FITCHBURG STATE COLLEGE FOUNDATION, INC.

REPORT ON AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

YEAR ENDED JUNE 30, 2009

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Ercolini & Company

Ercolini & Company LLP
Certified Public Accountants
101 Arch Street, Suite 300
Boston, MA 02110-1103
t 617.482.5511
f 617.426.5252
www.recpa.com

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated statement of financial position of Fitchburg State College Foundation, Inc. (a not-for-profit organization) as of June 30, 2009, and the related consolidated statements of activities, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the management of the Foundation. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2008 consolidated financial statements and, in our report dated September 30, 2008, we expressed an unqualified opinion on those consolidated financial statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fitchburg State College Foundation, Inc. as of June 30, 2009, and changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated October 13, 2009 on our consideration of Fitchburg State College Foundation, Inc.'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, 2009. 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 2009 audit.

Ercolini & Company LLP

October 13, 2009

FITCHBURG STATE COLLEGE FOUNDATION, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2009

(with comparative totals as of June 30, 2008)

	2009	2008
ASSETS		
Cash and equivalents	**$ 820,699**	$ 863,496
Investments	**8,863,893**	10,668,196
Accrued investment income receivable	**62,919**	66,646
Accounts receivable	**9,211**	2,655
Contributions receivable, net	**723,895**	812,212
Prepaid expenses	**42,418**	16,352
Property and equipment, net of accumulated depreciation	**4,669,205**	4,038,675
Deferred financing costs, net of accumulated amortization of $7,176 and $4,417, respectively	**51,558**	43,658
Other assets	**97,396**	97,672
Total assets	**$ 15,341,194**	$ 16,609,562
LIABILITIES AND NET ASSETS		
Accounts payable, trade	**$ 19,884**	$ 21,878
Accrued interest payable	**4,724**	4,877
Deferred revenue	**41,609**	3,026
Note payable - bank	**658,859**	667,134
First mortgage notes payable	**3,018,845**	2,347,351
Total liabilities	**3,743,921**	3,044,266
Net assets:		
Unrestricted	**2,693,922**	4,401,134
Temporarily restricted	**1,788,995**	2,208,036
Permanently restricted	**7,114,356**	6,956,126
Total net assets	**11,597,273**	13,565,296
Total liabilities and net assets	**$ 15,341,194**	$ 16,609,562

See notes to consolidated financial statements.

FITCHBURG STATE COLLEGE FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2009

(with comparative totals for the year ended June 30, 2008)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total	2008 Total
Revenue and support:					
Program revenues:					
Gifts and donations	$ 154,530	$ 190,864	$ 177,670	**$ 523,064**	$ 1,590,216
Grants and contracts	-	37,284	-	**37,284**	14,041
Sales and services	121,736	158,364	-	**280,100**	264,262
Rental income	165,000	-	-	**165,000**	165,000
Residence hall income	178,825	-	-	**178,825**	192,939
License fee income	105,750	-	-	**105,750**	-
Other revenue:					
Interest	10,382	178,253	-	**188,635**	177,694
Dividends	67,667	13,615	-	**81,282**	105,180
Gain (loss) on investments	(1,882,847)	(374,878)	-	**(2,257,725)**	(553,848)
Loss on sale of property and equipment	-	-	-	-	(2,187)
Increase in cash surrender value of life insurance	-	-	4,724	**4,724**	4,593
Net assets released from restrictions	646,707	(622,543)	(24,164)	-	-
Total revenue and support	(432,250)	(419,041)	158,230	**(693,061)**	1,957,890
Expenses:					
Program services	1,077,202	-	-	**1,077,202**	1,083,780
Management and general	135,629	-	-	**135,629**	163,070
Fund raising	62,131	-	-	**62,131**	99,434
Total expenses	1,274,962	-	-	**1,274,962**	1,346,284
Increase (decrease) in net assets	(1,707,212)	(419,041)	158,230	**(1,968,023)**	611,606
Net assets at beginning of year	4,401,134	2,208,036	6,956,126	**13,565,296**	12,953,690
Net assets at end of year	$ 2,693,922	$ 1,788,995	$ 7,114,356	**$ 11,597,273**	$ 13,565,296

FITCHBURG STATE COLLEGE FOUNDATION, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2009

(with comparative totals for the year ended June 30, 2008)

	2009	2008
Cash flows from operating activities:		
Increase (decrease) in net assets	($ 1,968,023)	$ 611,606
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
(Gain) loss on investments	2,257,725	553,848
Depreciation	69,261	60,610
Discount on pledges	(14,915)	53,532
Amortization of deferred financing costs	2,759	2,403
Loss on sale of property and equipment	-	2,187
Contributions of investment securities	(978)	(34,503)
Contribution of other asset	-	(20,000)
Increase in cash surrender value of life insurance	(2,850)	(2,719)
(Increase) decrease in accounts receivable	(6,556)	17,397
Decrease in accrued investment income receivable	3,727	6,837
(Increase) decrease in contributions receivable	59,258	(549,408)
Increase in prepaid expenses	(26,066)	(3,090)
Increase (decrease) in accounts payable, trade	(1,994)	648
Increase (decrease) in accrued interest payable	(153)	1,111
Increase (decrease) in deferred revenue	38,583	(3,340)
Decrease in rents received in advance	-	(90,000)
Contributions restricted for long term purposes	(177,670)	(507,871)
Net cash provided by (used in) operating activities	232,108	99,248
Cash flows from investing activities:		
Payments for property and equipment	(694,791)	(944,362)
Proceeds from sale of property and equipment	-	197,850
Proceeds from sale of investments	353,734	175,713
Purchase of investments	(806,178)	(484,377)
Collateral escrow deposit funded, including interest earned	-	(7,414)
Release of collateral escrow deposit	-	300,053
Withdrawals from bond accounts	-	3,184
Life insurance premiums	(1,874)	(1,874)
Net cash provided by (used in) investing activities	(1,149,109)	(761,227)

See notes to consolidated financial statements.

FITCHBURG STATE COLLEGE FOUNDATION, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS - CONTINUED

YEAR ENDED JUNE 30, 2009

(with comparative totals for the year ended June 30, 2008)

	2009	2008
Cash flows from financing activities:		
Proceeds of first mortgage notes payable	$ 750,000	$ 550,000
Payments on first mortgage notes payable	(78,506)	(57,876)
Payments on note payable - bank	(8,275)	(8,462)
Payments of deferred financing costs	(10,659)	-
Collections of contributions restricted for long term purposes	221,644	424,625
Net cash provided by (used in) financing activities	874,204	908,287
Net increase (decrease) in cash and equivalents	(42,797)	246,308
Cash and equivalents, beginning of year	863,496	617,188
Cash and equivalents, end of year	$ 820,699	$ 863,496

Supplemental disclosure of cash flow information:

	2009	2008
Cash paid for interest during the year	$ 186,463	$ 148,701

Supplemental schedule of noncash investing and financing activities:

	2009	2008
Donation of other asset	$ -	$ 20,000
Donations of publicly traded common stock at their readily determinable fair values	$ 978	$ 34,503
Costs incurred for purchase of property and equipment	$ 699,791	$ 939,362
Increase (decrease) in deposit paid	(5,000)	5,000
Payments for property and equipment	$ 694,791	$ 944,362

See notes to consolidated financial statements.

1. Organization and summary of significant accounting policies:

Organization:

Fitchburg State College Foundation, Inc. (the Foundation) was organized on June 6, 1978, exclusively for the benefit of Fitchburg State College, to establish scholarships and make awards to educationally talented and needy students; to establish a Distinguished Professor award within the faculty of the College; to subsidize inter-collegiate athletic programs; to subsidize budgets of departments of the College as needed for particular purposes; to encourage public use and support of functions and activities which further the mission of the College; 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 College's Booster Clubs.

FSC Foundation Supporting Organization, Inc. (the Supporting Organization) was organized on October 29, 1999 to be a supporting organization operated, supervised and controlled for the exclusive benefit of the Foundation and all of its educational and charitable activities. As of June 30, 2009, the Supporting Organization's sole program activity has been to acquire, hold, operate and lease real estate and related improvements for the benefit of the Foundation and Fitchburg State College.

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

Summary of significant accounting policies:

Principles of consolidation:

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

Statement of Position (SOP) No. 94-3, Reporting of Related Entities by Not-for-Profit Organizations, requires that a not-for-profit organization consolidate another not-for-profit organization if the reporting not-for-profit (Foundation) has both control and an economic interest in the other not-for-profit organization (Supporting Organization). The Supporting Organization's Articles of Organization limit its activities to those that are for the exclusive benefit of the Foundation.

Use of estimates:

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

Method of accounting:

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

1. Organization and summary of significant accounting policies - continued:

Basis of presentation:

The consolidated financial statements of the Organization are presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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

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

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

Risks and uncertainties:

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

Revenue recognition:

<u>Contributions and bequests</u> -

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

1. Organization and summary of significant accounting policies - continued:

Revenue recognition - continued:

Contributions and bequests - continued -

reported as temporarily restricted or permanently restricted support that increases those net asset classes. It is the Organization's policy to imply a time restriction, based on the assets' estimated useful lives, on donations of property and equipment that are not restricted as to their use by the donor. Accordingly, those donations are recorded as increases in temporarily restricted net assets. The Organization reclassifies temporarily restricted net assets to unrestricted net assets each year for the amount of depreciation expense relating to the donated property and equipment. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

***Sales and services* -**

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

***Rental and license fee income* -**

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

Residence hall income -

Residence hall fees are recognized when earned.

Cash and investments:

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

Accounts receivable:

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

1. Organization and summary of significant accounting policies - continued:

Investments:

Investments consist of pooled investment funds that invest in debt, marketable equity securities, real estate and other investments. Investments are valued at fair value based upon estimated net asset values provided by the management of Commonfund (see Note 5). Unrealized gains and losses are included in revenue. Restricted investment income and gains are reported as increases in unrestricted net assets, unless a donor or law temporarily or permanently restricts their use. Gains and losses on the disposition of investments are determined based on the average cost method.

The Organization's investment policy consists of a target asset allocation range of 50% to 60% equity, 30% to 50% fixed income securities and up to 10% in cash and equivalents.

Endowments:

The Organization's endowments consist of approximately 70 individual funds that are restricted by donors to function as endowments primarily for the granting of scholarships. No funds have been designated by the Board of Directors to function as endowments as of June 30, 2009. In accordance with accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law -

The Board of Directors of the Organization has interpreted the Massachusetts Management of Institutional Funds Law ("the Law"), governing the Organization's net asset classifications of restricted endowment funds as requiring the preservation of the historic dollar value of the restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization may accumulate so much of the annual net income as is deemed prudent to meet (1) the long and short term needs of the Organization in carrying out its mission (2) problems specific to the Organization, (3) present and anticipated financial requirements, (4) expected total return on its investments, (5) price level trends, and (6) general economic conditions. In addition, the Organization may hold any or all of such accumulated income for subsequent expenditure for the uses and purposes for which the endowment was established or may add any or all of the accumulated income to the principal endowment fund that is deemed prudent.

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

Investment and Spending Policies -

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

1. Organization and summary of significant accounting policies - continued:

Endowments - continued:

Investment and Spending Policies - continued -

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

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

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

Funds with Deficiencies -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Massachusetts General Laws requires the Organization to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. As of June 30, 2009, deficiencies of this nature were $268,775. These deficiencies resulted from unfavorable market fluctuations. Subsequent gains that restore the fair value of the endowment fund assets to the required level shall be classified as an increase in unrestricted net assets.

Property and equipment:

Property and equipment are recorded at cost, if purchased or constructed and, if donated, at fair value at the time of the donation. Property and equipment are depreciated on the straight-line method over their estimated useful lives of 40 years for buildings, 20 years for building and land improvements, 5 years for equipment and 3 years for computer software and equipment.

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

1. Organization and summary of significant accounting policies - continued:

Deferred financing costs:

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

Statement of cash flows:

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

Income taxes:

The Foundation and the Supporting Organization are classified by the Internal Revenue Service as "publicly supported organizations" exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Pursuant to the FASB's Staff Position No. FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, the Organization has elected to defer the application of FIN 48 to its fiscal year commencing on July 1, 2009 (see Note 1 - Recent Accounting Pronouncements). The Organization's current policy is to recognize the effect of uncertain tax positions in the consolidated financial statements on an as-filed or to-be filed basis. Any changes in uncertain tax positions are recorded in the period when the ultimate outcome becomes known. The Organization does not believe its consolidated financial statements include (or reflect) any uncertain tax positions.

Functional allocation of expenses:

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

Summarized comparative financial information:

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2008, from which the summarized information was derived.

Reclassifications:

Certain reclassifications have been made to the 2008 consolidated financial statements to conform to the 2009 presentation.

Subsequent events:

The Organization has evaluated subsequent events through October 13, 2009, which is the date these consolidated financial statements were issued.

1. Organization and summary of significant accounting policies - continued:

Recent accounting pronouncements and changes in Massachusetts General Laws:

In July, 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income tax positions recognized in an entity's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of an uncertain tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. In February, 2008, the FASB issued Staff Position No. FIN 48-2, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises* (FSP FIN 48-2), which amended FIN 48 to delay its effective date for certain nonpublic enterprises, including not-for-profit organizations, to fiscal years beginning after December 15, 2007. On December 30, 2008, the FASB issued Staff Position No. FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, which amended FIN 48 to provide an additional deferral of its effective date to give the FASB time to develop guidance on the application of FIN 48 by not-for-profit organizations and pass-through entities such as S-corporations and partnerships. FSP FIN 48-3 delays the effective date of FIN 48 for certain nonpublic enterprises to fiscal years beginning after December 15, 2008. FSP FIN 48-3 requires a nonpublic enterprise that elects to defer the application of FIN 48 to disclose that fact and its accounting policy for evaluating uncertain tax positions for each set of financial statements where the deferral applies (see Note 1 - Income Taxes). On September 2, 2009, the FASB issued additional implementation guidance on accounting for uncertainty in income taxes and disclosure for nonpublic entities which is effective upon adoption of FIN 48 by the Organization. The guidance addresses: (1) where an income tax paid by an entity is attributable to the entity or its owners; (2) what constitutes a tax position for a pass-through entity or a tax-exempt not-for-profit entity; and (3) how to apply the accounting for uncertainty in income taxes when a group of related entities comprise both taxable and nontaxable entities. The FASB also eliminated certain disclosures required by FIN 48 for nonpublic entities. The Organization does not believe that its adoption of FIN 48 in 2010 will have a material impact on the Organization's consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. In February 2008, the FASB issued Staff Position No. 157-2, *Effective Date of FASB Statement No. 157* (FSP SFAS 157-2). FSP SFAS 157-2 amends SFAS 157 to delay the effective date of the standard to fiscal years beginning after November 15, 2008, as it relates to nonfinancial assets and nonfinancial liabilities. The Organization has adopted SFAS 157 for financial assets and financial liabilities, as required, effective as of July 1, 2008. The adoption of SFAS 157 did not have a material impact on the Organization's consolidated financial statements. The Organization does not believe that its adoption of SFAS 157 for nonfinancial assets and nonfinancial liabilities in 2010 will have a material impact on the Organization's consolidated financial statements.

Through the year ended June 30, 2009, the Organization's management and investment of donor-restricted endowment funds was subject to the provisions of the Massachusetts Uniform Management of Institutional Funds Act (UMIFA). On July 2, 2009, the Commonwealth of Massachusetts enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the provisions of which apply to all endowment funds in existence on or established after June 30, 2009. Massachusetts UPMIFA governs only decisions made on or actions taken on or after June 30, 2009. Massachusetts UPMIFA provides stronger guidance for investment

1. Organization and summary of significant accounting policies - continued:

Recent accounting pronouncements and changes in Massachusetts General Laws - continued:

management through a more exact set of rules for investing in a prudent manner. In addition, among its other provisions, Massachusetts UPMIFA eliminates the concept of historic dollar value; that is, the threshold amount below which an Organization could not spend from donor-restricted endowment funds. Accordingly, Massachusetts UPMIFA permits an organization to appropriate for expenditure or accumulate so much of an endowment fund as the organization determines to be prudent for its uses, benefits, purposes and duration for which the endowment fund is established. The Organization is currently reviewing the provisions of Massachusetts UPMIFA and evaluating the impact of its adoption on the Organization's consolidated financial statements.

2. Cash and equivalents:

Cash and equivalents consist of the following at June 30:

	2009	2008
Cash, checking	$ 733,724	$ 132,307
Money Market Funds	86,975	731,189
	$ 820,699	$ 863,496

On September 29, 2008, the Commonfund notified its investors that due to developments in the credit markets, Wachovia Bank, N.A., as trustee of the Commonfund Short Term Fund, was commencing the formal termination of the fund, resigning as trustee, and was no longer accepting new deposits. Law Debenture Trust Company of New York became the successor Trustee and is in the process of administering an orderly liquidation of the fund. As of June 30, 2009, the Trustee has distributed approximately 89% of the Short Term Fund in cash to its investors.

Money market funds include the Commonfund Short Term Fund in the aggregate amounts of $60,201 at June 30, 2009 and $281,892 at June 30, 2008. The Short Term Fund invested in U.S. Treasury and government agency securities, high quality corporate securities, asset-backed and commercial and bank paper. The fund's objective was to match or exceed the performance of the bond-equivalent yield of 3-month U.S. Treasury securities issued for that month. At June 30, 2009, the Short Term Fund is in the process of liquidation. At June 30, 2008, the fund's investment securities had both an average maturity and an effective duration of 3.1 months. The fund had an average credit quality rating of AAA at June 30, 2008.

The Organization maintains its operating cash balances in financial institutions located in Massachusetts. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. The Emergency Economic Stabilization Act of 2008 temporarily increased the FDIC limit on deposits currently insured at the $100,000 limit to $250,000. The temporary increase is effective through December 31, 2013. Included in cash and equivalents at June 30, 2009 are overnight repurchase agreements in the amounts of $519,529 and $125,003 at interest rates of .15% and .05% per annum, respectively. At June 30, 2009, the Organization's overnight repurchase agreements were fully collateralized under an agreement between Sovereign Bank and Fitchburg State College. At June 30, 2009 and 2008, the Organization's uninsured cash and equivalent balances, including the Commonfund Short Term Fund, amounted to $61,181 and $556,008, respectively.

2. Cash and equivalents - continued:

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

3. Investments:

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

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Commonfund (pooled investment funds):				
Short Term Fund	$ -	$ -	$ 212,000	$ 212,000
Intermediate Term Fund - Tranche 1	20,604	18,844	-	-
Intermediate Term Fund - Tranche 2	32,742	25,901	91,842	85,895
Multi-Strategy Equity Fund	5,163,448	5,109,775	5,092,148	6,757,037
Multi-Strategy Bond Fund	2,863,815	2,842,367	2,935,115	3,118,880
Government Securities Fund	696,975	696,385	-	-
Commonfund Realty Investors, LLC	485,000	170,621	485,000	494,384
	$ 9,262,584	$ 8,863,893	$ 8,816,105	$ 10,668,196

At June 30, 2009, net unrealized losses in the Organization's investment portfolio amounted to ($398,691). At June 30, 2008, net unrealized gains in the Organization's investment portfolio amounted to $1,852,091.

On September 30, 2008, the Commonfund notified its investors that, effective September 29, 2008, the Commonfund was imposing a redemption restriction on its Intermediate Term Fund. This redemption restriction was in response to market conditions for the sale of shorter-term fixed income securities. The Commonfund divided the fund into two accounts, Tranche 1 consisting of liquid holdings available for daily redemption as in the normal circumstances, and Tranche 2 consisting of the remaining assets of the fund for which redemption was being deferred. Each investor's holdings in the fund were apportioned between the two accounts. Securities in the deferred account in the fund are being transferred to the daily redemption account when and as market conditions make it practicable to dispose of them at a price that fairly reflects their reasonably anticipated cash return. As of June 30, 2009, 35% of the shares in Tranche 2 remain restricted, and all other holdings in Tranche1 and Tranche 2 are available for redemption.

The Intermediate Term Fund Tranche 1 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, 2009, the fund's investment securities had both a weighted average life and an effective duration of 1.6 years. The fund was not rated for average credit quality at June 30, 2009. The fund's inception was on September 29, 2008.

3. Investments - continued:

The Intermediate Term Fund Tranche 2 (formerly 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, 2009 and 2008, the fund's investment securities had a weighted average life of 3.2 and 2.9 years, respectively, and an effective duration of 1.3 and 1.9 years, respectively. The fund had an average credit quality rating of AA and AA+ as of June 30, 2009 and 2008, respectively.

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. Investment units in this fund with an aggregate equivalent dollar value of $1,287,000 collateralize certain debt agreements (see Notes 8 and 10).

The Multi-Strategy Bond Fund invests in debt securities across strategies in proportions that are considered to be optimal for a fully diversified fixed income portfolio. The majority of the fund's assets are invested in traditional core strategies with diversification achieved through exposures to global bonds, inflation-indexed bonds, high yield bonds, private debt and other credit-oriented strategies and relative value/absolute return strategies. 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 in 2009 and the Lehman Aggregate Bond Index in 2008. At June 30, 2009 and 2008, the fund's investment securities had a weighted average life of 6.8 and 7.8 years, respectively, and an effective duration of 3.9 and 4.8 years, respectively. The fund had an average credit quality rating of AA as of both June 30, 2009 and 2008.

The Government Securities Fund invests in United States Treasury and government agency securities and cash instruments including repurchase agreements backed by government securities. At June 30, 2009, the fund is totally invested in United States Treasury Bills. The fund's objective is to exceed the performance of the Merrill Lynch 0-3 Month Treasury Bill Index. At June 30, 2009, the fund's investment securities had both a weighted average life and an effective duration of 0.1 years. The fund was not rated for average credit quality at June 30, 2009.

Commonfund Realty Investors, LLC (the Fund) is a commingled, open-end real estate investment fund specifically designed to meet the needs of endowments, foundations and other tax-exempt investors. The Fund is 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 Fund's investment objective is to earn an average annual net return of 11-15% over long periods of time by following a disciplined investment strategy and actively managing all investments. The Fund will seek to mitigate risk through diversification by property type and geographic area. The Fund expects to reinvest proceeds from the sale of investments unless such proceeds are needed to satisfy redemptions. The Fund expects to periodically make distributions of operating cash flow.

The Foundation made a capital commitment to the Commonfund Realty Investors, LLC totaling $485,000, of which $246,623 was funded as of June 30, 2007. The remaining commitment of $238,377 was funded in August, 2007. Investment units in the Fund are not deemed to be readily marketable as investors may only elect, once each year during September, to have the Fund redeem up to 20% of the units they have owned for at least five years. Redemptions are processed at the Fund's net asset value at the date the redemption is paid.

3. Investments - continued:

The Multi-Strategy Equity Fund was invested (percent of fair value) in the following industry sectors at June 30:

	2009	2008
Consumer Discretionary	12%	12%
Consumer Staples	8	8
Energy	10	15
Financials	18	13
Healthcare	11	8
Industrials	12	11
Information Technology	18	19
Materials	6	7
Telecom Services	3	4
Utilities	2	3
	100%	100%

The Multi-Strategy Bond Fund was invested (percent of fair value) in the following sectors at June 30:

	2009	2008
Government and Agencies	13%	1%
Mortgages	38	46
CMBS	2	-
Asset-backed	3	11
Corporates	37	31
Non-U.S.	4	5
Municipals	-	1
Emerging Market Debt	1	3
Other	2	2
	100%	100%

The Commonfund Realty Investors, LLC is diversified by geographic region located throughout the United States and is comprised of the following property types at June 30:

	2009	2008
Industrial	8%	10%
Land	15	12
Mixed use office with retail	25	11
Office	11	23
Retail	5	9
Residential	4	4
Multi-property assemblage	32	31
	100%	100%

3. Investments - continued:

Realized and unrealized gains (losses) on investments are shown net in the consolidated statement of activities. The components (representing the year to year activity) for the years ended June 30, 2009 and 2008 are as follows:

	2009	2008
Net realized gains (losses)	**($ 6,943)**	$ 45,039
Unrealized gains	**4,187**	48,568
Unrealized losses	**(2,254,969)**	(647,455)
	(2,250,782)	(598,887)
Net gain(loss) on investments	**($ 2,257,725)**	($ 553,848)

The Organization incurred investment management fees of $28,620 in 2009 and $36,666 in 2008 which are included in management and general expenses in the consolidated statement of activities.

The following table presents the gross unrealized losses and fair values of the Organization's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that the investments have been in a continuous unrealized loss position at June 30, 2009.

	Less than 12 months		**12 months or greater**		**Total**	
Description of Investments	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Intermediate Term Fund - Tranche 1	$ 18,844	$ 1,760	$ -	$ -	$ 18,844	$ 1,760
Intermediate Term Fund - Tranche 2	25,901	6,841	-	-	25,901	6,841
Multi-Strategy Equity Fund	4,356,421	188,331	-	-	4,356,421	188,331
Multi-Strategy Bond Fund	2,256,702	29,748	-	-	2,256,702	29,748
Government Securities Fund	696,385	590	-	-	696,385	590
Commonfund Realty Investors, LLC	170,621	314,379	-	-	170,621	314,379
Total	$ 7,524,874	$ 541,649	$ -	$ -	$ 7,524,874	$ 541,649

3. Investments - continued:

The Organization's investments consist of pooled investment funds that invest in debt, marketable equity securities, real estate and other investments in a widely diversified portfolio of industry sectors, government and government agencies. General market conditions, in the United States and globally, during calendar 2008 led to the decline in value of the Organization's investment portfolio. Organization management, in conjunction with its professional investment manager, reviews these investments for indicators of impairment on a regular basis. Factors considered include the length of time and magnitude of the amount that each investment is in an unrealized loss position, the general economic outlook both in the United States and globally, the financial health of and specific prospects for the companies and industries represented in the Organization's investment funds, and the Organization's intent and ability to hold the investments until a forecasted recovery. The Organization has evaluated the severity and duration of the investment impairments. Based on that evaluation and the Organization's ability and intent to hold these investments for a reasonable period of time sufficient for a recovery of fair value, the Organization does not consider these investments to be other-than-temporarily impaired at June 30, 2009.

The endowment net asset composition by type of fund at June 30, 2009 is as follows:

Fund Type	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	($ 86,990)	$ 950,555	$ 7,114,356	$ 7,977,921

Changes in the endowment net assets for the year ended June 30, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 281,540	$ 1,383,077	$ 6,956,126	$ 8,620,743
Investment return:				
Investment income	52,025	181,015	-	233,040
Appreciation (depreciation), realized and unrealized	(368,530)	(366,444)	-	(734,974)
Total investment return	(34,965)	1,197,648	6,956,126	8,118,809
Contributions	-	2,820	177,670	180,490
Other income	-	4,533	4,724	9,257
Appropriation of endowment assets for expenditure	(46,506)	(234,805)	-	(281,311)
Investment management fees	(5,519)	(19,641)	-	(25,160)
Transfer upon removal of donor restrictions	-	-	(24,164)	(24,164)
Endowment net assets, end of year	($ 86,990)	$ 950,555	$ 7,114,356	$ 7,977,921

4. Contributions receivable:

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

Contributions receivable consist of the following at June 30:

	2009	2008
Receivable in less than one year	$ 374,177	$ 330,860
Receivable in one to five years	390,185	536,734
	764,362	867,594
Discount on pledges	(40,467)	(55,382)
	$ 723,895	$ 812,212

Contributions which are to be received in more than one year are reflected net of a discount determined at the time of the contribution ranging from 2% to 4%.

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

	2009	2008
Measured at fair value	$ 690,201	$ 803,986
Measured at net realizable value	33,694	8,226
	$ 723,895	$ 812,212

5. Fair value measurements:

Effective July 1, 2008, the Organization adopted SFAS No. 157, *Fair Value Measurements*, for all financial instruments accounted for at fair value on a recurring basis. SFAS No. 157 establishes a new framework for measuring fair value and expands related disclosures. Broadly, the SFAS No. 157 framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants. SFAS No. 157 establishes a three-level valuation hierarchy based upon observable and non-observable inputs.

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

5. Fair value measurements - continued:

Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Organization's market assumptions.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. SFAS No. 157 requires the use of observable data if such data is available without undue costs and effort.

The fair value hierarchy under SFAS No. 157 is as follows:

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

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

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

The fair value of assets measured on a recurring basis at June 30, 2009 is as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Intermediate Term Fund - Tranche 1	$ 18,844	$ -	$ 18,844	$ -
Intermediate Term Fund - Tranche 2	25,901	-	25,901	-
Multi-Strategy Equity Fund	5,109,775	-	5,109,775	-
Mutli-Strategy Bond Fund	2,842,367	-	2,842,367	-
Government Securities Fund	696,385	-	696,385	-
Commonfund Realty Investors, LLC	170,621	-	-	170,621
Contributions receivable	690,201	-	-	690,201
Total	$ 9,554,094	$ -	$ 8,693,272	$ 860,822

The Organization's assets included in Level 2 of the fair value measurement hierarchy consist of its pooled investment funds held at the Commonfund with the exception of Commonfund Realty Investors, LLC which is considered a Level 3 asset. The fair values of these Level 2 assets are based upon estimated net asset values

5. Fair value measurements - continued:

provided by the management of Commonfund, in consultation with its respective investment managers, with consideration given to quoted market prices, if available, the financial condition and operating results of the issuer, meaningful third-party transactions in the private market, and other relevant information generated by market transactions.

The Organization's assets included in Level 3 of the fair value measurement hierarchy consist of its investment in Commonfund Realty Investors, LLC and promises to give that are due in more than one year. The fair value of the investment in Commonfund Realty Investors, LLC is based upon an estimated net asset value provided by the management of Commonfund, in consultation with its investment managers, with consideration given to current professional appraisals of real estate holdings using recognized valuation techniques, actual sale negotiations and bona fide purchase offers received from third parties, and management assumptions and internal valuation techniques for investments without a public market. The fair value of promises to give that are due in more than one year is estimated by discounting expected future cash flows using a rate of return determined by management of the Organization.

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

The changes in assets measured at fair value for which the Organization has used Level 3 inputs are as follows for the year ended June 30, 2009:

	Commonfund Realty Investors, LLC	Contributions receivable, net
Balances, July 1, 2008	$ 494,384	$ 803,986
Unrealized gains (losses)	(323,763)	-
New promises received	-	61,500
Collections	-	(190,200)
Contribution revenue	-	14,915
	(323,763)	(113,785)
Balances, June 30, 2009	$ 170,621	$ 690,201

6. Property and equipment:

Property and equipment at June 30, 2009 and 2008 consist of the following:

	2009	2008
Real estate under lease:		
Land	$ 402,663	$ 402,663
Building	1,557,724	1,557,724
Building improvements	100,452	100,452
	2,060,839	2,060,839
Real estate used for student housing:		
Land	253,555	253,555
Building	434,225	434,225
	687,780	687,780
Land	1,480,040	912,352
Land improvements	61,899	61,899
Buildings	556,478	427,374
Building improvements	8,966	8,966
Equipment	57,728	54,729
Computer software	276,000	276,000
	5,189,730	4,489,939
Less accumulated depreciation	520,525	451,264
	$ 4,669,205	$ 4,038,675

Accumulated depreciation on real estate under lease amounted to $121,221 and $77,255 at June 30, 2009 and 2008, respectively. Accumulated depreciation on real estate used for student housing amounted to $22,616 and $11,760 at June 30, 2009 and 2008, respectively.

During fiscal 2009, the Supporting Organization acquired four properties in Fitchburg at an aggregate cost of $696,793. Fitchburg State College is using the building on one of the acquired properties as a guest house and it is using all of the properties as additional parking.

During fiscal 2008, the Foundation acquired land and buildings in Fitchburg at an aggregate cost of $561,664. The properties are being used by the Foundation and Fitchburg State College as office space and a function facility.

During fiscal 2008, the Supporting Organization acquired two properties in Fitchburg at an aggregate cost of $368,732. These properties are being used as additional parking by Fitchburg State College.

During fiscal 2008, the Foundation sold land with a carrying cost of $200,037 to the Commonwealth of Massachusetts acting by and through its Division of Capital Asset Management and Maintenance. The Foundation realized net proceeds of $197,850 on the transaction resulting in a net loss on the sale of $2,187. Fitchburg State College continues to use this land for additional parking.

At both June 30, 2009 and 2008, property and equipment with a cost of approximately $331,000 were fully depreciated and still in service.

7. Other assets:

Other assets at June 30, 2009 and 2008 consist of the following:

	2009	2008
Cash surrender value of life insurance	$ 58,371	$ 53,647
Art collection	39,025	39,025
Deposit on property and equipment	-	5,000
	$ 97,396	$ 97,672

8. Line of credit:

In March, 2009, 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, 2009 and 2008, 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, 2009 and 2008, the effective interest rates were 6% per annum. For the year ended June 30, 2009, interest expense incurred on borrowings under this line of credit amounted to $3,905. There was no interest expense incurred for the year ended June 30, 2008. Borrowings are secured by investment units with an equivalent dollar value of $315,000 in the Commonfund Multi-Strategy Equity Fund. The line of credit agreement expires on March 17, 2011. The Foundation may prepay outstanding revolving loans under the agreement in whole or in part at any time without premium or penalty.

9. First mortgage notes payable:

Foundation -

In April, 2008, the Foundation acquired land and buildings at a total cost of $561,664, including related acquisition costs. The properties are located on the Fitchburg State College campus and were previously owned by an unrelated third party.

The acquisitions were funded with the proceeds of a note payable in the amount of $550,000, dated April 16, 2008, with Fidelity Co-operative Bank. 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 which commenced in May, 2008. 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.

9. First mortgage notes payable - continued:

Foundation - continued -

At June 30, 2009 and 2008, the outstanding principal balance of this mortgage note payable amounted to $532,819 and $547,629, respectively.

For the year ended June 30, 2009 and 2008, interest expense on this mortgage note payable amounted to $31,504 and $6,577, respectively.

Aggregate principal maturities on the loan for each of the next five years, using the interest rate in effect at June 30, 2009, are estimated to be as follows:

Year	Amount
2010	$ 15,694
2011	16,634
2012	17,551
2013	18,681
2014	19,800

Supporting Organization -

In August, 2006, the Supporting Organization acquired land and a building consisting of 4,179 square feet of office space and 53,429 square feet of warehouse space located in Fitchburg, Massachusetts near the Fitchburg State College (the College) campus. The entire property has been leased to the Commonwealth of Massachusetts acting by and through its Division of Capital Asset Management and Maintenance (DCAM) on behalf of the College (see Note 11). The College is currently using the property for its print services, maintenance, and shipping and receiving and financial services.

The acquisition and related costs were funded with the proceeds of an offering of tax-exempt revenue bonds, Massachusetts Development Finance Agency Revenue Bonds, FSC Foundation Supporting Organization Issue, Series 2006 (the bonds), dated August 1, 2006, in the amount of $1,900,000, issued by the Massachusetts Development Finance Agency (MDFA), pursuant to a Loan and Trust Agreement. Chittenden Trust Company (Chittenden) 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 Supporting Organization's obligations under the loan agreement have been guaranteed by the Foundation. In addition, the Foundation was required to deposit $280,000 cash collateral with Rollstone Bank & Trust (formerly Fitchburg Savings Bank, FSB) as additional security until such time as the outstanding loan balance has been reduced to $1,520,000. All interest earnings on this account also served as additional collateral on the loan. During fiscal 2008, the bank released this collateral requirement.

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 loan requires monthly installments of principal and interest of $13,154 and 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.

9. First mortgage notes payable - continued:

Supporting Organization - continued -

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, 2009 and 2008, the outstanding principal balance of this mortgage note payable amounted to $1,740,766 and $1,799,722, respectively.

For the years ended June 30, 2009 and 2008, interest expense on this mortgage note payable amounted to $98,773 and $102,231, respectively.

Aggregate principal maturities on the loan for each of the next five years, using the interest rate in effect at June 30, 2009, are estimated to be as follows:

Year	Amount
2010	$ 62,329
2011	65,895
2012	69,429
2013	73,637
2014	77,850

During fiscal 2009, Workers' Credit Union (WCU) provided financing to the Supporting Organization in the form of a note, dated February 27, 2009, in the amount of $750,000. The proceeds of the loan were used primarily to repay advances made to the Supporting Organization by the Foundation in fiscal 2009 for the acquisition of the four real estate properties described in Note 6. The note is secured by a first mortgage interest in all of the Supporting Organization's real estate and an assignment of leases and rents, except for the real estate and assignment of leases and rents securing the MDFA Revenue Bonds described above. The note is also collateralized by all funds held by the lender. At June 30, 2009, the Supporting Organization has total cash balances of $56,382 held at WCU which serve as additional collateral for this loan. Use of these funds by the Supporting Organization is not restricted under the terms of the note agreement.

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. Monthly principal and interest payments commenced on March 27, 2009. The note may be prepaid at any time, in whole or in part, without premium or penalty.

As of June 30, 2009, the outstanding principal balance of this mortgage note payable amounted to $745,260.

For the year ended June 30, 2009, interest expense on this mortgage note payable amounted to $15,060.

9. First mortgage notes payable - continued:

Supporting Organization - continued -

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

Year	Amount
2010	$ 14,157
2011	14,991
2012	15,875
2013	16,810
2014	17,801

10. Note payable - bank:

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

The acquisitions were funded with the proceeds of a note payable in the amount of $680,000, dated April 26, 2007, with Enterprise Bank and Trust Company. The note is secured by investment units with an equivalent dollar value of $972,000 in the Commonfund Multi-Strategy Equity Fund which are owned by the Foundation. In addition, payment and performance of the Supporting Organization's obligations under the loan agreement have been guaranteed by the Foundation.

The promissory note has a term of thirty years, expiring on May 5, 2037, and provides for a fixed rate of interest of 6% per annum for the first five years of the loan term. Thereafter, the interest rate will be adjusted at five-year intervals to the Federal Home Loan Bank Boston Classic Advance Five Year Rate plus 1.15% per annum. The loan requires monthly installments of principal and interest of $4,122 based on a thirty year principal amortization. The note may be prepaid at any time, in whole or in part, without premium or penalty.

At June 30, 2009 and 2008, the outstanding principal balance of this note payable amounted to $658,859 and $667,134, respectively.

For the years ended June 30, 2009 and 2008, interest expense on this note payable amounted to $37,068 and $41,005, respectively.

Aggregate principal maturities on the loan for each of the next five years, using the interest rate in effect at June 30, 2009, are estimated to be as follows:

Year	Amount
2010	$ 9,653
2011	10,257
2012	10,792
2013	11,574
2014	12,298

11. Lease and license agreements:

As disclosed in Note 9, the Supporting Organization entered into a long-term operating lease agreement with the Commonwealth of Massachusetts acting by and through the Division of Capital Asset Management and Maintenance (DCAM) on behalf of Fitchburg State College (the College). 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 College is also responsible for the payment of normal operating, maintenance and repair costs associated with its use of the property. At the expiration of the lease term, the Supporting Organization expects the lease will be renewed with DCAM on behalf of the College. For the years ended June 30, 2009 and 2008, rental income amounted to $165,000 in each year.

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

Year	Amount
2010	$ 165,000
2011	165,000
2012	165,000
2013	165,000
2014	165,000
Later years	350,625
	$ 1,175,625

On August 6, 2008, the Supporting Organization entered into a ten year operating lease agreement with an unrelated third party for 2,350 square feet of office space located in Fitchburg, Massachusetts. The lease commenced on November 1, 2008 and shall expire on October 31, 2018. The space shall be used by Fitchburg State College 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. The Supporting Organization may extend the initial term of the lease, under the same terms and conditions, for successive periods of one year provided it is not then in default of the lease terms and it gives proper notice. The Supporting Organization may cancel the lease at any time after November 1, 2009 with the payment of two months' base rent as a termination charge. The Supporting Organization is also responsible for the payment of normal operating, maintenance and repair costs associated with the use of the property. For the year ended June 30, 2009, rent expense amounted to $11,750.

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

Year ending June 30,	Amount
2010	$ 17,625
2011	17,625
2012	18,506
2013	18,947
2014	18,947
Later years	89,316
	$ 180,966

11. Lease and license agreements - continued:

The Supporting Organization and Fitchburg State College (the College) entered into a License Agreement whereby the Supporting Organization granted the College an irrevocable and exclusive license to occupy, manage, maintain and operate certain property owned by the Supporting Organization. The License Agreement has an initial term of one year and it commenced on September 3, 2008. The License Agreement provides for an annual license fee of $108,875 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 College. Upon expiration of the initial term, the License Agreement provides for automatic annual renewals thereafter. The License Agreement may be terminated by either party upon the expiration of the initial term of the agreement and any subsequent renewal term with the giving of proper notice. In addition, the College may terminate the agreement at any time with the giving of proper notice. For the year ended June 30, 2009, license fee income amounted to $105,750, which includes $15,021 received from the College for a period prior to the commencement of the License Agreement during which the College had use of certain property.

12. Restricted net assets:

Temporarily restricted net assets in the amount of $1,788,995, as of June 30, 2009, are available for scholarships to qualified students and to promote cultural programs within Fitchburg State College. Temporarily restricted net assets in the amount of $2,208,036, as of June 30, 2008, were available for scholarships to qualified students and to promote cultural programs within Fitchburg State College.

Temporarily restricted net assets released from restrictions during 2009 represent the satisfaction of program restrictions in the amount of $478,885; and the satisfaction of scholarship-related restrictions in the amount of $143,658.

Permanently restricted net assets in the amounts of $7,114,356 and $6,956,126 as of June 30, 2009 and 2008, respectively, are invested in perpetuity. Income from the investments is expendable for the program services of the Organization, including the granting of scholarships.

During fiscal 2009, a donor that previously restricted its gift to require the principal to be maintained in perpetuity decided to remove all restrictions placed on the contribution. Accordingly, the gift in the amount of $24,164 which is net of a pledge discount, has been reclassified from permanently restricted net assets to unrestricted net assets.

13. Transactions with a related party:

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

For the years ended June 30, 2009 and 2008, the Supporting Organization incurred expenses totaling $36,645 and $28,915, respectively, to Fitchburg State College for maintenance services provided to the Supporting Organization for the real estate used for student housing.

At June 30, 2008, accounts receivable include miscellaneous receivables from Fitchburg State College in the amount of $1,016.

At June 30, 2009 and 2008, the Organization has miscellaneous payables to Fitchburg State College in the amounts of $2,168 and $6,964, respectively.

14. Major donors:

During fiscal 2008, the Organization received an unrestricted donation of $500,000 from one donor. This amount represents approximately 30% (net of pledge discount) of total gifts and donations revenue during 2008. At June 30, 2008, contributions receivable include $367,350 (net of pledge discount of $32,650) from this donor.

15. State Matching Funds:

In September, 2004, the Massachusetts Legislature re-established the State Matching Funds Program (the Program). The Massachusetts Legislature has established maximum state matching contribution amounts over the life of the Program. Total matching funds available in a particular fiscal year are subject to appropriation. The Program shall terminate when the maximum state matching contribution amounts have been made or on July 1, 2010, whichever is sooner.

Funds received under this Program are recorded in permanently restricted net assets in the consolidated statement of activities. During fiscal 2008, the State appropriated funds for this Program for the year ended June 30, 2007. Pursuant thereto, the Organization received $357,659 from the Program in January, 2008 which was recorded as revenue in fiscal 2008. The State did not appropriate any funds for this Program for the year ended June 30, 2008 and it has not yet appropriated any funds for the year ended June 30, 2009.

ADDITIONAL INFORMATION

Ercolini & Company

Ercolini & Company LLP
Certified Public Accountants
101 Arch Street, Suite 300
Boston, MA 02110-1103
t 617.482.5511
f 617.426.5252
www.recpa.com

INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

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

Our report on our audit of the basic consolidated financial statements of Fitchburg State College Foundation, Inc. for the year ended June 30, 2009, appears on page 1. That audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The information for the year ended June 30, 2009 contained on page 31 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole. The prior year summarized comparative information has been derived from the additional information accompanying the Foundation's 2008 consolidated financial statements and, in our report on additional information dated September 30, 2008, we expressed our opinion that such information was fairly stated in all material respects in relation to the basic 2008 consolidated financial statements taken as a whole. Such information should be read in conjunction with the Foundation's consolidated financial statements and accompanying additional information for the year ended June 30, 2008, from which the summarized information was derived.

Ercolini & Company LLP

October 13, 2009

FITCHBURG STATE COLLEGE FOUNDATION, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2009

(with comparative totals for the year ended June 30, 2008)

	Program Services	Management and General	Fund Raising	2009 Consolidated Total	2008 Consolidated Total
Scholarships	$ 143,658	$ -	$ -	**$ 143,658**	$ 146,300
Speakers and cultural programs	184,778	-	-	**184,778**	213,962
Outside services	49,442	-	2,147	**51,589**	109,650
Accounting and audit	-	22,224	-	**22,224**	19,929
Insurance	4,060	13,229	-	**17,289**	16,640
Supplies	168,469	1,140	1,083	**170,692**	72,075
Postage	11,065	2,142	6,596	**19,803**	27,632
Equipment and maintenance	21,322	828	10,980	**33,130**	34,796
Printing and publications	43,805	3,948	28,960	**76,713**	115,882
Travel	109,775	-	108	**109,883**	79,796
Meetings and conferences	26,813	2,378	6,651	**35,842**	53,897
Professional and consulting services	7,800	420	4,595	**12,815**	69,715
Awards and grants	8,630	-	-	**8,630**	59,455
Real estate taxes	7,393	-	-	**7,393**	11,017
Repairs and maintenance	36,645	-	-	**36,645**	32,150
Rent	11,750	-	-	**11,750**	-
Utilities	18,496	-	-	**18,496**	16,573
Interest	154,806	31,504	-	**186,310**	149,813
Miscellaneous	7,608	7,083	1,011	**15,702**	11,816
Investment management fees	-	28,620	-	**28,620**	36,666
Other financial fees	-	10,980	-	**10,980**	5,507
	1,016,315	124,496	62,131	**1,202,942**	1,283,271
Depreciation and amortization	60,887	11,133	-	**72,020**	63,013
	$1,077,202	$ 135,629	$ 62,131	**$ 1,274,962**	$ 1,346,284

See independent auditor's report on additional information, page 30.

Ercolini & Company

Ercolini & Company LLP
Certified Public Accountants
101 Arch Street, Suite 300
Boston, MA 02110-1103

t 617.482.5511
f 617.426.5252

www.recpa.com

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

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

We have audited the consolidated financial statements of Fitchburg State College Foundation, Inc. (a not-for-profit organization) as of and for the year ended June 30, 2009, and have issued our report thereon, dated October 13, 2009. 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

In planning and performing our audit, we considered Fitchburg State College Foundation, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Organization's consolidated financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the consolidated financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 College Foundation, Inc.'s consolidated 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 consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Board of Directors, management and others within the Fitchburg State College Foundation, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Ercolini & Company LLP

October 13, 2009