash and cash equivalents	<u>\$ 33,167,505</u>	<u>\$ 41,685,666</u>

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

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

1. Summary of significant accounting policies

Organization

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

On July 28, 2010, the Governor of the Commonwealth of Massachusetts, Deval Patrick, signed legislation creating the State University System. Under this legislation, Fitchburg State College became Fitchburg State University effective October 26, 2010.

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

Fitchburg State University Foundation, Inc. (the Foundation) is a component unit of Fitchburg State University. During fiscal 2011, the Commonwealth of Massachusetts approved a name change from Fitchburg State College Foundation, Inc. to Fitchburg State University Foundation, Inc. The Foundation is a legally separate, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. It was organized on June 6, 1978, exclusively for the benefit of Fitchburg State University, to establish scholarships and make awards to educationally talented and needy students; to establish a Distinguished Professor award within the faculty of the University; to subsidize inter-collegiate athletic programs; to subsidize budgets of departments of the University as needed for particular purposes; to encourage public use and support of functions and activities which further the mission of the University; and to encourage other activities necessary for, or incidental to, any or all of the foregoing. The following programs are supported under the auspices of the Foundation: Center Stage, Alumni Association, Women in Today's Society, Amelia V. Gallucci - Cirio endowment and the University's Booster Clubs. The Board of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. The University provides, at no cost, certain administrative services to the Foundation.

FSU Foundation Supporting Organization, Inc. (the Foundation Supporting Organization) was organized on October 29, 1999 for the exclusive benefit of the Foundation and all of its educational and charitable activities. During fiscal 2011, the Commonwealth of Massachusetts approved a name change from FSC Foundation Supporting Organization, Inc. to FSU Foundation Supporting Organization, Inc. The Foundation Supporting Organization is a legally separate, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Foundation Supporting Organization's sole program activity, as of June 30, 2012, has been to acquire, hold, operate and lease real estate and related improvements for the benefit of the Foundation and the

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

1. Summary of significant accounting policies - continued

Organization - continued

University. The financial information of the Foundation Supporting Organization is consolidated into the financial statements of the Foundation. The Foundation and Foundation Supporting Organization are collectively referred to hereinafter as the FSU Foundation.

During the year ended June 30, 2012, FSU Foundation distributed a net amount of \$357,102 to the University for both restricted and unrestricted purposes. During 2012, FSU Foundation distributed scholarships and awards in the amount of \$228,509 directly to students and faculty of the University, and incurred an additional \$3,649,118 in support of its mission in other ways. Complete financial statements for FSU Foundation can be obtained from the Office of the Vice President for Finance and Administration, Fitchburg State University, 160 Pearl Street, Fitchburg, MA 01420.

During the year ended June 30, 2011, FSU Foundation distributed a net amount of \$355,744 to the University for both restricted and unrestricted purposes. During 2011, FSU Foundation distributed scholarships and awards in the amount of \$228,695 directly to students and faculty of the University, and incurred an additional \$3,679,664 in support of its mission in other ways.

Basis of presentation

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

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

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

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

1. Summary of significant accounting policies - continued

Basis of presentation - continued

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

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

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

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

Use of estimates

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

1. Summary of significant accounting policies - continued

Cash and cash equivalents and investments

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

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

Investments include marketable debt and equity securities which are carried at their readily determinable fair values. Investments also include pooled investment funds with Commonfund at June 30, 2011 which are valued at fair value based upon estimated net asset values provided by the management of Commonfund. These pooled investment funds are primarily invested in marketable debt and equity securities. Realized and unrealized gains and losses are included in nonoperating revenues. Gains and losses on the disposition of investments are determined based on specific identification of securities sold or the average cost method. Investment income is recognized when earned and is generally credited to the trust fund holding the related assets.

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

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

At June 30, 2012 and 2011, the University had \$405,660 and \$395,530, respectively, in endowment income available for authorization for expenditure, which is included in restricted-expendable net position for scholarships and fellowships.

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

1. Summary of significant accounting policies - continued

Cash and cash equivalents and investments - continued

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

FSU Foundation's investments consist of debt, marketable equity securities, mutual funds, a pooled investment real estate fund and other investments which are carried at their fair values. Unrealized gains and losses are included in revenue. Restricted investment income and gains are reported as increases in unrestricted net position, unless a donor or law temporarily (expendable) or permanently (non-expendable) restricts their use. Gains and losses on the disposition of investments are principally determined based on the first-in, first-out method or specific identification of securities sold. Investment income is recognized when earned. Dividends are recorded on the ex-dividend date.

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

The University's and FSU Foundation's investment income are presented net of investment expense in the statements of revenues, expenses and changes in net position. The University's investment expense amounted to \$31,109 and \$22,272 for the years ended June 30, 2012 and 2011. The Foundation's investment expense amounted to \$78,095 and \$42,923 for the years ended June 30, 2012 and 2011, respectively.

Accounts receivable

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

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

Loans receivable and payable

Loans receivable consist, primarily, of the Federal Perkins Loan Program (Perkins) and the Federal Nursing Student Loan Program (NSL). The federal government provides the majority of the funds to support these programs. Loan payments received from students made under the Perkins and NSL programs may be re-loaned

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

1. Summary of significant accounting policies - continued

Loans receivable and payable - continued

after collection. The portion of the Perkins and NSL Loan Programs provided by the federal government is refundable to the federal government upon the ending (liquidation) of the University's participation in the programs. The amount due to the federal government upon liquidation by the University is \$1,521,862 and \$1,511,094 for Perkins and \$380,946 and \$370,993 for NSL at June 30, 2012 and 2011, respectively. These amounts are included as a noncurrent liability in the accompanying statements of net position.

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

Capital assets

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

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

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

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

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

1. Summary of significant accounting policies - continued

Capital assets - continued

The University, in accordance with a management and services agreement between the MSCBA and Commonwealth of Massachusetts, is charged a semi-annual revenue assessment which is based on a certified occupancy report, the current rent schedule, and the design capacity for each of the residence halls. This revenue assessment is used by MSCBA to pay principal and interest due on its long-term debt obligations. These obligations may include the costs of periodic renovations and improvements to the residence halls. Certain obligations are guaranteed by the Commonwealth. The revenue assessment amounts for the years ended June 30, 2012 and 2011 were \$5,003,675 and \$4,755,410, respectively, and are included in the Residential life auxiliary enterprises in the accompanying statements of revenues, expenses and changes in net position. All facilities and obligations of the MSCBA are included in the financial statements of the MSCBA. It is not practical to determine the specific asset cost or liability attributable to the University. The leases, therefore, are accounted for under the operating method for financial statement purposes.

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

Contributions and bequests

FSU Foundation recognizes contributions revenue when the donor makes a promise to give, that is, in substance, unconditional. Unconditional promises to give are reported at net realizable value if at the time the promise is made collection is expected to be received in one year or less. Unconditional promises to give that are expected to be collected in more than one year are reported at fair value using present value techniques and a discount rate determined by management of FSU Foundation. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Contributions in the form of property and equipment and other assets are recorded at the fair value on the date the donation is received. All contributions are considered to be available for unrestricted use by FSU Foundation unless specifically restricted by the donor. FSU Foundation provides for probable uncollectible amounts of unconditional promises to give through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual account balances.

Compensated absences

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

1. Summary of significant accounting policies - continued

Student fees

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

Revenue received in advance

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

Agency funds

Agency funds consist of resources held by the University as custodian or fiscal agent of student organizations, the State Treasurer and others. Transactions are recorded to asset and liability accounts. There were no material balances at June 30, 2012 and 2011.

Bond premiums

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

Interest expense and capitalization

The University follows the policy of capitalizing interest expense as a component of the cost of capital assets constructed for its own use. During 2012 and 2011, total interest costs incurred were accounted for as follows:

	<u>2012</u>	<u>2011</u>
Total interest costs incurred	\$ 937,831	\$ 600,446
Less: Interest income on unused funds from tax exempt borrowings	-	-
Rebate payable increase (decrease)	(17,993)	28
Bond premium amortization	(107,642)	(17,414)
	<u>812,196</u>	<u>583,060</u>
Less: Capitalized portion of net interest earned and incurred	(557,287)	-
Interest expense	<u>\$ 254,909</u>	<u>\$ 583,060</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

1. Summary of significant accounting policies - continued

Fringe benefits

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

Tax status

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

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation.

Recent accounting pronouncements

Recently adopted accounting pronouncements

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 establishes accounting and financial reporting standards that (i) reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources; or (ii) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. GASB Statement No. 65 is effective for financial statements for periods beginning after December 15, 2012. The University elected to early adopt the requirements of this Statement in fiscal 2012. The effect of adopting this Statement on prior years was not material to the University's financial statements. Accordingly, the prior period presented has not been restated. Instead, an adjustment for the effect on prior periods has been included as an increase in expenses in the accompanying 2012 statement of revenues, expenses and changes in net position. In addition, the effect of adopting GASB Statement No. 65 in the current fiscal year was not material.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

1. Summary of significant accounting policies - continued

Recent accounting pronouncements - continued

Recent accounting pronouncements not yet adopted

In November, 2010, the GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*. GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement also amends the criteria and adds new criteria related to requirements for blending of component units in certain circumstances. In addition, the Statement clarifies the reporting of equity interests in legally separate organizations. GASB Statement No. 61 is effective for financial statements for periods beginning after June 15, 2012. Management has not yet determined the impact on the University's financial statements that will result from the adoption of this Statement in fiscal 2013.

In June, 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The primary objective of GASB Statement No. 68 is to improve accounting and financial reporting by state and local governments for pensions. GASB Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The requirements of GASB Statement No. 68 are effective for financial statements for fiscal years beginning after June 15, 2014 with earlier application encouraged. The University is currently evaluating the impact of this GASB Statement on its fiscal year 2015 financial statements.

2. Cash and cash equivalents, and investments

Cash and cash equivalents - unrestricted and restricted - include the following at June 30, 2012 and 2011:

	<u>2012</u>		
	<u>Current Unrestricted</u>	<u>Current Restricted</u>	<u>Noncurrent Restricted</u>
Cash and money market accounts	\$ 3,927,038	\$ 271,537	\$ 38,610
Cash equivalents held by MDFA *	-	200,796	398,578
Cash equivalents held by MSCBA ***	-	2,382,741	11,369,112
Massachusetts Municipal Depository Trust	8,744,777	1,801,216	1,310,348
Massachusetts State Treasurer **	2,189,281	532,676	-
Petty cash	<u>795</u>	<u>-</u>	<u>-</u>
	<u>\$ 14,861,891</u>	<u>\$ 5,188,966</u>	<u>\$ 13,116,648</u>

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

2. Cash and cash equivalents, and investments - continued

	<u>2011</u>		
	<u>Current Unrestricted</u>	<u>Current Restricted</u>	<u>Noncurrent Restricted</u>
Cash and money market accounts	\$ 1,966,465	\$ 238,370	\$ 41,463
Cash equivalents held by MDFA *	-	195,091	414,106
Cash and cash equivalents held by MSCBA ***	-	1,271,600	13,686,794
Massachusetts Municipal Depository Trust	18,839,560	1,961,717	466,488
Massachusetts State Treasurer **	1,674,770	200,634	727,813
Petty cash	<u>795</u>	<u>-</u>	<u>-</u>
	<u>\$ 22,481,590</u>	<u>\$ 3,867,412</u>	<u>\$ 15,336,664</u>

* This amount consists of cash equivalents which are restricted by the Massachusetts Development Finance Agency (MDFA) for the funding of payments to retire the bonds (See Note 13). The University does not have access to these funds except by the authorization of MDFA.

** The University has recorded cash held for the benefit of the University by the State Treasurer in the amount of \$2,189,281 and \$1,674,770 at June 30, 2012 and 2011, respectively, for University funds and \$532,676 and \$200,634 at June 30, 2012 and 2011, respectively, to pay year-end liabilities. The latter balance represents amounts paid from State appropriations subsequent to the fiscal year end. At June 30, 2011, cash held for the benefit of the University by the State Treasurer also includes other restricted funds in the amount of \$727,813.

*** This amount consists of cash and cash equivalents which are restricted by the Massachusetts State College Building Authority (MSCBA) for the funding of certain construction projects at the University and payments to retire bonds (See Note 13). The University does not have access to these funds except by authorization of MSCBA. Interest earned on debt service reserve funds are used on a current basis to offset annual debt service payments.

Money market funds include the Schwab Advisor Cash Reserves Premier Sweep Shares in the aggregate amount of \$412,281 at June 30, 2012. The Schwab Advisor Cash Reserves Premier Sweep Shares invests in high-quality short-term money market investments issued by U.S. and foreign issuers, such as commercial paper, including asset-backed commercial paper; promissory notes; certificates of deposit and time deposits; variable and floating-rate debt services; bank notes and bankers' acceptances; repurchase agreements; obligations that are issued by the U.S. government, its agencies or instrumentalities. The fund seeks the highest current income consistent with stability of capital and liquidity. At June 30, 2012, the fund's investment securities had a weighted average maturity of 48 days. The fund was not rated for average credit quality at June 30, 2012.

Money market funds include the Dreyfus Cash Management Fund Institutional Class in the aggregate amount of \$429,465 at June 30, 2012. The Dreyfus Cash Management Fund Institutional Class invests in a diversified portfolio of high-quality, short-term debt securities, including securities issued or guaranteed by the U.S. government or its agencies or instrumentalities including certificates of deposit, time deposits, bankers'

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

2. Cash and cash equivalents, and investments - continued

acceptances and other short-term securities issued by domestic banks or foreign banks, or their subsidiaries or branches; repurchase agreements, including tri-party repurchase agreements, asset-backed securities; and domestic and dollar-denominated foreign commercial paper, and other short-term corporate obligations, including those with floating or variable rates of interest. The fund seeks as high a level of current income as is consistent with the preservation of capital and the maintenance of liquidity. At June 30, 2012, the fund's investment securities had a weighted average maturity of 41 days. The fund had an average credit quality rating of AAAM at June 30, 2012.

Money market funds include the Northern Institutional Diversified Assets Portfolio in the aggregate amount of \$231,481 at June 30, 2012. The Northern Institutional Diversified Assets Portfolio invests in a broad range of high quality, U.S. dollar-denominated government, bank and commercial obligations that are available in the money markets. The fund seeks to maximize current income to the extent consistent with the preservation of capital and maintenance of liquidity by investing exclusively in high quality money market instruments. At June 30, 2012, the fund's investment securities had a weighted average maturity of 49 days. The fund was not rated for average credit quality at June 30, 2012.

Money market funds include the JPMorgan Prime Money Market Fund in the aggregate amount of \$879,048 at June 30, 2011. The JPMorgan Prime Money Market Fund invests in U.S. Treasury and government agency securities, high quality corporate securities, asset-backed and commercial and bank paper, repurchase agreements and reverse repurchase agreements, taxable municipal obligations and funding agreements issued by banks and highly rated U.S. insurance companies. The fund aims to provide the highest possible level of current income while still maintaining liquidity and preserving capital. At June 30, 2011, the fund's investment securities had a weighted average maturity of 43 days. The fund had an average credit quality rating of AAAM at June 30, 2011.

Money market funds include the State Street Institutional Liquid Reserves Fund in the aggregate amount of \$879,225 at June 30, 2011. The State Street Institutional Liquid Reserves Fund invests in U.S. Treasury and government agency securities, high quality corporate securities, asset-backed and commercial and bank paper, variable and floating rate notes and repurchase agreements. The fund seeks to maximize current income to the extent consistent with preservation of capital and liquidity and the maintenance of a stable \$1.00 per share net asset value, by investing in U.S. dollar-denominated money market securities. At June 30, 2011, the fund's investment securities had a weighted average maturity of 33 days. The fund had an average credit quality rating of AAAM at June 30, 2011.

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

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

2. Cash and cash equivalents, and investments - continued

Custodial credit risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University's deposit policy provides for bank balances to be held in interest-bearing checking accounts and, where account activity and balances warrant it, in money market accounts. All bank balances are to be held at financial institutions of high credit quality. As of June 30, 2012 and 2011, all of the University's bank balances in excess of Federal Deposit Insurance Corporation (FDIC) limits are fully collateralized under an agreement with Sovereign Bank.

Credit risk

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

As of June 30, 2012 and 2011, the fair values of the University's deposits held at the Massachusetts Municipal Depository Trust were \$11,856,341 and \$21,267,765, respectively. At June 30, 2012, the approximate percentage of the University's deposits held at the MMDT and the respective investment maturities in days were as follows: 37% at 30 days or less; 30% at 31-90 days; 21% at 91-180 days; and 12% at 181 - 397 days. At June 30, 2012, approximately 91% of the MMDT's cash portfolio had a credit quality rating of P1 and the remaining 9% had a credit quality rating of P2.

The University's funds held at MDFA are invested in the Short Term Asset Reserve (STAR) Fund and had a fair value of \$599,374 and \$609,197 at June 30, 2012 and 2011, respectively. The STAR Fund invests primarily in U.S. Treasury bills, notes, and other obligations guaranteed by the U.S. government or its agencies or instrumentalities. Additionally, the fund invests in repurchase agreements, bankers' acceptances, certificates of deposit, commercial paper, notes, and both corporate floating rate and corporate fixed-rate securities. The STAR Fund maintains a net asset value of \$1 per share and had a fund credit quality rating of AAAm as of June 30, 2012 and 2011, respectively. At June 30, 2012 and 2011, the fund's investment securities maintain a weighted average maturity of 52 and 57 days, respectively.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

2. Cash and cash equivalents, and investments - continued

Credit risk - continued

At June 30, 2012, certain of the University's funds are held at MSCBA. Of the total, \$9,200,398 is deposited in various cash accounts which are fully collateralized by securities in accounts in the name of MSCBA, and \$4,551,455 is invested in various funds as listed below:

<u>Investment Type</u>	<u>Investment Maturities (in years)</u>					<u>Credit Rating</u>
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater Than 10</u>	
Federal Home Loan						
Banks discount notes	\$ 283,739	\$ 283,739	\$ -	\$ -	\$ -	AAA
Massachusetts ST Bonds	1,449,777	-	-	485,614	964,163	AAA
Commercial Paper (GE Cap. Corp.)	<u>2,817,939</u>	<u>2,817,939</u>	-	-	-	P-1
Total	<u>\$4,551,455</u>	<u>\$3,101,678</u>	<u>\$ -</u>	<u>\$ 485,614</u>	<u>\$ 964,163</u>	

At June 30, 2011, certain of the University's funds are held at MSCBA. Of the total, \$12,975,441 is deposited in various cash accounts which are fully collateralized by securities in accounts in the name of MSCBA, and \$1,982,953 is invested in various funds as listed below:

<u>Investment Type</u>	<u>Investment Maturities (in years)</u>					<u>Credit Rating</u>
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater Than 10</u>	
Fannie Mae Corporation discount note	\$ 388,335	\$ 388,335	\$ -	\$ -	\$ -	AAA
Federal Home Loan						
Banks discount note	144,841	144,841	-	-	-	AAA
Massachusetts ST Bonds	485,614	-	-	485,614	-	AAA
Massachusetts ST Bonds	<u>964,163</u>	-	-	-	<u>964,163</u>	AAA
Total	<u>\$1,982,953</u>	<u>\$ 533,176</u>	<u>\$ -</u>	<u>\$ 485,614</u>	<u>\$ 964,163</u>	

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

2. Cash and cash equivalents, and investments - continued

The University's investments in marketable securities are represented by the following at June 30, 2012:

	<u>2012</u>	
	<u>Cost</u>	<u>Fair Value</u>
<u>Noncurrent:</u>		
U.S. Treasury Notes and Government Securities	\$ 978,593	\$ 977,054
Corporate Debt Securities	2,127,725	2,128,344
Equity Securities	4,723,558	4,810,925
Mutual Funds	<u>8,111,935</u>	<u>8,117,264</u>
	<u>\$ 15,941,811</u>	<u>\$ 16,033,587</u>

The University's investments are represented by the following at June 30, 2011:

	<u>2011</u>	
	<u>Cost</u>	<u>Fair Value</u>
<u>Noncurrent:</u>		
Commonfund (pooled investment funds):		
Intermediate Term Fund	\$ 1,850,648	\$ 1,800,504
Multi-Strategy Equity Fund	3,000,000	3,074,307
High Quality Bond Fund	6,646,563	6,928,538
Bank of America Corporation common stock (3,564 shares)	<u>7,257</u>	<u>39,061</u>
	<u>\$ 11,504,468</u>	<u>\$ 11,842,410</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

2. Cash and cash equivalents, and investments - continued

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

	<u>2012</u>	<u>2011</u>
Investments	\$ 15,284,234	\$ 11,142,978
Endowment investments	<u>749,353</u>	<u>699,432</u>
	<u>\$ 16,033,587</u>	<u>\$ 11,842,410</u>

At June 30, 2012, the University's U.S. Treasury Notes and Government Securities and corporate debt securities along with their investment maturities and credit quality ratings are as follows:

<u>Investment Type</u>	<u>Investment Maturities (in years)</u>					<u>Credit Rating</u>
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater Than 10</u>	
U.S. Treasury Notes and Government Securities						
2.000% to 3.500%	\$ 977,054	\$ -	\$ 840,667	\$ 136,387	\$ -	AA+
Corporate Debt Securities						
3.625% to 4.300%	135,866	-	-	135,866	-	AA
Corporate Debt Securities						
1.625% to 4.650%	445,698	75,803	240,363	129,532	-	AA+
Corporate Debt Securities						
1.750% to 3.000%	60,486	-	60,486	-	-	AA-
Corporate Debt Securities						
1.375% to 6.000%	774,046	66,410	571,076	136,560	-	A
Corporate Debt Securities						
1.875% to 5.625%	325,313	-	257,681	67,632	-	A+
Corporate Debt Securities						
2.300% to 5.700%	<u>386,935</u>	<u>-</u>	<u>254,333</u>	<u>132,602</u>	<u>-</u>	A-
Total	<u>\$ 3,105,398</u>	<u>\$ 142,213</u>	<u>\$2,224,606</u>	<u>\$ 738,579</u>	<u>\$ -</u>	

The Intermediate Term Fund invests in high-quality fixed income securities with maturities generally ranging from 1-3 years. The fund may, however, invest in high-quality fixed income securities with maturities ranging from one day to 30 years. The fund's objective is to exceed the performance of the Merrill Lynch 1-3 Year Treasury Index. At June 30, 2011, the fund's investment securities had a weighted average life of 2.9 years and an effective duration of 1.6 years. The fund had an average credit quality rating of AA as of June 30, 2011.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

2. Cash and cash equivalents, and investments - continued

The Multi-Strategy Equity Fund invests in equity securities across strategies in proportions that are considered to be optimal for a fully diversified equity portfolio. The fund's objective is to add value over long time periods, above the return of the U.S. equity market as measured by the Standard & Poor's 500 Index.

The High Quality Bond Fund invests in debt securities across strategies in proportions that are considered to be optimal for a fully diversified fixed income portfolio. The fund's assets are primarily invested in U.S. government agency securities, mortgages, corporate bonds and commercial mortgage backed securities. The fund's objective is to exceed the return of the broad U.S. bond market as measured by the Barclays Capital U.S. Aggregate Bond Index. As of June 30, 2011, the fund's investment securities had a weighted average life of 9.5 years and an effective duration of 4.3 years. The fund had an average credit quality rating of AA as of June 30, 2011.

FSU Foundation's cash and cash equivalents consist of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Cash and other demand deposits	\$ 987,961	\$ 1,886,488
Money Market Funds	<u>1,427,061</u>	<u>384,054</u>
	<u>\$ 2,415,022</u>	<u>\$ 2,270,542</u>

Money market funds include the SSgA US Government Money Market Fund, the Schwab Advisor Cash Reserves Fund, the Dreyfus Cash Management Institutional - Shares Fund and the Fidelity Bank LifeDesign Business Cash Management Money Market account in the amounts of \$176,183, \$18,726, \$229,444, and \$1,002,708 at June 30, 2012 and \$154,884, \$31,140, \$198,030, and \$0 at June 30, 2011, respectively.

The cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Included in cash and equivalents at June 30, 2012 are overnight repurchase agreements in the amounts of \$666,004 and \$163,488 each at an interest rate of .11% per annum. Included in cash and equivalents at June 30, 2011 are overnight repurchase agreements in the amounts of \$1,624,569 and \$124,540 each at an interest rate of .15% per annum. At June 30, 2012 and 2011, overnight repurchase agreements were fully collateralized under an agreement between Sovereign Bank and the University. At June 30, 2012 and 2011, FSU Foundation's uninsured cash and equivalent balances, including the SSgA US Government Money Market Fund, Schwab Advisor Cash Reserves Fund, Dreyfus Cash Management Institutional - Shares Fund, and Fidelity Bank LifeDesign Business Cash Management Money Market account, amounted to \$1,427,061 and \$384,054, respectively.

FSU Foundation's investment policy consists of an asset allocation range of 50% to 60% equity securities, 30% to 50% fixed income securities and up to 10% in cash and cash equivalents.

During the first half of fiscal 2011, FSU Foundation liquidated all of its investments held by Commonfund, with the exception of Commonfund Realty Investors, LLC, and transferred the proceeds to three new professional investment management firms.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

2. Cash and cash equivalents, and investments - continued

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

	<u>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Equities	\$ 5,117,423	\$ 5,718,022	\$ 4,503,714	\$ 4,833,905
Preferred stock	241,230	252,630	201,927	203,862
Mutual funds	2,756,745	2,718,124	2,681,710	2,775,217
Corporate bonds	1,326,493	1,353,076	907,401	900,809
U.S. government securities	1,516,359	1,521,708	1,406,291	1,404,654
Commonfund Realty Investors, LLC	-	-	-	-
	<u>\$ 10,958,250</u>	<u>\$ 11,563,560</u>	<u>\$ 9,701,043</u>	<u>\$ 10,118,447</u>

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

	<u>2012</u>	<u>2011</u>
Current assets:		
Investments	\$ 3,148,963	\$ 2,996,227
Noncurrent assets:		
Investments	-	-
Endowment investments	<u>8,414,597</u>	<u>7,122,220</u>
	<u>\$ 11,563,560</u>	<u>\$ 10,118,447</u>

At June 30, 2012, net unrealized gains in FSU Foundation's investment portfolio amounted to \$605,310. At June 30, 2011, net unrealized gains in FSU Foundation's investment portfolio amounted to \$417,404.

At June 30, 2012 and 2011, respectively, equities include securities in the consumer goods sector which represent 13% of the fair value of FSU Foundation's investment portfolio.

At June 30, 2012 and 2011, 8% and 9%, respectively, of the fair value of FSU Foundation's investment portfolio represents foreign investments.

Investments held by FSU Foundation with an equivalent fair value of \$1,907,000 at June 30, 2012 collateralize certain debt agreements (see Notes 14 and 15).

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

2. Cash and cash equivalents, and investments - continued

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

At June 30, 2012, the fair value of FSU Foundation's investments in debt securities by contractual maturities is as follows:

	<u>Maturity</u>				
	<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	\$ 31,123	\$ 1,023,533	\$ 298,420	\$ -	\$ 1,353,076
U.S. government securities	<u>275,981</u>	<u>1,139,751</u>	<u>105,976</u>	<u>-</u>	<u>1,521,708</u>
	<u>\$ 307,104</u>	<u>\$ 2,163,284</u>	<u>\$ 404,396</u>	<u>\$ -</u>	<u>\$ 2,874,784</u>

The following table presents the gross unrealized losses and fair values of the FSU Foundation'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, 2012.

<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	\$ 1,231,326	\$ 187,535	\$ 401,306	\$ 101,798	\$ 1,632,632	\$ 289,333
Preferred stocks	24,490	37	12,595	261	37,085	298
Mutual funds	1,247,510	76,652	382,160	23,874	1,629,670	100,526
Corporate bonds	87,394	1,767	278,016	8,631	365,410	10,398
U.S. government securities	<u>218,528</u>	<u>4,593</u>	<u>448,403</u>	<u>13,658</u>	<u>666,931</u>	<u>18,251</u>
Total	<u>\$ 2,809,248</u>	<u>\$ 270,584</u>	<u>\$ 1,522,480</u>	<u>\$ 148,222</u>	<u>\$ 4,331,728</u>	<u>\$ 418,806</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

2. Cash and cash equivalents, and investments - continued

The following table presents the gross unrealized losses and fair values of FSU Foundation'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, 2011.

<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	\$ 1,011,122	\$ 60,586	\$ -	\$ -	\$ 1,011,122	\$ 60,586
Preferred stocks	59,968	254	-	-	59,968	254
Mutual funds	532,545	11,618	-	-	532,545	11,618
Corporate bonds	672,487	9,625	-	-	672,487	9,625
U.S. government securities	<u>592,793</u>	<u>7,208</u>	<u>-</u>	<u>-</u>	<u>592,793</u>	<u>7,208</u>
Total	<u>\$ 2,868,915</u>	<u>\$ 89,291</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,868,915</u>	<u>\$ 89,291</u>

Equities and preferred stocks

FSU Foundation has ninety-seven investments in equities of which thirty-three were in an unrealized loss position at June 30, 2012. FSU Foundation also has nineteen investments in preferred stocks of which three were in an unrealized loss position at June 30, 2012. 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. FSU Foundation has evaluated the severity and duration of the impairments. Based on that evaluation and FSU Foundation's ability and intent to hold these investments for a reasonable period of time sufficient for a recovery of fair value, FSU Foundation does not consider these investments to be other-than-temporarily impaired at June 30, 2012.

Mutual funds

FSU Foundation has twenty mutual fund investments of which eleven are in an unrealized loss position at June 30, 2012. The mutual funds are invested in equities and debt securities of companies in diverse industries and reflect current general economic conditions. FSU Foundation has evaluated the severity and duration of the impairments. Based on that evaluation and FSU Foundation's ability and intent to hold the investments for a reasonable period of time sufficient for a recovery of fair value, FSU Foundation does not consider these investments to be other-than-temporarily impaired at June 30, 2012.

Corporate bonds

At June 30, 2012, FSU Foundation's investments in corporate debt securities were in the form of interest bearing securities of top-rated corporate issuers. FSU Foundation has forty-four corporate debt security investments of which fourteen are in an unrealized loss position at June 30, 2012. 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.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

2. Cash and cash equivalents, and investments - continued

Corporate bonds - continued

There have been no indications of default on interest or principal payments by the issuers. FSU Foundation 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, FSU Foundation does not consider these investments to be other-than-temporarily impaired at June 30, 2012.

U.S. government obligations

FSU Foundation has twenty U.S. government investment securities at June 30, 2012, of which eleven 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. FSU Foundation 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, FSU Foundation does not consider the investments to be other-than-temporarily impaired at June 30, 2012.

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 University's and FSU Foundation's investment account balances.

3. Accounts and contributions receivable

The University's accounts receivable include the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Student accounts receivable	\$ 1,338,026	\$ 1,441,540
Parking and other fines receivable	103,868	114,395
Commissions receivable	34,000	147,434
Grants receivable (see Note 26)	234,871	407,713
Compass receivable, including accrued interest of \$16,084 and \$58,724 (see Note 11)	424,805	1,589,146
Miscellaneous other receivable	<u>12,512</u>	<u>6,881</u>
	2,148,082	3,707,109
Less allowance for doubtful accounts	(234,614)	(252,630)
	<u>\$ 1,913,468</u>	<u>\$ 3,454,479</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

3. Accounts and contributions receivable - continued

FSU Foundation's contributions receivable consist of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Receivable in less than one year	\$ 193,290	\$ 1,406,930
Receivable in one to five years	155,525	102,350
Receivable in one to five years	<u>2,000</u>	<u>3,000</u>
	350,815	1,512,280
Discount on pledges	(7,015)	(11,415)
	<u>\$ 343,800</u>	<u>\$ 1,500,865</u>

Contributions which are to be received in more than one year are reflected net of a discount determined at the time of contribution ranging from 1% to 3.5%.

Contributions receivable measured at fair value and net realizable value consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Measured at fair value	\$ 338,415	\$ 382,835
Measured at net realizable value	<u>5,385</u>	<u>1,118,030</u>
	<u>\$ 343,800</u>	<u>\$ 1,500,865</u>

4. Loans receivable

Loans receivable include the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Perkins loans receivable	\$ 1,607,827	\$ 1,580,099
Nursing loans receivable	354,853	357,483
Emergency student loans receivable	<u>3,762</u>	<u>5,086</u>
	1,966,442	1,942,668
Less allowance for doubtful accounts	(1,356)	(897)
	<u>\$ 1,965,086</u>	<u>\$ 1,941,771</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

5. Capital assets

Capital assets activity of the University for the year ended June 30, 2012 is as follows:

Capital assets:	Totals June 30, 2011	Additions	Reclassifications* and Reductions	Totals June 30, 2012
<u>Non-depreciable capital assets</u>				
Land	\$ 5,130,841	\$ -	\$ -	\$ 5,130,841
Construction in progress	<u>11,305,864</u>	<u>36,883,503</u>	(672,570)	<u>47,516,797</u>
Total non-depreciable assets	<u>16,436,705</u>	<u>36,883,503</u>	(672,570)	<u>52,647,638</u>
<u>Depreciable capital assets</u>				
Land improvements	9,897,777	1,221,230	49,901	11,168,908
Buildings	44,491,325	-	-	44,491,325
Building improvements	37,869,570	2,674,990	622,669	41,167,229
Equipment	14,409,407	361,518	-	14,770,925
Furniture	597,676	-	-	597,676
Library materials	<u>341,394</u>	<u>106,212</u>	(51,627)	<u>395,979</u>
Total depreciable assets	<u>107,607,149</u>	<u>4,363,950</u>	<u>620,943</u>	<u>112,592,042</u>
Total capital assets	<u>124,043,854</u>	<u>41,247,453</u>	(51,627)	<u>165,239,680</u>
Less: accumulated depreciation				
Land improvements	2,001,795	526,667	-	2,528,462
Buildings	35,160,770	732,031	-	35,892,801
Building improvements	8,963,099	1,964,338	-	10,927,437
Equipment	11,469,286	862,592	-	12,331,878
Furniture	256,801	132,567	-	389,368
Library materials	<u>-</u>	<u>51,627</u>	(51,627)	<u>-</u>
Total accumulated depreciation	<u>57,851,751</u>	<u>4,269,822</u>	(51,627)	<u>62,069,946</u>
Capital assets, net	<u>\$ 66,192,103</u>	<u>\$ 36,977,631</u>	<u>\$ -</u>	<u>\$103,169,734</u>

As of June 30, 2012, capital assets of the University with a cost of approximately \$23,845,000 were fully depreciated and still in service.

* Construction costs incurred for various capital projects were included in construction in progress and subsequently transferred to capital asset additions upon completion during the fiscal year ended June 30, 2012.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

5. Capital assets - continued

The University enters into various contract commitments with contractors, from time to time, for improvements to its facilities. Remaining contract commitments were not material at June 30, 2012 and totaled approximately \$1,250,000 at June 30, 2011.

Capital assets activity of the University for the year ended June 30, 2011 is as follows:

Capital assets:	Totals June 30, 2010	Additions	Reclassifications* and Reductions	Totals June 30, 2011
<u>Non-depreciable capital assets</u>				
Land	\$ 4,597,544	\$ 145,221	\$ 388,076	\$ 5,130,841
Construction in progress	<u>3,294,351</u>	<u>9,430,189</u>	<u>(1,418,676)</u>	<u>11,305,864</u>
Total non-depreciable assets	<u>7,891,895</u>	<u>9,575,410</u>	<u>(1,030,600)</u>	<u>16,436,705</u>
<u>Depreciable capital assets</u>				
Land improvements	9,774,974	122,803	-	9,897,777
Buildings	44,491,325	-	-	44,491,325
Building improvements	31,818,695	5,020,275	1,030,600	37,869,570
Equipment	14,135,610	273,797	-	14,409,407
Furniture	597,676	-	-	597,676
Library materials	<u>320,942</u>	<u>54,590</u>	<u>(34,138)</u>	<u>341,394</u>
Total depreciable assets	<u>101,139,222</u>	<u>5,471,465</u>	<u>996,462</u>	<u>107,607,149</u>
Total capital assets	<u>109,031,117</u>	<u>15,046,875</u>	<u>(34,138)</u>	<u>124,043,854</u>
Less: accumulated depreciation				
Land improvements	1,509,465	492,330	-	2,001,795
Buildings	34,232,098	928,672	-	35,160,770
Building improvements	7,269,548	1,693,551	-	8,963,099
Equipment	10,509,522	959,764	-	11,469,286
Furniture	124,234	132,567	-	256,801
Library materials	<u>-</u>	<u>34,138</u>	<u>(34,138)</u>	<u>-</u>
Total accumulated depreciation	<u>53,644,867</u>	<u>4,241,022</u>	<u>(34,138)</u>	<u>57,851,751</u>
Capital assets, net	<u>\$ 55,386,250</u>	<u>\$10,805,853</u>	<u>\$ -</u>	<u>\$ 66,192,103</u>

As of June 30, 2011, capital assets of the University with a cost of approximately \$20,661,000 were fully depreciated and still in service.

* Construction costs incurred for various capital projects were included in construction in progress and subsequently transferred to capital asset additions upon completion during the fiscal year ended June 30, 2011.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

5. Capital assets - continued

The University has considered the requirements of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, and has noted no implications of this standard to the University's financial statements for the years ended June 30, 2012 and 2011, respectively.

Capital assets activity of FSU Foundation for the year ended June 30, 2012 is as follows:

Capital assets:	Totals June 30, 2011	Additions	Reclassifications and Reductions	Totals June 30, 2012
Real estate under lease to the University:				
Land	\$ 402,663	\$ -	\$ -	\$ 402,663
Building	1,557,724	-	-	1,557,724
Building improvements	<u>100,452</u>	<u>-</u>	<u>-</u>	<u>100,452</u>
	<u>2,060,839</u>	<u>-</u>	<u>-</u>	<u>2,060,839</u>
Real estate used for student housing:				
Land	253,555	-	-	253,555
Building	434,225	-	-	434,225
Building improvements	<u>28,600</u>	<u>-</u>	<u>-</u>	<u>28,600</u>
	<u>716,380</u>	<u>-</u>	<u>-</u>	<u>716,380</u>
Other:				
Land	1,610,041	57,315	-	1,667,356
Land improvements	61,899	-	-	61,899
Buildings	556,478	-	-	556,478
Building improvements	39,569	-	-	39,569
Equipment	438,530	-	-	438,530
Furniture and fixtures	22,287	-	-	22,287
Library materials	<u>6,570</u>	<u>-</u>	<u>-</u>	<u>6,570</u>
	<u>2,735,374</u>	<u>57,315</u>	<u>-</u>	<u>2,792,689</u>
Total capital assets	<u>5,512,593</u>	<u>57,315</u>	<u>-</u>	<u>5,569,908</u>
Less: accumulated depreciation				
Real estate under lease to the University:				
Land	-	-	-	-
Building	188,225	38,943	-	227,168
Building improvements	<u>20,927</u>	<u>5,023</u>	<u>-</u>	<u>25,950</u>
	<u>209,152</u>	<u>43,966</u>	<u>-</u>	<u>253,118</u>
Real estate used for student housing:				
Land	-	-	-	-
Building	44,327	10,856	-	55,183
Building improvements	<u>2,622</u>	<u>1,430</u>	<u>-</u>	<u>4,052</u>
	<u>46,949</u>	<u>12,286</u>	<u>-</u>	<u>59,235</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

5. Capital assets - continued

	Totals		Reclassifications		Totals
	<u>June 30, 2011</u>	<u>Additions</u>	<u>and</u>	<u>Reductions</u>	<u>June 30, 2012</u>
Other:					
Land	\$ -	\$ -	\$ -	\$ -	-
Land improvements	38,945	3,095	-	-	42,040
Buildings	40,289	13,911	-	-	54,200
Building improvements	4,021	1,979	-	-	6,000
Equipment	350,449	21,705	-	-	372,154
Furniture and fixtures	5,065	3,184	-	-	8,249
Library materials	1,971	1,314	-	-	3,285
	<u>440,740</u>	<u>45,188</u>	<u>-</u>	<u>-</u>	<u>485,928</u>
Total accumulated depreciation	<u>696,841</u>	<u>101,440</u>	<u>-</u>	<u>-</u>	<u>798,281</u>
Capital assets, net	<u>\$ 4,815,752</u>	<u>(\$ 44,125)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,771,627</u>

Non-depreciable capital assets of FSU Foundation totaled \$2,323,574 at June 30, 2012 and consisted of land.

In fiscal 2012, the FSU Foundation acquired a property in close proximity to the Fitchburg State University campus consistent with the FSU Foundation's mission and the University's strategic plan which includes campus expansion and additional green space. The property, which included land and a building, was purchased for an aggregate cost of \$57,315. The University subsequently razed the building and created green space. The land is being held for future use and development to further enhance the resources available for the University and City communities.

At June 30, 2012, capital assets of FSU Foundation with a cost of approximately \$331,000 were fully depreciated and still in service.

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

5. Capital assets - continued

Capital assets activity of FSU Foundation for the year ended June 30, 2011 is as follows:

Capital assets:	Totals June 30, 2010	Additions	Reclassifications and Reductions	Totals June 30, 2011
Real estate under lease to the University:				
Land	\$ 402,663	\$ -	\$ -	\$ 402,663
Building	1,557,724	-	-	1,557,724
Building improvements	<u>100,452</u>	<u>-</u>	<u>-</u>	<u>100,452</u>
	<u>2,060,839</u>	<u>-</u>	<u>-</u>	<u>2,060,839</u>
Real estate used for student housing:				
Land	253,555	-	-	253,555
Building	434,225	-	-	434,225
Building improvements	<u>28,600</u>	<u>-</u>	<u>-</u>	<u>28,600</u>
	<u>716,380</u>	<u>-</u>	<u>-</u>	<u>716,380</u>
Other:				
Land	1,733,311	-	(123,270)	1,610,041
Land improvements	61,899	-	-	61,899
Buildings	556,478	-	-	556,478
Building improvements	39,569	-	-	39,569
Equipment	403,453	35,077	-	438,530
Furniture and fixtures	22,287	-	-	22,287
Library materials	<u>6,570</u>	<u>-</u>	<u>-</u>	<u>6,570</u>
	<u>2,823,567</u>	<u>35,077</u>	<u>(123,270)</u>	<u>2,735,374</u>
Total capital assets	<u>5,600,786</u>	<u>35,077</u>	<u>(123,270)</u>	<u>5,512,593</u>

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

5. Capital assets - continued

	<u>Totals</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Reclassifications</u> <u>and</u> <u>Reductions</u>	<u>Totals</u> <u>June 30, 2011</u>
Less: accumulated depreciation				
Real estate under lease to the University:				
Land	\$ -	\$ -	\$ -	\$ -
Building	149,282	38,943	-	188,225
Building improvements	<u>15,905</u>	<u>5,022</u>	<u>-</u>	<u>20,927</u>
	<u>165,187</u>	<u>43,965</u>	<u>-</u>	<u>209,152</u>
Real estate used for student housing:				
Land	-	-	-	-
Building	33,471	10,856	-	44,327
Building improvements	<u>1,191</u>	<u>1,431</u>	<u>-</u>	<u>2,622</u>
	<u>34,662</u>	<u>12,287</u>	<u>-</u>	<u>46,949</u>
Other:				
Land	-	-	-	-
Land improvements	35,850	3,095	-	38,945
Buildings	26,377	13,912	-	40,289
Building improvements	2,043	1,978	-	4,021
Equipment	331,923	18,526	-	350,449
Furniture and fixtures	1,882	3,183	-	5,065
Library materials	<u>657</u>	<u>1,314</u>	<u>-</u>	<u>1,971</u>
	<u>398,732</u>	<u>42,008</u>	<u>-</u>	<u>440,740</u>
Total accumulated depreciation	<u>598,581</u>	<u>98,260</u>	<u>-</u>	<u>696,841</u>
Capital assets, net	<u>\$ 5,002,205</u>	<u>(\$ 63,183)</u>	<u>(\$ 123,270)</u>	<u>\$ 4,815,752</u>

Non-depreciable capital assets of FSU Foundation totaled \$2,266,259 at June 30, 2011 and consisted of land.

During fiscal 2011, the FSU Foundation sold a property acquired in fiscal 2010 at a cost of \$123,270. The property was sold to the Commonwealth of Massachusetts acting by and through DCAM on behalf of Fitchburg State University. The property was sold for \$120,000 less closing costs of \$1,130. A loss of \$4,400 was recorded from the sale of the property.

As of June 30, 2011, capital assets of FSU Foundation with a cost of approximately \$331,000 were fully depreciated and still in service.

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

6. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Accounts payable - trade	\$ 1,229,723	\$ 824,761
Salaries and fringe benefits payable	1,503,689	1,280,844
Accrued interest payable	248,734	132,481
Tuition due State	<u>353,642</u>	<u>250,328</u>
	<u>\$ 3,335,788</u>	<u>\$ 2,488,414</u>

7. Accrued workers' compensation

Independent actuarial reviews of the outstanding loss reserve requirements for the Commonwealth of Massachusetts' self-insured workers' compensation program were conducted as of June 30, 2012 and 2011. Based upon the Commonwealth's analyses, \$678,517 and \$752,198 of accrued workers' compensation has been recorded as a liability at June 30, 2012 and 2011, respectively.

8. Accrued compensated absences

Accrued compensated absences are comprised of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Vacation time payable	\$ 1,943,664	\$ 2,101,884
Sick time payable	<u>2,266,489</u>	<u>2,271,916</u>
Total	<u>\$ 4,210,153</u>	<u>\$ 4,373,800</u>
Amount representing obligations due to employees funded through sources other than State appropriations	\$ 247,931	\$ 253,387
Amount representing obligations for employees compensated through State appropriations	<u>3,962,222</u>	<u>4,120,413</u>
Total	<u>\$ 4,210,153</u>	<u>\$ 4,373,800</u>

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

8. Accrued compensated absences - continued

It is anticipated that the obligation due to employees funded through State appropriations will be discharged through future State appropriations and the balance is expected to be liquidated through trust funds. Had these amounts not been reflected as obligations of the University, the University's unrestricted net position balances would be \$23,600,399 and \$25,476,563 at June 30, 2012 and 2011, respectively. (See Note 1, Compensated absences).

9. Faculty payroll accrual

The contract for full-time faculty begins on September 1 and ends on May 31, of any given academic year. The Commonwealth of Massachusetts and Fitchburg State University pay all faculty over the twelve month period from September through August. Consequently, on June 30 of each year there is a balance due on each faculty contract which is to be paid from the subsequent year's State appropriation. The total amount due at June 30, 2012 of \$2,840,378 will be paid from the University's fiscal 2013 State appropriations. The total amount due at June 30, 2011 of \$2,624,441 was paid from the University's fiscal 2012 State appropriations.

10. Revenue received in advance

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

Revenue received in advance includes the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Tuition, fees and professional development	\$ 854,360	\$ 674,582
Grants	534,490	958,796
Other	<u>15,773</u>	<u>9,300</u>
	<u>\$ 1,404,623</u>	<u>\$ 1,642,678</u>

11. Deferred inflows of resources

Deferred inflows of resources at June 30, 2012 and 2011, in the amounts of \$2,419,630 and \$2,621,266, respectively, consist of the unamortized balances of a service concession arrangement with Compass Group USA, Inc. (Compass) to manage and operate the University's food services operation at the University's dining services locations as more fully described in the arrangement. The service concession arrangement commenced on July 1, 1999 for a term of ten years through June 30, 2009 and has been amended several times thereafter to modify its terms, provide for additional payments to the University for investment in improvements in or at the University as mutually agreed upon by the parties, and extend the term of the arrangement until June 30, 2024. The last such amendment to the service concession arrangement was effective August 1, 2010 and provides for the extension of the arrangement to June 30, 2024 and payments to the University totaling \$2,000,000. These payments shall be made to the University by Compass in six installments as follows: \$300,000 in fiscal 2011; \$1,200,000 in fiscal 2012; \$200,000 in fiscal 2014; \$200,000 in fiscal 2016; \$50,000 in fiscal 2020; and \$50,000

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

11. Deferred inflows of resources - continued

in fiscal 2022. As of June 30, 2012, the University has received the first and second installments from Compass. In addition, Compass has agreed to pay the University specified percentages of 4%, 4 ½% or 12% of specified sales receipts from the food services operation as more fully described in the arrangement. All improvements and equipment purchased with the payments received from Compass shall remain the property of the University. The arrangement may be terminated by either party at any time, without cause, by giving not less than sixty days prior written notice to the other party. The arrangement contains provisions, whereby, in the event of termination of the arrangement, the University shall be required to repay a portion of any payments made to the University by Compass. The portion required to be repaid shall be determined in accordance with amortization schedules prepared by Compass. The amortization schedules assume that all funds will be received from Compass. The University does not anticipate that the arrangement will be terminated prior to its expiration date.

The University has recorded the service concession arrangement as a deferred inflow of resources at its present value using a 5% discount rate determined by management of the University. In fiscal 2011, the University recorded an accounts receivable from Compass at the present value of the future payments to be received from Compass, using a 5% discount rate determined by management of the University. The University received \$1,200,000 from Compass in fiscal 2012 which was applied as follows: interest income - \$78,299; and a reduction of the account receivable - \$1,121,701. The University received \$300,000 from Compass in fiscal 2011 which was applied as follows: interest income - \$15,159; and a reduction of the accounts receivable - \$284,841. At June 30, 2012, the accompanying statement of net position includes a remaining receivable from Compass in the amount of \$424,805, which includes accrued interest receivable of \$16,084 (see Note 3). At June 30, 2011, the accompanying statement of net position includes a remaining accounts receivable from Compass in the amount of \$1,589,146, which includes accrued interest receivable of \$58,724 (see Note 3). The deferred inflow of resources is being amortized to revenue on a straight-line basis over the term of the arrangement. Amortization in the amounts of \$201,636 and \$172,374, respectively, has been recognized in capital grants revenue in the accompanying statements of revenues, expenses and changes in net position for the years ended June 30, 2012 and 2011.

12. Capital lease obligations

During fiscal year 2001, the University acquired, through a capital lease arrangement, computer software and hardware for a student records system. Payments under the lease agreement were due each year on March 27 and September 27 for a ten year period commencing on March 27, 2001. The scheduled semi-annual payments were approximately \$334,000. In September 2004, \$255,920 remaining in the acquisition escrow upon completion of the project covered by this lease agreement was applied to the principal portion of the outstanding lease payments. The remaining lease payments were then recomputed based on the reduced principal balance. Commencing on March 27, 2005, the semi-annual lease payments were approximately \$308,000 for the remainder of the lease term. The University utilized an interest rate of 5.85% per year which was determined to be applicable at the inception of the lease. The lease was satisfied in full during fiscal 2011.

In June 2005, the University entered into a noncancellable capital lease for printing equipment. The lease had a term of five years and required monthly payments of \$913. The asset and capital lease obligation were recorded at the present value of the future minimum lease payments based upon an interest rate of 5.86% determined to be applicable at the inception of the lease. The lease was satisfied in full during fiscal 2011.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

12. Capital lease obligations - continued

During fiscal 2007, the University entered into a noncancellable capital lease for an upgrade to its network system hardware and software. The lease had a term of five years and required quarterly payments of \$106,607 which commenced on September 30, 2007 and were to continue through June 30, 2012. The University prepaid the lease in full during fiscal 2010. The asset and capital lease obligation were recorded at the present value of the future minimum lease payments based upon an interest rate of 5.13% which was determined to be applicable at the inception of the lease. In connection with this capital lease, the University entered into a maintenance and ongoing support agreement with a term of five years which commenced on July 1, 2007. In order to obtain favorable pricing terms, the University agreed to prepay the entire cost of the contract totaling \$1,059,020. The University paid \$500,000 prior to June 30, 2007 and the balance of \$559,020 in July, 2007. Of the total payments made, \$211,803 is included in other current assets at June 30, 2011. The balance of the prepaid cost of the contract was fully amortized to expense in fiscal 2012.

During fiscal 2007, the University entered into a noncancellable capital lease for a telephone messaging system. The lease had a term of four years and required monthly payments of \$1,806 which commenced in August, 2006. The asset and capital lease obligation were recorded at the present value of the future minimum lease payments based upon an interest rate of 6.29% which was determined to be applicable at the inception of the lease. The lease was satisfied in full during fiscal 2011.

During fiscal 2009, the University entered into two noncancellable capital leases for various building wiring and cabling and equipment. The leases had terms of three years and required aggregate quarterly payments of \$11,350 which commenced on March 31, 2009 and continued through December 31, 2011. The assets and capital lease obligations were recorded at the present value of the future minimum lease payments based upon an interest rate of 4.25% which was determined to be applicable at the inception of the leases. The leases were satisfied in full during fiscal 2012.

During fiscal 2009, the University entered into two noncancellable capital leases for various building wiring and cabling and furniture. The leases had terms of three years and required aggregate quarterly payments of \$14,546 which commenced on June 30, 2009 and continued through March 31, 2012. The assets and capital lease obligations were recorded at the present value of the future minimum lease payments based upon an interest rate of 3.27% which was determined to be applicable at the inception of the leases. The leases were satisfied in full during fiscal 2012.

During fiscal 2010, the University entered into a noncancellable capital lease for furniture. The lease had a term of five years and required quarterly payments of \$26,909 which commenced on September 30, 2009 and was scheduled to continue through September 30, 2014. The assets and capital lease obligation were recorded at the present value of the future minimum lease payments based upon an interest rate of 2.85% which was determined to be applicable at the inception of the lease. The lease was satisfied in full during fiscal 2012, pursuant to an early pay out agreement with the lender.

Capital lease assets were secured by the related assets.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

12. Capital lease obligations - continued

The University's assets held under capital leases at June 30, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Voice, data and video cable system	\$ -	\$ 1,182,652
Building wiring and cabling	-	130,126
Equipment	-	65,000
Furniture	<u>-</u>	<u>597,675</u>
	<u>\$ -</u>	<u>\$ 1,975,453</u>

The assets under capital leases were being depreciated over their useful lives and the depreciation on these assets is included in depreciation expense. The accumulated depreciation on these leased assets amounted to \$1,139,343 at June 30, 2011. Depreciation expense totaled \$213,427 for 2011.

During fiscal 2012, voice, data and video cable system, building wiring and cabling, equipment and furniture totaling \$1,975,453 were no longer subject to capital leases.

During fiscal 2011, equipment and the student records system totaling \$5,315,910 was no longer subject to a capital lease.

13. Interagency payables

MDFA

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

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

13. Interagency payables - continued

MDFA - continued

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

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

The University is required to make annual funding payments of principal on this debt each July 1. The principal payment due July 1, 2012 of \$200,796 was made as scheduled. These payments are made to a restricted cash account held in escrow in the University's name and recorded on the books of the University. These amounts, along with the remaining balance of the initial deposit, are to be held in escrow until July 1, 2023, when the total debt is due and payable unless the University elects to release the funds in the debt service reserve to redeem portions of the debt obligation. Earnings on this balance are transferred and used by the University to offset the administrative costs associated with this debt. In a prior year, the University elected to release the annual funding payments from the reserve to redeem portions of the debt obligation. Accordingly, each year the funding payments are now being released from the debt service reserve to redeem portions of the outstanding debt obligation. Furthermore, during fiscal 2011, an additional amount of \$9,968 was released from the debt service reserve and used to redeem portions of the outstanding debt obligation. The outstanding principal balance of this Interagency payable at June 30, 2012 and 2011 was \$3,845,302 and \$4,037,685, respectively.

Interest on the debt is paid every thirty-five days at a floating rate of interest subject to market conditions. The interest rate is determined by MDFA conducting a true auction of their debt issuance every thirty-five days, in which the University's obligation is pooled with other higher education institutions within the Commonwealth who have debt funded through MDFA. The most recent auctioned interest rate in effect at June 30, 2012 and 2011 was 0.530% and 0.504%, respectively. The University is also responsible to pay for program expenses at an annual rate of 0.837% (2012) and 0.831% (2011) of the outstanding principal balance, calculated and payable every thirty-five days when the rate is auctioned. The effective interest rate (including annual program expenses) for 2012 and 2011 amounted to 1.44% and 1.32%, respectively.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

13. Interagency payables - continued

MDFA - continued

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

For the year ending June 30,	<u>Principal</u>	<u>Estimated Interest (1)</u>	<u>Total</u>
2013	\$ 200,797	\$ 19,302	\$ 220,099
2014	219,204	18,140	237,344
2015	232,356	16,908	249,264
2016	246,298	15,603	261,901
2017	261,076	14,219	275,295
2018-2022	1,560,010	47,254	1,607,264
2023-2024	<u>769,717</u>	<u>5,860</u>	<u>775,577</u>
	3,489,458	137,286	3,626,744
Balance of restricted cash held for debt principal	<u>355,844</u>	<u>-</u>	<u>355,844</u>
Total	<u>\$ 3,845,302</u>	<u>\$ 137,286</u>	<u>\$ 3,982,588</u>

- (1) The interest rate in effect at June 30, 2012 of 0.530% was used to calculate the estimated interest on the debt obligation of \$3,845,302. The estimated interest also reflects the reduction of the outstanding debt obligation each year by the annual funding payments.

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

MSCBA

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

13. Interagency payables - continued

MSCBA - continued

As of June 30, 2012 and 2011, the MSCBA held debt service reserve funds in the amount of \$138,898 and \$388,335, respectively. During fiscal 2012, \$249,437 of debt service reserve funds were transferred to the MSCBA as part of a bond refunding transaction. Other than the transfer of those funds to the MSCBA, the bond refunding by the MSCBA had no impact on the debt of the University. The University expects to benefit from interest savings on the bond refunding. The amounts held by MSCBA are included in the accompanying statements of net position at June 30, 2012 and 2011 as noncurrent restricted cash and cash equivalents.

The University is required to make annual principal payments on this debt each May 1. The final principal payment is due on May 1, 2025. Interest on the debt is payable May 1 and November 1 each year. Interest payments are based on an amortization schedule prepared by MSCBA using an increasing coupon rate of interest ranging from 3.5% to 5% over the term of the debt to maturity. Funds from the debt service reserve fund are expected to be applied to the final payment on the debt. Earnings on the balance in the debt service reserve fund are to be used to defray debt service costs. For the years ended June 30, 2012 and 2011, the effective interest rate on this debt was 4.31% and 4.26%, respectively. The outstanding balance of this Interagency payable was \$3,740,000 and \$3,955,000 at June 30, 2012 and 2011, respectively.

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

For the year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 220,000	\$ 165,088	\$ 385,088
2014	235,000	156,232	391,232
2015	240,000	146,904	386,904
2016	255,000	137,260	392,260
2017	260,000	127,164	387,164
2018-2022	1,480,000	319,198	1,799,198
2023-2025	<u>1,050,000</u>	<u>33,522</u>	<u>1,083,522</u>
Total	<u>\$ 3,740,000</u>	<u>\$ 1,085,368</u>	<u>\$ 4,825,368</u>

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

As of June 30, 2012 and 2011, amounts held by MSCBA related to the debt issue and the Project are debt service reserve funds of \$144,841 for both years which are included as noncurrent restricted cash and cash equivalents in the accompanying statements of net position.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

13. Interagency payables - continued

MSCBA - continued

The University is required to make annual principal payments on this debt each May 1. The final principal payment is due on May 1, 2026. Interest on the debt is payable May 1 and November 1 each year. Interest payments are based on an amortization schedule prepared by MSCBA using an increasing coupon rate of interest ranging from 3.5% to 5% over the term of the debt to maturity. Funds from the debt service reserve fund are expected to be applied to the final payment on the debt. Earnings on the balance in the debt service reserve fund are to be used to defray debt service costs. For the years ended June 30, 2012 and 2011, the effective interest rate on this debt was 4.47% and 4.25%, respectively. The outstanding balance of this Interagency payable was \$1,697,670 and \$1,783,353 at June 30, 2012 and 2011, respectively, including unamortized premium.

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

For the year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 85,000	\$ 77,813	\$ 162,813
2014	90,000	73,563	163,563
2015	95,000	69,963	164,963
2016	95,000	65,450	160,450
2017	100,000	60,700	160,700
2018-2022	575,000	232,700	807,700
2023-2026	<u>580,000</u>	<u>74,250</u>	<u>654,250</u>
	1,620,000	654,439	2,274,439
Plus: Unamortized premiums	<u>77,670</u>	-	<u>77,670</u>
Total	<u>\$ 1,697,670</u>	<u>\$ 654,439</u>	<u>\$ 2,352,109</u>

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

13. Interagency payables - continued

MSCBA - continued

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

	<u>2011</u>
Debt issue	\$ 15,935,656
Amount held by MSCBA for debt service reserve fund (included in restricted cash and cash equivalents - noncurrent)	(1,449,777)
Debt issuance costs	(178,440)
Other miscellaneous expense	(439)
Net proceeds	<u>\$ 14,307,000</u>

As of June 30, 2012 and 2011, unexpended net proceeds amounted to \$564,105 and \$12,833,282, respectively.

As of June 30, 2012, amounts held by MSCBA related to the debt issue and the Project are as follows:

	<u>2012</u>	<u>2011</u>
Unexpended debt proceeds	\$ 564,105	\$ 12,833,282
Debt service reserve fund	<u>1,449,777</u>	<u>1,449,777</u>
	<u>\$ 2,013,882</u>	<u>\$ 14,283,059</u>

The amounts held by MSCBA are included in the accompanying statements of net position at June 30, 2012 and 2011 as follows:

	<u>2012</u>	<u>2011</u>
Restricted cash and cash equivalents:		
Current	\$ 115,498	\$ 1,271,600
Noncurrent	<u>1,898,384</u>	<u>13,011,459</u>
	<u>\$ 2,013,882</u>	<u>\$ 14,283,059</u>

The University is required to make annual principal payments on this debt each May 1 which commenced in fiscal 2012. The final principal payment is due on May 1, 2030. Interest on the debt is payable May 1 and November 1 each year. Interest payments are based on an amortization schedule prepared by MSCBA with interest rates ranging from 3.0% to 6.54% over the term of the debt to maturity. Funds from the debt service

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

13. Interagency payables - continued

MSCBA - continued

reserve fund are expected to be applied to the final payment on the debt. Earnings on the balance in the debt service reserve fund are to be used to defray debt service costs. For the years ended June 30, 2012 and 2011, the effective interest rate on this debt was 3.44% and 3.22%, respectively. The outstanding balance of this Interagency payable was \$15,272,961 and \$15,923,924 at June 30, 2012 and 2011, respectively, including unamortized premium.

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

For the year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 589,374	\$ 516,645	\$ 1,106,019
2014	607,033	498,964	1,105,997
2015	631,315	474,683	1,105,998
2016	655,596	449,430	1,105,026
2017	682,085	423,207	1,105,292
2018-2022	3,878,390	1,733,999	5,612,389
2023-2027	4,653,185	979,649	5,632,834
2028-2030	<u>3,264,735</u>	<u>148,217</u>	<u>3,412,952</u>
	14,961,713	5,224,794	20,186,507
Plus: Unamortized premiums	<u>311,248</u>	<u>-</u>	<u>311,248</u>
Total	<u>\$ 15,272,961</u>	<u>\$ 5,224,794</u>	<u>\$ 20,497,755</u>

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

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

	<u>2012</u>
Debt issue	\$ 7,043,416
Debt issuance costs	(<u>43,416</u>)
Net proceeds	<u>\$ 7,000,000</u>

As of June 30, 2012, unexpended net proceeds amounted to \$2,817,939, which is held by the MSCBA.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

13. Interagency payables - continued

MSCBA - continued

The amounts held by MSCBA are included in the accompanying statement of net position at June 30, 2012 as follows:

	<u>2012</u>
Restricted cash and cash equivalents:	
Current	\$ 1,783,450
Noncurrent	<u>1,034,489</u>
	<u><u>\$ 2,817,939</u></u>

The University is required to make annual principal payments on this debt each May 1 commencing in fiscal 2013. The final principal payment is due on May 1, 2031. Interest on the debt is payable May 1 and November 1 each year. Interest payments are based on an amortization schedule prepared by MSCBA with interest rates ranging from 3.0% to 5.00% over the term of the debt to maturity. For the year ended June 30, 2012, the effective interest rate on this debt was 3.41%. The outstanding balance of this Interagency payable was \$7,020,705 at June 30, 2012, including unamortized premium.

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

For the year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 120,000	\$ 391,736	\$ 511,736
2014	220,000	292,050	512,050
2015	230,000	281,050	511,050
2016	240,000	269,550	509,550
2017	250,000	257,550	507,550
2018-2022	1,450,000	1,103,450	2,553,450
2023-2027	1,815,000	733,500	2,548,500
2028-2031	<u>1,810,000</u>	<u>231,750</u>	<u>2,041,750</u>
	6,135,000	3,560,636	9,695,636
Plus: Unamortized premiums	<u>885,705</u>	<u>-</u>	<u>885,705</u>
Total	<u><u>\$ 7,020,705</u></u>	<u><u>\$ 3,560,636</u></u>	<u><u>\$ 10,581,341</u></u>

The oversight of various capital projects on campus is provided by MSCBA. To fund these projects, the University provides equity contributions, by advancing funds to the MSCBA, which are then held by MSCBA until used for the payment of the capital project costs. During 2012, the University provided equity contributions totaling \$9,136,550 to fund their portion of the total renovation costs of the Hammond Campus Center Project. As of June 30, 2012, amounts held by MSCBA representing the unexpended portion of the University's contributions totaled \$8,636,293, of which \$483,793 is included in current restricted cash and cash equivalents

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

13. Interagency payables - continued

MSCBA - continued

and \$8,152,500 is included in noncurrent restricted cash and cash equivalents in the accompanying 2012 statement of net position. As of June 30, 2011, amounts held by MSCBA representing the unexpended portion of the University's contributions totaled \$142,159 which is included in noncurrent restricted cash and cash equivalents in the accompanying 2011 statement of net position.

14. FSU Foundation long term debt

FSU Foundation's long-term debt consists of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
First mortgage notes payable	\$ 3,008,325	\$ 3,121,795
Notes payable - bank	<u>644,051</u>	<u>681,816</u>
	3,652,376	3,803,611
Less current portion	<u>154,816</u>	<u>150,153</u>
	<u>\$ 3,497,560</u>	<u>\$ 3,653,458</u>

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

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

At June 30, 2012 and 2011, the outstanding principal balance of this mortgage note payable amounted to \$482,848 and \$500,402, respectively.

In August, 2006, the Foundation Supporting Organization acquired land and a building consisting of 4,179 square feet of office space and 53,429 square feet of warehouse space located in Fitchburg, Massachusetts near the University campus. The entire property has been leased to DCAM on behalf of the University (see Note 23). The University is currently using the property for its print services, maintenance, and shipping and receiving and financial services.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

14. FSU Foundation long term debt - continued

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

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, 2012 and 2011, the outstanding principal balance of this first mortgage note payable amounted to \$1,538,180 and \$1,612,542, respectively.

Workers' Credit Union (WCU) provided financing to the Foundation Supporting Organization in the form of a note, dated February 27, 2009, in the amount of \$750,000. The proceeds of the loan were used primarily to repay advances made to the Foundation Supporting Organization by the Foundation for the acquisition of four real estate properties. The note is secured by a first mortgage interest in certain real estate owned by the Foundation Supporting Organization and an assignment of certain leases and rents. The note is also collateralized by all funds held by the lender. At June 30, 2012 and 2011, the Foundation Supporting Organization has total cash balances of \$81,665 and \$81,194, respectively, held at WCU which serve as additional collateral for both WCU loans to the Foundation Supporting Organization (see below).

The mortgage note has a term of ten years, expiring on February 27, 2019, and provides for a fixed rate of interest of 5.74% per annum. The note requires monthly installments of principal and interest of \$4,714 based on a twenty-five year principal amortization. The note may be prepaid at any time, in whole or in part, without premium or penalty.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

14. FSU Foundation long term debt - continued

As of June 30, 2012 and 2011, the outstanding principal balance of this first mortgage loan amounted to \$700,292 and \$716,105, respectively.

Workers' Credit Union provided financing to the Foundation Supporting Organization in the form of a note, dated February 19, 2010, in the amount of \$300,000. The proceeds of the loan were used to finance the acquisition of a real estate property. The note is secured by a first mortgage interest in the property located at 161 - 181 Main Street in Fitchburg, Massachusetts and an assignment of leases and rents on this property. In addition, the note is secured by a second mortgage interest in the real estate and related personal property located at 167 Klondike Avenue in Fitchburg, Massachusetts. The first mortgage on that property secures the Foundation Supporting Organization's obligations under the MDFA Revenue Bonds Issue. The Supporting Organization also provides 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, 2012 and 2011, the Foundation Supporting Organization has total cash balances of \$81,665 and \$81,194, respectively, held at WCU which serve as additional collateral for both WCU loans to the Foundation Supporting Organization.

The mortgage note has a term of ten years, expiring on February 19, 2020, and provides for a fixed rate of interest of 6.03% per annum. The note requires monthly installments of principal and interest of \$1,939 based on a twenty-five year principal amortization. The note may be prepaid at any time, in whole or in part, without premium or penalty. The loan documents contain cross default - cross collateralization provisions with all other obligations of the Foundation Supporting Organization to WCU.

As of June 30, 2012 and 2011, the outstanding principal balance of the mortgage loan amounted to \$287,005 and \$292,746, respectively.

Rollstone Bank & Trust provided financing to the Foundation in the form of a note dated January 5, 2010, in the amount of \$77,952. The proceeds of the loan were used to finance the purchase of computer software to be used in the Foundation's operations. The note is unsecured.

The note has a term of three years, expiring on January 5, 2013, and provides for a fixed rate of interest of 5% per annum. The note requires monthly installments of principal and interest of \$2,339 based on a three year principal amortization.

At June 30, 2012 and 2011, the outstanding principal balance of this note payable amounted to \$16,081 and \$42,590, respectively.

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

The acquisitions were funded with the proceeds of a note payable in the amount of \$680,000, dated April 26, 2007, with Enterprise Bank and Trust Company. The note is secured by investments with an equivalent fair value of \$1,592,000 at June 30, 2012. In addition, payment and performance of the Foundation Supporting Organization's obligations under the loan agreement have been guaranteed by the Foundation.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

14. FSU Foundation long term debt - continued

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 to the Federal Home Loan Bank Boston Classic Advance Five Year Rate plus 1.15% per annum. The rate was adjusted to 2.62% per annum on April 26, 2012 pursuant to 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. The note may be prepaid at any time, in whole or in part, without premium or penalty.

At June 30, 2012 and 2011, the outstanding principal balance of this note payable amounted to \$627,970 and \$639,226, respectively.

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

For the year ending June 30,	<u>Principal</u>	<u>Estimated Interest (1)</u>	<u>Total</u>
2013	\$ 154,816	\$ 169,871	\$ 324,687
2014	145,394	162,939	308,333
2015	152,386	155,947	308,333
2016	159,423	148,910	308,333
2017	167,425	140,908	308,333
2018-2022	1,172,507	544,122	1,716,629
2023-2027	1,039,236	262,386	1,301,622
2028-2032	413,440	92,065	505,505
2033-2037	<u>247,749</u>	<u>15,270</u>	<u>263,019</u>
Total	<u>\$ 3,652,376</u>	<u>\$ 1,692,418</u>	<u>\$ 5,344,794</u>

- (1) The interest rates in effect at June 30, 2012 of 5.75%, 4.5%, 5.74%, and 6.03% on the first mortgage notes payable and 5% and 2.62% on the notes payable - bank were used to calculate the estimated interest on these debt obligations.

15. FSU Foundation line of credit

In March, 2011, 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. At June 30, 2012 and 2011, there were no borrowings outstanding under the line of credit. The line of credit provides for interest at the Wall Street Journal Prime Rate, but in no event less than 6% per annum. At both June 30, 2012 and 2011, the effective interest rates were 6% per annum. Borrowings are secured by investments with an equivalent fair value of \$315,000. The line of credit agreement expires on March 17, 2013. The Foundation may prepay outstanding revolving loans under the agreement in whole or in part at any time without premium or penalty.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

16. Long term liabilities

Long-term liability activity of the University for the year ended June 30, 2012 included the following:

	Totals			Totals June 30, 2012	
	June 30, 2011	Additions	Reductions	Ending Balance	Current Portion
Interagency payables and capital leases:					
Interagency payables	\$ 25,699,962	\$ 7,043,416	\$ 1,166,740	\$ 31,576,638	\$ 1,323,735
Capital leases	<u>398,253</u>	<u>-</u>	<u>398,253</u>	<u>-</u>	<u>-</u>
Total	<u>26,098,215</u>	<u>7,043,416</u>	<u>1,564,993</u>	<u>31,576,638</u>	<u>1,323,735</u>
Other liabilities:					
Workers' compensation	752,198	74,502	148,183	678,517	133,668
Compensated absences	4,373,800	2,500,501	2,664,148	4,210,153	2,584,870
Rebate payable	17,993	5	17,998	-	-
Loan payable - federal financial assistance	<u>1,882,087</u>	<u>55,748</u>	<u>35,027</u>	<u>1,902,808</u>	<u>-</u>
Total other liabilities	<u>7,026,078</u>	<u>2,630,756</u>	<u>2,865,356</u>	<u>6,791,478</u>	<u>2,718,538</u>
Long term obligations	<u>\$ 33,124,293</u>	<u>\$ 9,674,172</u>	<u>\$ 4,430,349</u>	<u>\$ 38,368,116</u>	<u>\$ 4,042,273</u>

Long-term liability activity of the University for the year ended June 30, 2011 included the following:

	Totals			Totals June 30, 2011	
	June 30, 2010	Additions	Reductions	Ending Balance	Current Portion
Interagency payables and capital leases:					
Interagency payables	\$ 10,265,737	\$ 15,935,656	\$ 501,431	\$ 25,699,962	\$ 1,146,738
Capital leases	<u>895,689</u>	<u>-</u>	<u>497,436</u>	<u>398,253</u>	<u>166,275</u>
Total	<u>11,161,426</u>	<u>15,935,656</u>	<u>998,867</u>	<u>26,098,215</u>	<u>1,313,013</u>
Other liabilities:					
Workers' compensation	661,105	221,331	130,238	752,198	148,183
Compensated absences	4,015,039	2,700,657	2,341,896	4,373,800	2,664,148
Rebate payable	17,965	28	-	17,993	-
Loan payable - federal financial assistance	<u>1,851,713</u>	<u>63,680</u>	<u>33,306</u>	<u>1,882,087</u>	<u>-</u>
Total other liabilities	<u>6,545,822</u>	<u>2,985,696</u>	<u>2,505,440</u>	<u>7,026,078</u>	<u>2,812,331</u>
Long term obligations	<u>\$ 17,707,248</u>	<u>\$ 18,921,352</u>	<u>\$ 3,504,307</u>	<u>\$ 33,124,293</u>	<u>\$ 4,125,344</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

16. Long term liabilities - continued

Long-term liability activity of FSU Foundation for the year ended June 30, 2012 included the following:

	<u>Totals</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Totals June 30, 2012</u> <u>Ending</u> <u>Balance</u>	<u>Current</u> <u>Portion</u>
First mortgage notes payable	\$ 3,121,795	\$ -	\$ 113,470	\$ 3,008,325	\$ 120,708
Notes payable - bank	<u>681,816</u>	<u>-</u>	<u>37,765</u>	<u>644,051</u>	<u>34,108</u>
Long-term obligations	<u>\$ 3,803,611</u>	<u>\$ -</u>	<u>\$ 151,235</u>	<u>\$ 3,652,376</u>	<u>\$ 154,816</u>

Long-term liability activity of FSU Foundation for the year ended June 30, 2011 included the following:

	<u>Totals</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Totals June 30, 2011</u> <u>Ending</u> <u>Balance</u>	<u>Current</u> <u>Portion</u>
First mortgage notes Payable	\$ 3,224,841	\$ -	\$ 103,046	\$ 3,121,795	\$ 112,846
Notes payable - bank	<u>717,056</u>	<u>-</u>	<u>35,240</u>	<u>681,816</u>	<u>37,307</u>
Long-term obligations	<u>\$ 3,941,897</u>	<u>\$ -</u>	<u>\$ 138,286</u>	<u>\$ 3,803,611</u>	<u>\$ 150,153</u>

17. Net position

Unrestricted net position is comprised of net assets that are not subject to externally imposed stipulations; however, they may be subject to internal restrictions. For example, unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Certain unrestricted net assets are internally designated for academic and research programs and initiatives, and graduate and continuing education programs. Designated unrestricted net assets were \$8,594,372 and \$8,488,308 at June 30, 2012 and 2011, respectively. Undesignated unrestricted net assets were \$11,043,805 and \$12,867,842 at June 30, 2012 and 2011, respectively.

The net investment in capital assets amount of \$72,858,018 includes the effect of deferring the recognition of revenue from the installment payments associated with the dining facilities service concession arrangement. At June 30, 2012, \$2,030,645 of the balance of the deferred inflow of resources has been included, as a reduction, in the calculation of net investment in capital assets. This amount will be recognized as revenue and increase the net investment in capital assets net position over the remaining term of the arrangement.

18. Net position restricted by enabling legislation

Fitchburg State University Foundation, Inc.'s consolidated statements of net position as of June 30, 2012 and 2011 reflect a restricted net position of \$11,632,609 and \$11,365,274, respectively. Of these amounts, \$2,357,931 for each year, are restricted by enabling legislation for the State Matching Funds Program.

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

19. Operating expenses

The University's operating expenses for the years ended June 30, 2012 and 2011, on a natural classification basis, are comprised of the following:

	<u>2012</u>	<u>2011</u>
Salaries:		
Faculty	\$ 18,023,091	\$ 17,381,110
Exempt wages	2,987,018	2,794,427
Non-exempt wages	15,376,023	14,868,032
Benefits	10,242,524	9,983,512
Scholarships (endowed)	1,557,085	1,653,433
Utilities	4,399,162	3,996,055
Supplies and other services	17,591,789	17,141,119
Depreciation	<u>4,269,822</u>	<u>4,241,022</u>
Total operating expenses	<u>\$ 74,446,514</u>	<u>\$ 72,058,710</u>

20. State controlled accounts

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

The estimated amounts of funding attributable for the Commonwealth's retirement system contribution and the employer's share of health care premiums for the years ended June 30, 2012, 2011 and 2010 were as follows (See State appropriations under Note 25):

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Commonwealth's retirement system contributions	\$ 2,313,614	\$ 1,519,792	\$ 1,489,214
Employers share of health care premium	\$ 5,278,725	\$ 5,966,244	\$ 4,091,641

21. Retirement plan

Substantially all of the University's full-time employees are covered by the Massachusetts State Employees' Retirement System (SERS). SERS, a single employer defined benefit public employee retirement system, is administered by the Massachusetts State Retirement Board and covers substantially all non-student employees. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Chapter 32A of the General Laws of the Commonwealth of Massachusetts assigns

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

21. Retirement plan - continued

the authority to establish and amend benefit provisions to the Massachusetts Legislature. The University is not required to contribute from its appropriation allocation or other University funds to SERS for employees compensated from State appropriations. For University employees covered by SERS but compensated from a trust fund or other source, the University is required to contribute an amount determined as a percentage of compensation in accordance with a fringe benefit rate established by the State. The total amount of current funding by the State related to the University's employees was \$2,313,614, \$1,519,792 and \$1,489,214 during 2012, 2011 and 2010, respectively. Annual covered payroll was approximately 63%, 67% and 62% of total payroll for the University for the years ended June 30, 2012, 2011 and 2010, respectively.

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

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

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

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

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

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

Post Employment Other than Pensions

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

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

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

Post Employment Other than Pensions - continued

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

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

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

The GIC is a quasi-independent state agency governed by an eleven-member body (the Commission) appointed by the Governor. The GIC is located administratively within the Executive Office of Administration and Finance, and is responsible for providing health insurance and other benefits to the Commonwealth's employees and retirees and their survivors and dependents. During the fiscal years ended on June 30, 2012 and 2011, the GIC provided health insurance for its members through indemnity, PPO, and HMO plans. The GIC also administered carve-outs for the pharmacy benefit and mental health and substance abuse benefits for certain of its health plans. In addition to health insurance, the GIC sponsors life insurance, long-term disability insurance (for active employees only), dental and vision coverage for employees not covered by collective bargaining, a retiree discount vision plan and retiree dental plan, and finally, a pre-tax health care spending account and dependent care assistance program (for active employees only).

The amount of funding by the University related to benefits other than pensions for the years ended June 30, 2012, 2011 and 2010 were \$10,242,524, \$9,983,512 and \$8,250,267, respectively, which equaled the required contributions each year charged to it through the Commonwealth's fringe benefit recovery program.

23. Lease and license agreements

As disclosed in Note 14, the Foundation Supporting Organization entered into a long-term operating lease agreement with DCAM on behalf of the University. The lease commenced on August 16, 2006. The lease is for a term of ten years and provides for base rent of \$165,000 per year, payable in monthly installments of \$13,750, for the entire lease term. The University is also responsible for the payment of normal operating, maintenance and repair costs associated with its use of the property. At the expiration of the lease term, the Foundation Supporting Organization expects the lease will be renewed with DCAM on behalf of the University. For the years ended June 30, 2012 and 2011, rental income for the Foundation Supporting Organization amounted to

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

23. Lease and license agreements - continued

\$165,000 in each year. The rental income is reflected in revenue from sales and services of educational departments in the accompanying statements of revenues, expenses and changes in net position. The corresponding rent expense of the University is reflected in operations and maintenance of plant.

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

<u>Year ending June 30,</u>	<u>Amount</u>
2013	\$ 165,000
2014	165,000
2015	165,000
2016	165,000
2017	<u>20,625</u>
	<u>\$ 680,625</u>

On August 6, 2008, the Foundation Supporting Organization entered into a ten year operating lease agreement with an unrelated third party for 2,350 square feet of office space located in Fitchburg, Massachusetts. The lease commenced on November 1, 2008 and shall expire on October 31, 2018. The space is being used by Fitchburg State University as office and classroom space for its Center for Professional Studies. The lease provides for a base annual rent of \$17,625 for each of the first three years of the lease term, payable in monthly installments of \$1,469. Beginning with the fourth year of the lease there will be a 7.5% increase at the commencement of each three year period of the lease term, including the continuous period of any extensions thereof. On November 1, 2011, the base annual rent increased to \$18,947 for the next three year period of the lease terms payable in monthly installments of \$1,579. The Foundation Supporting Organization may extend the initial term of the lease, under the same terms and conditions, for successive periods of one year provided it is not then in default of the lease terms and it gives proper notice. The Foundation Supporting Organization may cancel the lease at any time after November 1, 2009 with the payment of two months' base rent as a termination charge. The Foundation Supporting Organization is also responsible for the payment of normal operating, maintenance and repair costs associated with the use of the property. For the years ended June 30, 2012 and 2011, rent expense amounted to \$18,506 and \$17,625, respectively.

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

<u>Year ending June 30,</u>	<u>Amount</u>
2013	\$ 18,947
2014	18,947
2015	19,895
2016	20,368
2017	20,368
Later years	<u>28,685</u>
	<u>\$ 127,210</u>

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

23. Lease and license agreements - continued

The Foundation Supporting Organization and the University are parties to License Agreements whereby the Foundation Supporting Organization granted to the University irrevocable and exclusive licenses to occupy, manage, maintain and operate certain property owned by the Foundation Supporting Organization. The License Agreements provide for initial terms of one year and automatic annual renewals thereafter. The License Agreements provide for aggregate annual license fees totaling \$178,336 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, 2012 and 2011, license fee income for the Foundation Supporting Organization amounted to \$178,336 and \$177,455, respectively. The license fee income is reflected in revenue from sales and services of educational departments in the accompanying statements of revenue, expenses and changes in net position. The corresponding license fee expense of the University is reflected in operations and maintenance of plant.

24. Donated equipment, materials and services

The value of donated equipment, materials and services received by the Foundation included in gifts and contributions for the year ended June 30, 2012 totaled \$2,844,900 and has been reflected in educational and general expenses as follows:

Functional Expense <u>Category</u>	<u>Nature of expense</u>	<u>Amount</u>
Speakers and cultural programs	Advertising	\$ 22,500
Equipment and maintenance	Computer software license	<u>2,822,400</u>
		<u>\$ 2,844,900</u>

The value of donated equipment, materials and services received by the Foundation included in gifts and contributions for the year ended June 30, 2011 totaled \$2,862,391. Of this amount, \$20,738 represents equipment that has been included in capital assets and the remainder of \$2,841,653 has been reflected in educational and general expenses as follows:

Functional Expense <u>Category</u>	<u>Nature of expense</u>	<u>Amount</u>
Speakers and cultural programs	Advertising	\$ 17,500
Equipment and maintenance	Computer software license and miscellaneous equipment	<u>2,824,153</u>
		<u>\$ 2,841,653</u>

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

24. Donated equipment, materials and services - continued

The computer software license expired on June 30, 2012. The Foundation is uncertain if the software will be utilized going forward. The software will be evaluated in Fall 2012. No new agreement is expected until after this evaluation is completed.

25. Management Accounting and Reporting System

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

State appropriations

The University's State appropriations are comprised of the following for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Gross State appropriations	\$ 30,235,751	\$ 24,454,735
Add: Fringe benefits for benefited employees on the Commonwealth payroll	7,592,339	7,486,036
Less: Day school tuition remitted to the Commonwealth and included in tuition and fee revenue	(1,262,812)	(2,467,840)
Net State appropriations	<u>\$ 36,565,278</u>	<u>\$ 29,472,931</u>

\$29,797,174 and \$29,332,885 represent appropriations for maintenance and payroll during 2012 and 2011, respectively, and \$6,768,104 and \$140,046 represents appropriations for capital improvements for 2012 and 2011, respectively. These amounts are presented separately in the accompanying statements of revenues, expenses and changes in net position.

Day school tuition receipts and transfers have been recorded in an agency fund during the year and had no material balance outstanding at June 30, 2012 and 2011.

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

26. Stimulus grants

In fiscal years 2012 and 2011, Fitchburg State University, through the Department of Higher Education, was the subrecipient of \$210,343 and \$3,098,023, respectively, in stimulus grants as part of the American Recovery and Reinvestment Act of 2009 (ARRA). As of June 30, 2011, \$327,374 of the total awarded for fiscal 2011 is included in accounts receivable in the accompanying 2011 statement of net position. The funds awarded have been expended as follows:

	<u>2012</u>	<u>2011</u>
Regular employee compensation	\$ 143,098	\$ 2,311,522
Pension and insurance	49,970	779,676
Scholarship allowances	<u>17,275</u>	<u>6,825</u>
	<u>\$ 210,343</u>	<u>\$ 3,098,023</u>

27. Risk management

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

The University also participates in the Commonwealth's self-insured programs for employees workers' compensation, health care and other insurance. The Commonwealth assesses the costs of workers' compensation and unemployment insurance to the University based on the University's actual experience (see Note 7). The Commonwealth manages workers' compensation as part of its general operations. No separate fund for workers' compensation is provided for in Massachusetts General Laws. The Commonwealth assesses the costs of health care insurance to the University through a fringe benefit rate and the liability for such coverage is borne by the Commonwealth. The Commonwealth's Group Insurance Commission manages health insurance and other benefits for the Commonwealth's active and retired employees (see Note 22).

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

28. Commitments and contingencies

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

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

28. Commitments and contingencies - continued

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

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

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

29. McKay Agreement

The University has an agreement with the City of Fitchburg, whereby the City can use the McKay building to provide elementary education to local residents on a year to year basis. The University receives quarterly payments from the City to reimburse the University for its share of payroll and related operating expenses (the McKay School expenditures). Reimbursements received for the years ended June 30, 2012 and 2011 were \$819,487 and \$994,887, respectively. These reimbursements are included in the Sales and Services of Educational Departments revenue amount and the McKay School expenditures are included in the appropriate categories under Operating Expenses in the accompanying statements of revenues, expenses and changes in net position.

30. Civic Center

In August 2006, the University and the City of Fitchburg entered into a Memorandum of Understanding in which the University would assume responsibility for the operations, management and maintenance of the George R. Wallace, Jr. Civic Center and the Alice G. Wallace Planetarium (collectively, the Civic Center). The Civic Center includes two skating rinks and the adjoining planetarium. The Commonwealth of Massachusetts acting by and through its Division of Capital Asset Management and Maintenance (DCAM) on behalf of the University entered into a lease agreement for the Civic Center with the City of Fitchburg and the Board of Trustees of the Civic Center. The lease commenced on October 1, 2007 and is for a term of 99 years. The lease provided for an initial nominal rent payment and is otherwise a net lease. Pursuant to the terms of the lease, the University has complete authority, at its sole discretion, to do all such acts and deeds as it deems reasonably necessary to manage, maintain and operate the Civic Center for the permitted uses specified in the lease agreement. The University is responsible for payment, from net revenues generated by its operation of the Civic Center, of all costs associated with the maintenance and operation of the Civic Center, and certain other payments as specified

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2012 AND 2011

30. Civic Center - continued

in the lease agreement. DCAM, at the instruction of the University and with 60 days prior written notice, may terminate the lease in the event that the University, in its sole discretion, determines that continuation of the lease is not in the interest of the University.

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

On February 1, 2009, the Commonwealth of Massachusetts acting by and through its Division of Capital Asset Management and Maintenance on behalf of the University entered into a sublease agreement with FMC for a term of twenty-five years commencing on the date of the agreement. The sublease agreement is a net lease and, accordingly, FMC is responsible for all costs associated with the operations, management, and maintenance of the sublease premises as well as repairs and required capital improvements. The sublease premises consist of the facilities and related equipment associated with the operation of a public ice-skating rink program. The planetarium is not part of the sublease premises and it is not currently operational. FMC is also responsible for certain other payments for and on behalf of the University related to obligations in existence at the date the University initially assumed management of the Civic Center. During the term of the sublease agreement, FMC is required to pay the University monthly percentage rent based upon the actual gross revenues from its operations, as defined. During each of the first ten years of the sublease term, no percentage rent is required. Thereafter, for each of the years eleven through twenty-five, percentage rent at the rate of 1% of actual gross revenues shall be due and payable on a monthly basis. However, in no event shall the aggregate amount of percentage rent paid by FMC during the sublease term be less than \$107,155.

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

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

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

To the Board of Trustees
Fitchburg State University
Fitchburg, Massachusetts

We have audited the financial statements of the business-type activities and discretely presented component unit of Fitchburg State University as of and for the year ended June 30, 2012, which collectively comprise Fitchburg State University's basic financial statements, and our report thereon dated October 16, 2012, which appears on page 1, expressed an unqualified opinion on those financial statements. That opinion included an explanatory paragraph for the University's election to early implement the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our audit was conducted for the purpose of forming an opinion on the 2012 financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the 2012 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 2012 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2012 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2012 financial statements or to the 2012 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 2012 financial statements as a whole.

Ercolini & Company LLP

Boston, Massachusetts
October 16, 2012

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2012

Federal Grantor/Program Title	Federal CFDA Number	Agency or Pass through Agency Number	Federal Expenditures
U.S. Department of Justice			
Direct Programs			
Grants to reduce domestic violence, dating violence, sexual assault and stalking on campus	16.525	16	\$ 81,320
Subtotal Direct Programs			<u>81,320</u>
Total U.S. Department of Justice			<u>\$ 81,320</u>
National Science Foundation			
Direct Programs			
Biological Sciences	47.074	47	\$ 60,213
Subtotal Direct Programs			<u>60,213</u>
Total National Science Foundation			<u>\$ 60,213</u>
U.S. Department of Education			
Direct Programs			
<u>TRIO Cluster:</u>			
TRIO - Student Support Services	84.042	84	\$ 178,710
TRIO - Upward Bound	84.047	84	<u>323,516</u>
Total TRIO Cluster			<u>502,226</u>
<u>Student Financial Assistance Cluster:</u>			
Federal Supplemental Educational Opportunity Grants	84.007	84	246,510
Federal Work-Study Program	84.033	84	282,483
Federal Pell Grant Program	84.063	84	4,851,444
Nursing Student Loans	93.364	93	<u>52,400</u>
Total Student Financial Assistance Cluster			<u>5,432,837</u>
Subtotal Direct Programs			<u>5,935,063</u>

See independent auditor's report on supplemental information on page 66
and notes to schedule of expenditures of federal awards.

FITCHBURG STATE UNIVERSITY
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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

YEAR ENDED JUNE 30, 2012

Federal Grantor/Program Title	Federal CFDA Number	Agency or Pass through Agency Number	Federal Expenditures
U.S. Department of Education			
Pass-Through Programs			
MA Department of Higher Education			
<u>State Fiscal Stabilization Fund Cluster:</u>			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	84	193,068
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	84	<u>17,275</u>
Total State Fiscal Stabilization Fund Cluster			<u>210,343</u>
Subtotal Pass-Through Programs			<u>210,343</u>
Total U.S. Department of Education			<u>\$ 6,145,406</u>
Total Federal Expenditures			<u>\$ 6,286,939</u>

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2012

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA or Schedule) includes the federal grant activity of Fitchburg State University (the University) for the year ended June 30, 2012 and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Matching costs

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

3. Relationship to federal financial reports

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

4. Federal Direct Student Loans (FDL)

The Schedule does not include FDL (CFDA 84.268) which are made directly to individual students. FDL loans are made directly by the U.S. Department of Education. FDL loans made to students enrolled at Fitchburg State University during fiscal year 2012 totaled \$18,775,985.

5. Federal Perkins Loan Program

The Federal Perkins Loan Program (CFDA 84.038) is administered by Fitchburg State University. Fiscal year 2012 activity included loan repayments of \$192,929 and loan funds disbursed of \$241,287. Loans outstanding at June 30, 2012 totaled \$1,607,827.

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

To the Board of Trustees
Fitchburg State University
Fitchburg, Massachusetts

We have audited the financial statements of the business-type activities and discretely presented component unit of Fitchburg State University (the University) (a department of the Commonwealth of Massachusetts) as of and for the year ended June 30, 2012, which collectively comprise Fitchburg State University's basic financial statements and have issued our report thereon, dated October 16, 2012, which appears on page 1 and included an explanatory paragraph for the University's election to early implement the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. 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.

Internal Control Over Financial Reporting

Management of Fitchburg State University is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Fitchburg State University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Trustees, management and others within Fitchburg State University, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ercolini & Company LLP

Boston, Massachusetts

October 16, 2012

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Trustees
Fitchburg State University
Fitchburg, Massachusetts

Compliance

We have audited Fitchburg State University's compliance with the types of compliance requirements described in U.S. Office of Management and Budget Circular A-133 Compliance Supplement that could have a direct and material effect on each of Fitchburg State University's major federal programs for the year ended June 30, 2012. Fitchburg State University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Fitchburg State University's management. Our responsibility is to express an opinion on Fitchburg State University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Fitchburg State University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Fitchburg State University's compliance with those requirements.

In our opinion, Fitchburg State University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

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

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

This report is intended solely for the information and use of the Board of Trustees, management, others within the University, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ercolini & Company LLP

Boston, Massachusetts
October 16, 2012

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2012

A. Summary of auditor's results

1. The auditor's report expresses an unqualified opinion on the financial statements of Fitchburg State University.
2. No material weaknesses relating to the audit of the financial statements are reported in the Schedule of Findings and Questioned Costs.
3. No significant deficiencies relating to the audit of the financial statements are reported in the Schedule of Findings and Questioned Costs.
4. No instances of noncompliance material to the financial statements of Fitchburg State University were disclosed during the audit.
5. No material weaknesses relating to the audit of the major federal award programs are reported in the Schedule of Findings and Questioned Costs.
6. No significant deficiencies relating to the audit of the major federal award programs are reported in the Schedule of Findings and Questioned Costs.
7. The auditor's report on compliance for the major federal award programs for Fitchburg State University is unqualified.
8. There were no audit findings disclosed relating to the major federal award programs for Fitchburg State University that are required to be reported in accordance with Section 510(a) of Circular A-133.
9. The programs tested as major federal programs for Fitchburg State University for the year ended June 30, 2012 are:

<u>Agency</u>	<u>Title</u>	<u>CFDA #</u>
<u>TRIO Cluster:</u>		
U.S. Department of Education	TRIO - Student Support Services	84.042
U.S. Department of Education	TRIO - Upward Bound	84.047
<u>State Fiscal Stabilization Fund Cluster:</u>		
U.S. Department of Education	ARRA - State Fiscal Stabilization Fund (SFS) - Education State Grants, Recovery Act	84.394

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

YEAR ENDED JUNE 30, 2012

A. Summary of auditor's results - continued

<u>Agency</u>	<u>Title</u>	<u>CFDA #</u>
U.S. Department of Education	ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397
<u>Student Financial Assistance Cluster:</u>		
U.S. Department of Education	Federal Supplemental Educational Opportunity Grants	84.007
U.S. Department of Education	Federal Work-Study Program	84.033
U.S. Department of Education	Federal Perkins Loan Program	84.038
U.S. Department of Education	Federal Pell Grant Program	84.063
U.S. Department of Education	Federal Direct Student Loans	84.268
U.S. Department of Education	Nursing Student Loans	93.364

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

11. Fitchburg State University did not qualify as low-risk auditee.

B. Findings - audit of financial statements

None

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

None

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

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2012

The University has completed corrective action on the findings noted below from the OMB Circular A-133 Single Audit report for the year ended June 30, 2011. The finding numbers below represent the numbers assigned to the findings for Fitchburg State University as a part of the overall Commonwealth of Massachusetts' OMB Circular A-133 Single Audit for the year ended June 30, 2011.

Finding 2011-20:

U.S. Department of Education

Federal Work Study Program (84.033)

Federal Award Number: P033A101863 Award Year: 2011

Testing of one of five students disclosed that the student was paid a total of \$106.00 for 13.25 hours that were not supported by adequate documentation. Fitchburg State University (FIT) officials were unable to provide any documentation for a total of 5.25 hours paid as part of the January 3, 2011 and May 10, 2011 payrolls, and provided only the daily work schedules for a total of 8 hours paid as part of the December 28, 2010 and March 3, 2011 payrolls. The student's name on a daily work schedule does not meet the criteria of FIT's FWS payroll guidelines (no time-in and time-out entry in the computer system or student signature on a weekly time log or time card).

Status:

Fitchburg State University requires appropriate documentation for all payroll expenditures, including Federal Work Study payrolls. The University uses a combination of punch cards, sign in/sign out sheets and timecards. These procedures were not followed in one particular area. The supervisors in this area have since been retrained and timecards are now required. In addition, the University implemented the MASS HR self service time and attendance payroll system in August, 2011. The system requires each employee to electronically submit their work hours in order to be paid. Included in this initiative is the implementation of swipe card technology for Federal Work Study and Student workers which will ensure that payroll expenditures are properly documented. No findings related to documentation of payroll expenditures were noted during audit testing in 2012.

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

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - CONTINUED

YEAR ENDED JUNE 30, 2012

Finding 2011-21:

U.S. Department of Education

Federal Direct Student Loans (84.268)

Federal Award Number: P268K110208 Award Year: 2011

Fitchburg State University (FIT) contracts with the National Student Clearinghouse (NSC) to accurately report student status changes to the National Student Loan Data System (NSLDS) in a timely manner but does not verify with NSLDS that the correct enrollment status has been reported to NSLDS within the required 60-day timeframe. As a result, there is inadequate assurance that the enrollment status FIT reports to the NSC are being transmitted accurately and timely to NSLDS.

FIT does have policies and procedures for the submission of student enrollment data to NSLDS; however, it did not have adequate internal controls to ensure that all information was being reported and being reported in a timely manner. In addition, FIT does not have procedures in place, such as a reconciliation process, to ensure that the information sent to NSLDS from the NSC is accurate and being received timely.

FIT did not report to NSLDS (through NSC) status changes for five of the 25 students tested that dropped to less than half time enrollment during the audit period.

In addition, student status changes were not reported timely for an additional two of the 25 students tested. Specifically, one student withdrew in May 2011, after the May monthly submission to NSC, and was not reported to NSLDS until August 2011 which was 39 days beyond the 60-day limit to report per federal regulations. Additionally, one student withdrew in March 2011 and was not reported to NSLDS until May 2011 which was one day beyond the 60-day limit to report per federal regulations.

Status:

The matter of less than half time reporting was addressed with the updating, in September, 2011, of the Banner validation table. Course registration codes previously incorrectly counted in enrollment are no longer counted in enrollment. The matter of withdrawn student reporting was addressed with the implementation, in November, 2011, of a new file extraction and transmission process. Additional files are now batched and transmitted to the Clearinghouse (NSC) which capture all student enrollment changes on a monthly basis. While this process was being developed, withdrawn student status was manually reported to NSC. The University is reviewing data, on a current basis, to ensure that accurate enrollment data is being reported from NSC to NSLDS in a timely manner. No findings related to student status reporting were noted during audit testing in 2012.

SUPPLEMENTAL INFORMATION - OTHER

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

RESIDENCE HALL FUND AND RESIDENCE HALL DAMAGE FUND ACTIVITY

JUNE 30, 2012 AND 2011

The University's Residence Hall Fund and Residence Hall Damage Fund non-classified Statements of Net Position at June 30, 2012 are as follows:

Statements of Net Position

	<u>Residence Hall Fund</u>	<u>Residence Hall Damage Fund</u>
Assets:		
Cash	\$ 642,224	\$ 104,552
Cash held by State Treasurer	139,857	-
Investments	1,138,511	-
Accounts receivable, net	<u>36,563</u>	<u>13,964</u>
Total assets	1,957,155	118,516
Liabilities:		
Accounts payable	66,027	-
Deposits	292,725	-
Salaries payable	93,892	-
Compensated absences	<u>97,637</u>	<u>-</u>
Total liabilities	<u>550,281</u>	<u>-</u>
Net position	<u>\$ 1,406,874</u>	<u>\$ 118,516</u>

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

RESIDENCE HALL FUND AND RESIDENCE HALL DAMAGE FUND ACTIVITY - CONTINUED

JUNE 30, 2012 AND 2011

The University's Residence Hall Fund and Residence Hall Damage Fund Statements of Revenues, Expenses and Changes in Net Position (presented in accordance with the Commonwealth of Massachusetts' Expenditure Classification plan) for the year ended June 30, 2012 are as follows:

	<u>Residence Hall Fund</u>	<u>Residence Hall Damage Fund</u>
Revenues:		
Student fees	\$ 7,903,226	\$ -
Interest	37,790	1,204
Investment income (loss)	35,633	1,205
Commissions	20,441	-
Rentals	38,054	-
Room damage assessments	-	14,889
Miscellaneous	<u>33,775</u>	<u>-</u>
Total revenues	<u>8,068,919</u>	<u>17,298</u>
Expenses:		
Regular employee compensation	1,110,812	-
Regular employee related expenses	8,842	-
Special employee/contract services	193,826	-
Pension and insurance	386,535	-
Facility operating supplies and related expenses	19,532	-
Administrative expenses	23,318	-
Energy and space rental	1,019,688	-
Consultant services	3,434	-
Operational services	19,736	-
Equipment purchases	68,502	-
Equipment lease - purchase, lease, rent, repair	19,951	-
Purchased client services and programs	860	-
Construction and improvements	478,003	8,987
Benefit program	38,301	-
Loans and special payments	5,003,675	-
Other - bad debt expense (recovery)	7,382	(142)
Information technology expenses	<u>19,829</u>	<u>-</u>
Total expenses	<u>8,422,226</u>	<u>8,845</u>
Transfers (in)/out:		
Interdepartmental rental income	(57,512)	-
Printing	3,471	-
Other	<u>340,545</u>	<u>-</u>
Total transfers	<u>286,504</u>	<u>-</u>
Total expenses and transfers	<u>8,708,730</u>	<u>8,845</u>
Increase (decrease) in net position	(639,811)	8,453
Net position - beginning of year	<u>2,046,685</u>	<u>110,063</u>
Net position - end of year	<u>\$ 1,406,874</u>	<u>\$ 118,516</u>

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

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

Supplemental Statistical Information - Unaudited

	Fiscal Year									
Schedule of Net Position by Category	2003	2004	2005	2006	2007	2008	2009	2010	2011 ^a	2012 ^a
Net investment in capital assets	\$ 20,793,469	\$ 21,045,366	\$ 20,186,185	\$ 20,360,103	\$ 25,806,513	\$ 30,983,682	\$ 39,530,560	\$ 43,903,456	\$ 52,186,987	\$ 72,858,018
Restricted-expendable	4,076,361	3,816,427	7,138,933	9,083,307	10,946,782	9,850,228	6,515,426	4,262,842	6,128,825	11,907,794
Restricted-nonexpendable	521,361	576,826	588,587	597,461	600,377	511,206	437,045	470,158	458,004	448,121
Unrestricted	6,881,233	9,583,813	11,085,627	14,253,916	12,699,422	11,914,978	9,755,072	18,305,109	21,356,150	19,638,177
Total net position	\$ 32,272,424	\$ 35,022,432	\$ 38,999,332	\$ 44,294,787	\$ 50,053,094	\$ 53,260,094	\$ 56,238,103	\$ 66,941,564	\$ 80,129,966	\$ 104,852,110

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

Sources and Uses of Funds

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Source of Revenue										
Student charges (net of scholarships)	\$ 13,943,385	\$ 16,035,993	\$ 18,083,828	\$ 20,877,997	\$ 22,942,610	\$ 25,033,128	\$ 26,737,289	\$ 28,372,042	\$ 29,985,296	\$ 30,680,511
Grants & contracts	3,081,004	3,962,244	3,831,266	3,486,257	3,656,979	3,951,007	4,483,292	6,112,586	6,616,044	6,477,571
Stimulus grants	-	-	-	-	-	-	-	6,666,991	3,098,023	210,343
Auxiliary enterprises	3,877,418	4,317,584	5,027,889	5,485,605	5,946,282	6,085,147	6,467,184	8,046,782	8,042,922	8,117,577
Other operating revenue	1,806,843	1,796,923	1,889,756	1,927,868	1,987,191	1,963,274	2,098,358	2,096,607	2,169,883	1,874,840
Total operating revenue	22,708,650	26,112,744	28,832,739	31,777,727	34,533,062	37,032,556	39,786,123	51,295,008	49,912,168	47,360,842
State appropriations	27,974,237	25,199,981	27,375,808	29,645,087	31,702,393	34,063,661	29,415,783	24,622,349	29,332,885	29,797,174
State capital appropriations	177,600	-	407,191	1,195,000	1,799,754	475,000	497,822	-	140,046	6,768,104
Capital grants	85,000	118,358	121,217	123,535	123,535	178,264	325,351	1,683,802	5,319,402	15,135,437
Other non-operating revenue	260,729	265,905	510,689	1,078,894	1,393,662	819,844	(179,115)	1,329,091	1,125,671	611,447
Total non-operating revenue	28,497,566	25,584,244	28,414,905	32,042,516	35,019,344	35,536,769	30,059,841	27,635,242	35,918,004	52,312,162
Total revenue	\$ 51,206,216	\$ 51,696,988	\$ 57,247,644	\$ 63,820,243	\$ 69,552,406	\$ 72,569,325	\$ 69,845,964	\$ 78,930,250	\$ 85,830,172	\$ 99,673,004
Functional Expense										
Instruction	\$ 19,366,094	\$ 18,019,813	\$ 18,847,979	\$ 22,856,426	\$ 24,193,071	\$ 26,699,550	\$ 25,010,246	\$ 25,682,331	\$ 27,138,609	\$ 28,023,197
Research	2,499	130,803	164,787	165,550	61,077	37,104	99,265	106,458	68,156	35,654
Public service	810,173	785,084	636,765	598,273	486,633	558,388	390,127	409,901	456,372	469,699
Academic support	4,553,718	4,301,883	4,607,796	4,631,842	5,108,978	5,344,027	4,538,538	4,361,103	4,806,942	4,761,045
Student services	5,772,833	5,426,794	5,980,391	6,560,972	7,022,806	7,478,709	7,299,258	7,445,019	8,030,813	8,598,075
Institutional support	5,998,902	6,764,298	7,179,198	6,169,474	6,648,295	7,228,110	6,464,395	5,988,283	6,767,632	6,866,058
Operations and maintenance of plant	5,911,344	5,944,096	7,246,710	8,185,991	9,699,216	11,040,391	11,306,190	10,818,202	10,881,270	11,444,608
Scholarships	760,798	926,658	949,222	971,606	1,198,719	1,280,862	1,456,842	1,608,419	1,618,980	1,518,783
Sub-total	43,176,361	42,299,429	45,612,848	50,140,134	54,418,795	59,667,141	56,564,861	56,419,716	59,768,774	61,717,119
Auxiliary enterprises	3,576,732	4,032,223	4,762,364	5,419,873	5,714,435	5,809,898	6,200,539	7,411,777	8,048,914	8,459,573
Total operating expense	46,753,093	46,331,652	50,375,212	55,560,007	60,133,230	65,477,039	62,765,400	63,831,493	67,817,688	70,176,692
Interest expense	146,440	198,855	307,292	316,491	548,265	657,783	545,680	384,861	583,060	254,909
Transfers (to)/from State Agencies	-	-	-	-	-	-	-	-	-	249,437
Total non-operating expense	146,440	198,855	307,292	316,491	548,265	657,783	545,680	384,861	583,060	504,346
Total expenses	\$ 46,899,533	\$ 46,530,507	\$ 50,682,504	\$ 55,876,498	\$ 60,681,495	\$ 66,134,822	\$ 63,311,080	\$ 64,216,354	\$ 68,400,748	\$ 70,681,038

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

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

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

Supplemental Statistical Information - Unaudited

Schedule of Capital Asset Information

	Academic Year
	2012
Land (acreage)	222
Buildings (square feet)	
100 Instruction /classroom	90,826
200 Labs	86,881
300 Administrative	122,932
400 Study facilities	57,330
52x Athletic	48,778
5xx Other Special Use	7,864
600 General Use	122,783
700 Support facilities	20,048
800 Health Care	717
000 Unclassified	2,956
Unassigned/ unassignable	302,391
Total Sq Ft	863,506
Residence Halls	438,140
Rental space	111,775

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Dormitories - # of residents	1,305	1,355	1,434	1,443	1,466	1,499	1,483	1,639	1,620	1,568

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

This was implemented in 2005; comparable statistics prior to this time are not available.

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

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

Supplemental Statistical Information - Unaudited

Schedule of Tuition & Mandatory Fees

	Academic Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<i>Resident Undergraduate</i>										
Tuition	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970
Mandatory Fees	2,718	3,216	3,618	4,032	4,572	5,022	5,430	5,930	6,830	7,330
<i>Total</i>	\$ 3,688	\$ 4,186	\$ 4,588	\$ 5,002	\$ 5,542	\$ 5,992	\$ 6,400	\$ 6,900	\$ 7,800	\$ 8,300
<i>Non Resident Undergraduate</i>										
Tuition	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050
Mandatory Fees	2,718	3,216	3,618	4,032	4,572	5,022	5,430	5,930	6,830	7,330
<i>Total</i>	\$ 9,768	\$ 10,266	\$ 10,668	\$ 11,082	\$ 11,622	\$ 12,072	\$ 12,480	\$ 12,980	\$ 13,880	\$ 14,380
<i>Resident Graduate</i>										
Tuition	\$ 900	\$ 900	\$ 900	\$ 900	\$ 900	\$ 900	\$ 900	\$ 900	\$ 900	\$ 900
Mandatory Fees	117	432	432	510	510	653	653	720	762	762
<i>Total</i>	\$ 1,017	\$ 1,332	\$ 1,332	\$ 1,410	\$ 1,410	\$ 1,553	\$ 1,553	\$ 1,620	\$ 1,662	\$ 1,662

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

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

Supplemental Statistical Information - Unaudited

Admissions, Enrollment, and Degree Statistics

	Fall Term									
Admissions-Freshman (1)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Applications	3,289	3,861	3,514	3,859	3,880	4,057	4,342	4,572	4,193	3,814
Applications accepted	2,163	2,498	2,468	2,777	2,795	2,838	2,982	3,152	3,034	2,797
Accepted as a percentage of applications	66%	65%	70%	72%	72%	70%	69%	69%	72%	73%
Students enrolled (2)	887	988	1,016	1,007	1,086	1,067	1,133	1,163	1,085	1,053
Enrolled as a percentage of accepted	41%	40%	41%	36%	39%	38%	38%	37%	36%	38%

(1) Includes all undergraduate admissions including transfer students.

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

	Annual									
Enrollment	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
Full-time equivalent	4,648	4,360	4,670	5,029	5,018	5,159	5,305	5,461	5,287	5,128
Unduplicated credit headcount	13,107	11,302	11,272	12,578	11,906	11,756	12,140	11,855	11,784	11,623
Percent undergraduate (3)	67%	70%	68%	68%	68%	57%	60%	41%	42%	42%
Percent graduate	33%	30%	32%	32%	32%	43%	40%	59%	58%	58%

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

	Fall Term									
Student Population Demographics (4)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Percentage of men	37%	39%	38%	38%	38%	37%	39%	39%	39%	37%
Percentage of women	63%	61%	62%	62%	62%	63%	61%	61%	61%	63%
Percentage of African-American	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Percentage of White	92%	92%	92%	92%	92%	92%	92%	92%	89%	89%
Percentage of Latino	3%	3%	3%	3%	3%	3%	3%	3%	5%	5%
Percentage of Other (5)	2%	2%	2%	2%	2%	2%	2%	2%	3%	3%
< 20	18%	21%	22%	21%	21%	18%	18%	19%	18%	17%
20 to 24	37%	38%	36%	38%	40%	35%	36%	34%	37%	36%
25 to 44	32%	30%	30%	29%	29%	33%	33%	33%	32%	33%
44 & Over	13%	11%	12%	12%	10%	14%	13%	14%	13%	14%

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

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

Degrees Granted	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
Bachelor's	516	579	489	553	622	628	640	696	696	812
Master's	379	465	368	484	475	370	531	460	506	435

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

Supplemental Statistical Information - Unaudited

Schedule of Employment

	2001	2003	2005	2006	2007	2008	2009	2010	2011
Faculty - Primary Instruction (1)	474	283	252	269	266	350	377	369	422
Part-time	273	115	86	95	90	166	197	193	236
Full-time	201	168	166	174	176	184	180	176	186
Staff and Administrators	346	329	439	385	386	410	419	394	395
Part-time	9	13	143	81	75	93	112	77	95
Full-time	337	316	296	304	311	317	307	317	300
Total Employees	820	612	691	654	652	760	796	763	817
Part-time	282	128	229	176	165	259	309	270	331
Full-time	538	484	462	478	487	501	487	493	486

(1) Includes Instruction, Research & Public Service

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