

FITCHBURG STATE COLLEGE FOUNDATION, INC.

**REPORT ON AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION**

YEAR ENDED JUNE 30, 2010

FITCHBURG STATE COLLEGE FOUNDATION, INC.
REPORT ON AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION
YEAR ENDED JUNE 30, 2010

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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, 2010, 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 2009 consolidated financial statements and, in our report dated October 13, 2009, 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, 2010, 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 15, 2010 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, 2010. 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 2010 audit.

Ercolini & Company LLP

October 15, 2010

FITCHBURG STATE COLLEGE FOUNDATION, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2010

(with comparative totals as of June 30, 2009)

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
Cash and equivalents	\$ 1,612,966	\$ 820,699
Cash held in escrow	75,053	-
Investments	9,125,899	8,863,893
Accrued investment income receivable	56,517	62,919
Accounts receivable	2,309	9,130
Contributions receivable, net	1,510,853	723,895
Prepaid expenses and other current assets	18,445	42,499
Property and equipment, net of accumulated depreciation	5,002,205	4,669,205
Deferred financing costs, net of accumulated amortization of \$10,646 and \$7,176, respectively	48,088	51,558
Other assets	<u>102,211</u>	<u>97,396</u>
Total assets	<u>\$ 17,554,546</u>	<u>\$ 15,341,194</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Accounts payable, trade	\$ 80,251	\$ 19,884
Accrued interest payable	10,653	4,724
Deferred revenue	42,005	41,609
Bank line of credit	125,000	-
Notes payable - bank	717,056	658,859
First mortgage notes payable	<u>3,224,841</u>	<u>3,018,845</u>
Total liabilities	<u>4,199,806</u>	<u>3,743,921</u>
Net assets:		
Unrestricted	3,103,413	2,693,922
Temporarily restricted	2,093,525	1,788,995
Permanently restricted	<u>8,157,802</u>	<u>7,114,356</u>
Total net assets	<u>13,354,740</u>	<u>11,597,273</u>
Total liabilities and net assets	<u>\$ 17,554,546</u>	<u>\$ 15,341,194</u>

FITCHBURG STATE COLLEGE FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2010

(with comparative totals for the year ended June 30, 2009)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
Revenue and support:					
Program revenues:					
Gifts and donations	\$ 248,855	\$ 207,374	\$ 1,063,289	\$ 1,519,518	\$ 523,064
Grants and contracts	-	20,880	-	20,880	37,284
Sales and services	117,214	153,281	-	270,495	280,100
Rental income	165,000	-	-	165,000	165,000
Residence hall income	185,873	-	-	185,873	178,825
License fee income	108,875	-	-	108,875	105,750
Other revenue:					
Interest and dividends	63,128	174,058	-	237,186	269,917
Gain (loss) on investments	492,414	303,396	-	795,810	(2,257,725)
Increase in cash surrender value of life insurance	-	-	4,816	4,816	4,724
Net assets released from restrictions	<u>579,118</u>	<u>(554,459)</u>	<u>(24,659)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>1,960,477</u>	<u>304,530</u>	<u>1,043,446</u>	<u>3,308,453</u>	<u>(693,061)</u>
Expenses:					
Program services	1,375,684	-	-	1,375,684	1,077,202
Management and general	128,861	-	-	128,861	135,629
Fund raising	<u>46,441</u>	<u>-</u>	<u>-</u>	<u>46,441</u>	<u>62,131</u>
Total expenses	<u>1,550,986</u>	<u>-</u>	<u>-</u>	<u>1,550,986</u>	<u>1,274,962</u>
Increase (decrease) in net assets	409,491	304,530	1,043,446	1,757,467	(1,968,023)
Net assets at beginning of year	<u>2,693,922</u>	<u>1,788,995</u>	<u>7,114,356</u>	<u>11,597,273</u>	<u>13,565,296</u>
Net assets at end of year	<u>\$ 3,103,413</u>	<u>\$ 2,093,525</u>	<u>\$ 8,157,802</u>	<u>\$ 13,354,740</u>	<u>\$ 11,597,273</u>

FITCHBURG STATE COLLEGE FOUNDATION, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2010

(with comparative totals for the year ended June 30, 2009)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 1,757,467	(\$ 1,968,023)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
(Gain) loss on investments	(795,810)	2,257,725
Impairment loss	275,670	-
Depreciation	78,055	69,261
Discount on pledges	(18,702)	(14,915)
Amortization of deferred financing costs	3,470	2,759
Contributions of investment securities	(50,940)	(978)
Contributions restricted for long term purposes	(1,063,287)	(177,670)
Increase in cash surrender value of life insurance	(2,942)	(2,850)
(Increase) decrease in accounts receivable	6,821	(6,475)
(Increase) decrease in accrued investment income receivable	6,402	3,727
(Increase) decrease in contributions receivable	214,178	59,258
(Increase) decrease in prepaid expenses and other current assets	24,054	(26,147)
Increase (decrease) in accounts payable, trade	45,750	(1,994)
Increase (decrease) in accrued interest payable	5,929	(153)
Increase (decrease) in deferred revenue	<u>396</u>	<u>38,583</u>
Net cash provided by (used in) operating activities	<u>486,511</u>	<u>232,108</u>
Cash flows from investing activities:		
Payments for property and equipment	(672,107)	(694,791)
Proceeds from sale of investments	1,091,587	353,734
Purchase of investments	(506,843)	(806,178)
Deposit to cash held in escrow, including interest earned	(75,053)	-
Life insurance premiums	<u>(1,874)</u>	<u>(1,874)</u>
Net cash provided by (used in) investing activities	<u>(164,290)</u>	<u>(1,149,109)</u>

FITCHBURG STATE COLLEGE FOUNDATION, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS - CONTINUED
YEAR ENDED JUNE 30, 2010
(with comparative totals for the year ended June 30, 2009)

	<u>2010</u>	<u>2009</u>
Cash flows from financing activities:		
Proceeds of first mortgage notes payable	\$ 300,000	\$ 750,000
Payments on first mortgage notes payable	(94,004)	(78,506)
Net proceeds of bank line of credit	125,000	-
Proceeds of notes payable - bank	77,952	-
Payments on notes payable - bank	(19,755)	(8,275)
Payments of deferred financing costs	-	(10,659)
Collections of contributions restricted for long term purposes	<u>80,853</u>	<u>221,644</u>
Net cash provided by (used in) financing activities	<u>470,046</u>	<u>874,204</u>
Net increase (decrease) in cash and equivalents	792,267	(42,797)
Cash and equivalents, beginning of year	<u>820,699</u>	<u>863,496</u>
Cash and equivalents, end of year	<u>\$ 1,612,966</u>	<u>\$ 820,699</u>
 Supplemental disclosure of cash flow information:		
Cash paid for interest during the year	<u>\$ 216,679</u>	<u>\$ 186,463</u>
 Supplemental schedule of noncash investing and financing activities:		
Donations of publicly traded common stock at their readily determinable fair values	<u>\$ 50,940</u>	<u>\$ 978</u>
Costs incurred for purchase of property and equipment	\$ 686,724	\$ 699,791
Increase (decrease) in deposit paid	-	(5,000)
Accounts payable, trade, end of year	(<u>14,617</u>)	<u>-</u>
Payments for property and equipment	<u>\$ 672,107</u>	<u>\$ 694,791</u>

FITCHBURG STATE COLLEGE FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

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, 2010, 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.

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

Use of estimates:

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

Method of accounting:

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

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

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

Basis of presentation:

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

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

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

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

Risks and uncertainties:

The Organization maintains an investment portfolio consisting of 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:

Contributions and bequests -

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

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

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.

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

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 80 individual funds that are restricted by donors to function as endowments primarily for the granting of scholarships and to fund other academic and cultural programs. No funds have been designated by the Board of Directors to function as endowments as of June 30, 2010. In accordance with accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law -

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

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

Investment and Spending Policies -

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

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

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 of seeking to maintain the purchasing power of the endowment fund assets held in perpetuity or for a specified term as well as to provide additional real growth through investment return.

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, 2010, there were no deficiencies of this nature. As of June 30, 2009, deficiencies of this nature were \$268,775. These deficiencies resulted from unfavorable market fluctuations. In fiscal 2010, subsequent gains that restored the fair value of the endowment fund assets have been classified as increases 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.

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

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

Impairment of long-lived assets:

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

Deferred financing costs:

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

Statement of cash flows:

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

Income taxes:

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

Management has evaluated significant tax positions against the criteria established by professional standards and believes there are no such tax positions requiring accounting recognition in the consolidated financial statements. Management does not believe its evaluation of tax positions will significantly change within twelve months of June 30, 2010. Any changes in tax positions will be recorded when the ultimate outcome becomes known. The Organization's income tax returns are subject to examination by taxing authorities generally for the years ended June 30, 2007, 2008 and 2009.

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, 2009, from which the summarized information was derived.

Reclassifications:

Certain reclassifications have been made to the 2009 consolidated financial statements to conform to the 2010 presentation.

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

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

Subsequent events:

The Organization has evaluated subsequent events through October 15, 2010, which is the date these consolidated financial statements were issued.

Recent accounting pronouncements:

In January 2010, the Financial Accounting Standards Board (FASB) issued guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on significant transfers of assets and liabilities in and out of Level 1 (quoted prices in active markets for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires separate disclosure in the reconciliation of Level 3 fair value measurements (significant unobservable inputs) of information on purchases, sales, issuances, and settlements of the assets and liabilities measured using Level 3 inputs. The guidance also clarifies certain existing disclosures. The new disclosures and clarifications of existing disclosures are effective for fiscal years and interim periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the reconciliation of Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Organization does not believe that its adoption of this guidance in fiscal years 2011 and 2012 will have a material impact on the Organization's consolidated financial statements.

2. Cash and equivalents:

Cash and equivalents consist of the following at June 30:

	<u>2010</u>	<u>2009</u>
Cash and other demand deposits	\$ 1,137,302	\$ 733,724
Money Market Funds	<u>475,664</u>	<u>86,975</u>
	<u>\$ 1,612,966</u>	<u>\$ 820,699</u>

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 administered an orderly liquidation of the fund which was completed during fiscal 2010. Money market funds included the Commonfund Short Term Fund in the aggregate amount of \$60,201 at June 30, 2009.

Money market funds include the JPMorgan Prime Money Market Fund in the aggregate amount of \$237,829 at June 30, 2010. 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

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

2. Cash and equivalents - continued:

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, 2010, the fund's investment securities had a weighted average maturity of 36 days. The fund had an average credit quality rating of AAAM at June 30, 2010.

Money market funds include the State Street Institutional Liquid Reserves Fund in the aggregate amount of \$237,835 at June 30, 2010. 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, 2010, the fund's investment securities had a weighted average maturity of 29 days. The fund had an average credit quality rating of AAAM at June 30, 2010.

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. Included in cash and equivalents at June 30, 2010 are overnight repurchase agreements in the amounts of \$674,304 and \$21,167 each at an interest rate of .15% per annum. 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, 2010 and 2009, the Organization's overnight repurchase agreements were fully collateralized under an agreement between Sovereign Bank and Fitchburg State College. At June 30, 2010 and 2009, the Organization's uninsured cash and equivalent balances, including the JPMorgan Prime Money Market Fund, State Street Institutional Liquid Reserves Fund and Commonfund Short Term Fund, amounted to \$578,701 and \$61,181, respectively.

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

3. Investments:

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

	<u>2010</u>		<u>2009</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Commonfund (pooled investment funds):				
Intermediate Term Fund - Tranche 1	\$ -	\$ -	\$ 20,604	\$ 18,844
Intermediate Term Fund (formerly Tranche 2)	41,050	36,734	32,742	25,901
Multi-Strategy Equity Fund	5,128,882	5,712,167	5,163,448	5,109,775
Multi-Strategy Bond Fund	3,091,150	3,376,998	2,863,815	2,842,367
Government Securities Fund	-	-	696,975	696,385
Commonfund Realty Investors, LLC	-	-	485,000	170,621
	<u>\$ 8,261,082</u>	<u>\$ 9,125,899</u>	<u>\$ 9,262,584</u>	<u>\$ 8,863,893</u>

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

3. Investments - continued:

At June 30, 2010, net unrealized gains in the Organization's investment portfolio amounted to \$864,817. At June 30, 2009, net unrealized losses in the Organization's investment portfolio amounted to (\$398,691).

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. During fiscal 2010, Tranche I was fully liquidated, the fund was renamed the Intermediate Term Fund and all holdings in the fund are available for redemption. As of June 30, 2009, 35% of the shares in Tranche 2 were restricted.

The Intermediate Term Fund Tranche 1 invested in high-quality fixed income securities with maturities generally ranging from 1-3 years. The fund could, 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 Intermediate Term Fund (formerly the Intermediate Term Fund - Tranche 2) 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, 2010 and 2009, the fund's investment securities had a weighted average life of 2.9 and 3.2 years, respectively, and an effective duration of 1.5 and 1.3 years, respectively. The fund had an average credit quality rating of AA as of June 30, 2010 and 2009, 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 9 and 11).

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. At June 30, 2010 and 2009, the fund's investment securities had a weighted average life of 6.6 and 6.8 years, respectively, and an effective duration of 3.5 and 3.9 years, respectively. The fund had an average credit quality rating of AA as of both June 30, 2010 and 2009.

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

3. Investments - continued:

The Government Securities Fund invested in United States Treasury and government agency securities and cash instruments including repurchase agreements backed by government securities. At June 30, 2009, the fund was 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 seeks 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 seeks to periodically make distributions of operating cash flow if funds are available.

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. However, as discussed further below in connection with disclosures related to the Organization's investments with unrealized losses, the Fund may defer payment of these redemptions indefinitely, contingent on the results of the Fund's operations and the outcome of negotiations for the restructuring of the Fund's debt. As of March 31, 2010, which is the date of the latest available information, no redemptions have been scheduled for payment by the Fund.

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

	<u>2010</u>	<u>2009</u>
Consumer Discretionary	15%	12%
Consumer Staples	8	8
Energy	9	10
Financials	16	18
Healthcare	11	11
Industrials	12	12
Information Technology	17	18
Materials	7	6
Telecom Services	3	3
Utilities	<u>2</u>	<u>2</u>
	<u>100%</u>	<u>100%</u>

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

3. Investments - continued:

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

	<u>2010</u>	<u>2009</u>
Government and Agencies	22%	13%
Mortgages	29	38
CMBS	2	2
Asset-backed	5	3
Corporates	34	37
Non-U.S.	4	4
Municipals	1	-
Emerging Market Debt	2	1
Other	<u>1</u>	<u>2</u>
	<u>100%</u>	<u>100%</u>

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:

	<u>2010</u>	<u>2009</u>
Industrial	7%	8%
Land	12	15
Mixed use office with retail	31	25
Office	9	11
Retail	-	5
Residential	2	4
Multi-property assemblage	<u>39</u>	<u>32</u>
	<u>100%</u>	<u>100%</u>

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, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Net realized gains (losses)	(\$ <u>465,347</u>)	(\$ <u>6,943</u>)
Unrealized gains	1,261,157	4,187
Unrealized losses	<u>-</u>	(<u>2,254,969</u>)
	<u>1,261,157</u>	(<u>2,250,782</u>)
Net gain(loss) on investments	<u>\$ 795,810</u>	(<u>\$ 2,257,725</u>)

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

3. Investments - continued:

The Organization incurred investment management fees of \$33,009 in 2010 and \$28,620 in 2009 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, 2010.

<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>
Intermediate Term Fund - Tranche 2	\$ 19,703	\$ 1,290	\$ 17,031	\$ 3,026	\$ 36,734	\$ 4,316
Total	\$ 19,703	\$ 1,290	\$ 17,031	\$ 3,026	\$ 36,734	\$ 4,316

At June 30, 2010, the fair values and unrealized losses of the above investment in an unrealized loss position were not material to the Organization's consolidated financial statements.

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. 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 estimated time until a forecasted recovery, among other factors. If it is determined that an other-than-temporary decline exists in an investment, the Organization writes down the investment to its fair value, which becomes its new cost basis, and records the related write-down as a realized investment loss which is included in gain (loss) on investments in the consolidated statement of activities.

At June 30, 2010, the Organization wrote down its investment in Commonfund Realty Investors, LLC to zero representing its fair value based upon the latest available information (March 31, 2010) provided by its professional investment manager. The gross write-down amounted to a realized loss of \$485,000 in fiscal 2010, and a related decrease in unrealized losses in fiscal 2010 of \$314,379 representing the previously recorded unrealized losses as of June 30, 2009. These amounts are included in gain (loss) on investments in the 2010 consolidated statement of activities. The decline in the fair value of this investment resulted from the continuing disruptions in the global capital, credit and real estate markets. These disruptions, which have been significant, have led to, among other things, a significant decline in the volume of transaction activity, in the fair value of many real estate and real estate related investments, and a significant contraction in short-term and long-term debt and equity funding sources. This contraction in capital and declines in liquidity and prices of real estate, and real estate investments have had a significant adverse impact on this portfolio investment.

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

3. Investments - continued:

Although the capital markets have shown signs of stabilizing in fiscal 2010, the investment fund's real estate investments continue to be adversely affected as the market value of commercial real estate has not recovered, and liquidity and capital sources remain unavailable to the investment fund at sensible pricing. The investment fund is experiencing negative operating results, an adverse liquidity position, major debt defaults, and uncertainty regarding the outcome of ongoing debt restructuring negotiations with certain of its lenders. Currently, the investment fund has no redemptions scheduled for payment to its investors. Due to these factors, in the opinion of management, the decline in fair value of this investment is considered to be other-than-temporary.

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.

<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>
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	<u>170,621</u>	<u>314,379</u>	-	-	<u>170,621</u>	<u>314,379</u>
Total	<u>\$ 7,524,874</u>	<u>\$ 541,649</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,524,874</u>	<u>\$ 541,649</u>

The endowment net asset composition by type of fund at June 30, 2010 is as follows:

<u>Fund Type</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowments	<u>\$ 338,182</u>	<u>\$ 1,259,117</u>	<u>\$ 8,157,802</u>	<u>\$ 9,755,101</u>

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

3. Investments - continued:

Changes in the endowment net assets for the year ended June 30, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	(\$ 86,990)	\$ 950,555	\$ 7,114,356	\$ 7,977,921
Investment return:				
Investment income	45,623	164,179	-	209,802
Appreciation (depreciation), realized and unrealized	<u>425,172</u>	<u>291,416</u>	<u>-</u>	<u>716,588</u>
Total investment return	470,795	455,595	-	926,390
Contributions	-	3,445	1,063,289	1,066,734
Other income	-	6,884	4,816	11,700
Appropriation of endowment assets for expenditure	(39,075)	(134,008)	-	(173,083)
Investment management fees	(6,548)	(23,354)	-	(29,902)
Transfer upon removal of donor restrictions	<u>-</u>	<u>-</u>	<u>(24,659)</u>	<u>(24,659)</u>
Endowment net assets, end of year	<u>\$ 338,182</u>	<u>\$ 1,259,117</u>	<u>\$ 8,157,802</u>	<u>\$ 9,755,101</u>

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

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

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	<u>(368,530)</u>	<u>(366,444)</u>	<u>-</u>	<u>(734,974)</u>
Total investment return	(316,505)	(185,429)	-	(501,934)
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	<u>-</u>	<u>-</u>	<u>(24,164)</u>	<u>(24,164)</u>
Endowment net assets, end of year	<u>(\$ 86,990)</u>	<u>\$ 950,555</u>	<u>\$ 7,114,356</u>	<u>\$ 7,977,921</u>

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

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.

Due to the passing, in June, 2010, of an alumnus of Fitchburg State College, the Foundation shall receive the remainder interest in a trust established by the individual. Based upon information received from the trustee, management has estimated and recorded contribution revenue and a receivable in the amount of \$970,000 at June 30, 2010. This amount represents approximately 64% of total gifts and donations revenue during fiscal 2010. Management estimates that the entire contribution receivable will be received in fiscal 2011.

Contributions receivable consist of the following at June 30:

	<u>2010</u>	<u>2009</u>
Receivable in less than one year	\$ 1,272,718	\$ 374,177
Receivable in one to five years	<u>259,900</u>	<u>390,185</u>
	1,532,618	764,362
Discount on pledges	<u>(21,765)</u>	<u>(40,467)</u>
	<u>\$ 1,510,853</u>	<u>\$ 723,895</u>

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

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

	<u>2010</u>	<u>2009</u>
Measured at fair value	\$ 530,970	\$ 690,201
Measured at net realizable value	<u>979,883</u>	<u>33,694</u>
	<u>\$ 1,510,853</u>	<u>\$ 723,895</u>

5. Fair value measurements:

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

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.

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

5. Fair value measurements - continued:

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

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

The fair value hierarchy under the guidance is as follows:

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

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

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

The fair value of assets measured on a recurring basis at June 30, 2010 is as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Intermediate Term Fund - Tranche 2	\$ 36,734	\$ -	\$ 36,734	\$ -
Multi-Strategy Equity Fund	5,712,167	-	5,712,167	-
Multi-Strategy Bond Fund	3,376,998	-	3,376,998	-
Commonfund Realty Investors, LLC	-	-	-	-
Contributions receivable	<u>530,970</u>	<u>-</u>	<u>-</u>	<u>530,970</u>
Total	<u>\$ 9,656,869</u>	<u>\$ -</u>	<u>\$ 9,125,899</u>	<u>\$ 530,970</u>

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

5. Fair value measurements - continued:

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

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
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	-
Multi-Strategy Bond Fund Government Securities Fund	2,842,367	-	2,842,367	-
Commonfund Realty Investors, LLC	696,385	-	696,385	-
Contributions receivable	170,621	-	-	170,621
	<u>690,201</u>	<u>-</u>	<u>-</u>	<u>690,201</u>
Total	<u>\$ 9,554,094</u>	<u>\$ -</u>	<u>\$ 8,693,272</u>	<u>\$ 860,822</u>

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 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 typically 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. In the current fiscal year, valuation of the Fund's real estate investments also considers the potential effect the restructuring of certain of the Fund's debt obligations may have on the properties' estimated values. As discussed further in Note 3, the Organization considers the decline in the fair value of this investment to be other than temporary at June 30, 2010 and it has written down the fair value of the investment to zero. 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.

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

5. Fair value measurements - continued:

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, 2010:

	Commonfund Realty Investors, LLC	Contributions receivable, net
Balances, July 1, 2009	\$ <u>170,621</u>	\$ <u>690,201</u>
Realized gains (losses)	(485,000)	-
Unrealized gains (losses)	314,379	-
New promises received	-	64,376
Collections	-	(242,309)
Contribution revenue	-	<u>18,702</u>
	<u>(170,621)</u>	<u>(159,231)</u>
 Balances, June 30, 2010	 \$ <u><u>-</u></u>	 \$ <u><u>530,970</u></u>

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	\$ <u>494,384</u>	\$ <u>803,986</u>
Unrealized gains (losses)	(323,763)	-
New promises received	-	61,500
Collections	-	(190,200)
Contribution revenue	-	<u>14,915</u>
	<u>(323,763)</u>	<u>(113,785)</u>
 Balances, June 30, 2009	 \$ <u><u>170,621</u></u>	 \$ <u><u>690,201</u></u>

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

6. Property and equipment:

Property and equipment at June 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Real estate under lease:		
Land	\$ 402,663	\$ 402,663
Building	1,557,724	1,557,724
Building improvements	<u>100,452</u>	<u>100,452</u>
	<u>2,060,839</u>	<u>2,060,839</u>
Real estate used for student housing:		
Land	253,555	253,555
Building	434,225	434,225
Building improvements	<u>28,600</u>	<u>-</u>
	<u>716,380</u>	<u>687,780</u>
Land	1,733,311	1,480,040
Land improvements	61,899	61,899
Buildings	556,478	556,478
Building improvements	39,569	8,966
Equipment	59,448	57,728
Computer software	344,005	276,000
Furniture and fixtures	22,287	-
Library materials	<u>6,570</u>	<u>-</u>
	<u>5,600,786</u>	<u>5,189,730</u>
Less accumulated depreciation	<u>598,581</u>	<u>520,525</u>
	<u>\$ 5,002,205</u>	<u>\$ 4,669,205</u>

Accumulated depreciation on real estate under lease amounted to \$165,187 and \$121,221 at June 30, 2010 and 2009, respectively. Accumulated depreciation on real estate used for student housing amounted to \$34,662 and \$22,616 at June 30, 2010 and 2009, respectively.

During fiscal 2010, the Supporting Organization acquired two properties in Fitchburg, Massachusetts at an aggregate cost of \$528,940. One property, acquired at a cost of \$123,270, is in the process of being sold for \$120,000 to the Commonwealth of Massachusetts acting by and through its Division of Capital Asset Management and Maintenance (DCAM) on behalf of Fitchburg State College. The other property is currently serving as green space (see Note 7).

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.

At both June 30, 2010 and 2009, property and equipment with a cost of approximately \$331,000 were fully depreciated and still in service.

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

7. Impairment loss:

In February, 2010, the Supporting Organization acquired a property in close proximity to the Fitchburg State College campus consistent with the Supporting Organization's mission and the College'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 \$405,670. The College 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 College and City communities.

In April, 2010, the Supporting Organization obtained an appraisal of the property. As a result of the appraisal, management determined, in accordance with the requirements of FASB accounting guidance, that the property was impaired and wrote down the asset to its fair value of \$130,000. The impairment charge (a noncash accounting charge) to operations in the amount of \$275,670 had no impact on the Supporting Organization's fiscal 2010 cash flow or its ability to generate cash flow in the future. The impairment charge is reflected in program services in the accompanying 2010 statement of activities.

The fair value of the property has been measured using significant other observable inputs (Level 2) pursuant to the FASB's guidance on fair value measurements. The fair value of the property was determined using appraisal values based on sales of similar assets (market approach).

8. Other assets:

Other assets at June 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Cash surrender value of life insurance	\$ 63,186	\$ 58,371
Art collection	<u>39,025</u>	<u>39,025</u>
	<u>\$ 102,211</u>	<u>\$ 97,396</u>

9. 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, 2010, the Foundation has an outstanding balance of \$125,000 under the line of credit agreement. At June 30, 2009, 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, 2010 and 2009, the effective interest rates were 6% per annum. For the years ended June 30, 2010 and 2009, interest expense incurred on borrowings under this line of credit amounted to \$1,438 and \$3,905, respectively. 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.

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

10. 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. 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, 2010 and 2009, the outstanding principal balance of this mortgage note payable amounted to \$517,127 and \$532,819, respectively.

For the years ended June 30, 2010 and 2009, interest expense on this mortgage note payable amounted to \$30,615 and \$31,504, respectively.

Aggregate principal maturities on the loan for each of the next five years, using the interest rate in effect at June 30, 2010, are estimated to be as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 16,634
2012	17,551
2013	18,681
2014	19,800
2015	20,986

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 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 12). The College is currently using the property for its print services, maintenance, and shipping and receiving and financial services.

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

10. First mortgage notes payable - continued:

Supporting Organization - 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 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 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.

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, 2010 and 2009, the outstanding principal balance of this mortgage note payable amounted to \$1,678,437 and \$1,740,766, respectively.

For the years ended June 30, 2010 and 2009, interest expense on this mortgage note payable amounted to \$95,167 and \$98,773, respectively.

Aggregate principal maturities on the loan for each of the next five years, using the interest rate in effect at June 30, 2010, are estimated to be as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 65,895
2012	69,429
2013	73,637
2014	77,850
2015	82,304

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

10. First mortgage notes payable - continued:

Supporting Organization - continued -

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 certain real estate owned by the Supporting Organization and an assignment of certain leases and rents. The note is also collateralized by all funds held by the lender. At June 30, 2010, the Supporting Organization has total cash balances of \$82,428 held at WCU which serve as additional collateral for this loan.

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.

At June 30, 2010 and 2009, the outstanding principal balance of this mortgage note payable amounted to \$731,099 and \$745,260, respectively.

For the years ended June 30, 2010 and 2009, interest expense on this mortgage note payable amounted to \$44,207 and \$15,060, respectively.

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

<u>Year</u>	<u>Amount</u>
2011	\$ 14,991
2012	15,875
2013	16,810
2014	17,801
2015	18,850

During fiscal 2010, Workers' Credit Union provided financing to the Supporting Organization in the form of a note, dated February 19, 2010, in the amount of \$300,000. The proceeds of the loan were used to finance the acquisition of one of the real estate properties described in Note 6. 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. The note is also collateralized by all funds held by the lender. At June 30, 2010, the Supporting Organization has total cash balances of \$82,428 held at WCU which serve as additional collateral for this loan.

In June, 2010, the Supporting Organization determined that the value of the property securing this first mortgage note payable to WCU was less than its carrying value. Accordingly, the Supporting Organization recorded an impairment loss (see Note 7). The Supporting Organization and WCU are currently in discussions regarding the nature and amount of additional collateral to be provided to WCU to further secure this loan.

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

10. First mortgage notes payable - continued:

Supporting Organization - continued -

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. Monthly principal and interest payments commenced on March 19, 2010. The note may be prepaid at any time, in whole or in part, without premium or penalty.

As of June 30, 2010, the outstanding principal balance of the mortgage loan amounted to \$298,178.

For the year ended June 30, 2010, interest expense on this mortgage note payable amounted to \$6,493.

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

<u>Year</u>	<u>Amount</u>
2011	\$ 5,432
2012	5,720
2013	6,124
2014	6,503
2015	6,906

In connection with the fiscal 2010 loan, the Supporting Organization was required to establish an escrow account held at WCU in the amount of \$75,000 until the Supporting Organization resolved certain environmental matters related to the property. The environmental matters have since been resolved and the Supporting Organization is in the process of submitting the documentation to release the escrow. At June 30, 2010, the balance in the escrow account amounted to \$75,053, which includes accumulated interest earned thereon of \$53.

11. Notes payable - bank:

Foundation -

During fiscal 2010, 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. Monthly principal and interest payments commenced on February 5, 2010.

At June 30, 2010, the outstanding principal balance of this note payable amounted to \$67,820.

For the year ended June 30, 2010, interest expense on this note payable amounted to \$1,800.

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

11. Notes payable - bank - continued:

Foundation - continued -

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

<u>Year</u>	<u>Amount</u>
2011	\$ 25,207
2012	26,515
2013	16,098

Supporting Organization -

In May, 2007, the Supporting Organization acquired land and a building consisting of six apartment units at a total cost of \$504,479, including related acquisition costs. The Supporting Organization also acquired an adjacent parcel of land at a cost of \$183,301. The properties are located in the area surrounding the Fitchburg State College campus. 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, 2010 and 2009, the outstanding principal balance of this note payable amounted to \$649,236 and \$658,859, respectively.

For the years ended June 30, 2010 and 2009, interest expense on this note payable amounted to \$42,888 and \$37,068, respectively.

Aggregate principal maturities on the loan for each of the next five years, using the interest rate in effect at June 30, 2010, are estimated to be as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 10,257
2012	10,792
2013	11,574
2014	12,298
2015	13,067

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

12. Lease and license agreements:

As disclosed in Note 10, 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 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, 2010 and 2009, 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 ending <u>June 30,</u>	<u>Amount</u>
2011	\$ 165,000
2012	165,000
2013	165,000
2014	165,000
2015	165,000
Later years	<u>185,625</u>
	<u>\$ 1,010,625</u>

On August 6, 2008, the Supporting Organization entered into a ten year operating lease agreement with an unrelated third party for 2,350 square feet of office space located in Fitchburg, Massachusetts. The lease commenced on November 1, 2008 and shall expire on October 31, 2018. The space is being used by Fitchburg State 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 years ended June 30, 2010 and 2009, rent expense amounted to \$17,625 and \$11,750, respectively.

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

12. Lease and license agreements - continued:

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

Year ending <u>June 30,</u>	<u>Amount</u>
2011	\$ 17,625
2012	18,506
2013	18,947
2014	18,947
2015	19,895
Later years	<u>69,421</u>
	<u>\$ 163,341</u>

The Supporting Organization and Fitchburg State 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, which commenced on September 3, 2008, had an initial term of one year. Upon expiration of the initial term, the License Agreement provides for automatic annual renewals thereafter. 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. 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, 2010, license fee income amounted to \$108,875. For the year ended June 30, 2009, license fee income amounted to \$105,750, which included \$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 of the property.

13. Restricted net assets:

Temporarily restricted net assets in the amount of \$2,093,525, as of June 30, 2010, are available for scholarships to qualified students and to promote cultural programs within Fitchburg State College. Temporarily restricted net assets in the amount of \$1,788,995, as of June 30, 2009, were available for scholarships to qualified students and to promote cultural programs within Fitchburg State College.

Temporarily restricted net assets released from restrictions during 2010 represent the satisfaction of program restrictions in the amount of \$367,607; and the satisfaction of scholarship-related restrictions in the amount of \$186,852.

Permanently restricted net assets in the amounts of \$8,157,802 and \$7,114,356 as of June 30, 2010 and 2009, respectively, are invested in perpetuity. Income from the investments is expendable for the program services of the Organization, including the granting of scholarships and to fund other academic and cultural programs.

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2010

13. Restricted net assets - continued:

During fiscal 2010, 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 \$24,659 which is net of a pledge discount, has been reclassified from permanently restricted net assets to unrestricted net assets.

14. 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, 2010 and 2009, the Supporting Organization incurred expenses totaling \$30,645 and \$36,645, respectively, to Fitchburg State College for maintenance services provided to the Supporting Organization for the real estate used for student housing.

At June 30, 2010 and 2009, the Organization has miscellaneous payables to Fitchburg State College in the amounts of \$27,085 and \$2,168, respectively.

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. The Program terminated on July 1, 2010.

Funds received under this Program are recorded in permanently restricted net assets in the consolidated statement of activities. The State did not appropriate any funds for this Program for the year ended June 30, 2009 and it has not yet appropriated any funds for the year ended June 30, 2010.

16. Subsequent event:

In September, 2010, the Foundation received a temporarily restricted donation of computer software and related license for its use with an annual commercial value of approximately \$2,800,000. The license expires on June 30, 2011. The software will be used in academic courses by the Industrial Technology Department of Fitchburg State College.

ADDITIONAL INFORMATION



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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, 2010, 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, 2010 contained on page 35 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 2009 consolidated financial statements and, in our report on additional information dated October 13, 2009, we expressed our opinion that such information was fairly stated in all material respects in relation to the basic 2009 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, 2009, from which the summarized information was derived.

Ercolini & Company LLP

October 15, 2010

FITCHBURG STATE COLLEGE FOUNDATION, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2010
(with comparative totals for the year ended June 30, 2009)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>2010 Consolidated Total</u>	<u>2009 Consolidated Total</u>
Scholarships	\$ 186,852	\$ -	\$ -	\$ 186,852	\$ 143,658
Speakers and cultural programs	149,810	-	-	149,810	184,778
Outside services	88,703	-	175	88,878	51,589
Accounting and audit	-	18,214	-	18,214	22,224
Insurance	6,161	8,060	-	14,221	17,289
Supplies	63,660	2,201	36	65,897	170,692
Postage	4,703	1,903	1,703	8,309	19,803
Equipment and maintenance	32,520	1,360	590	34,470	33,130
Printing and publications	62,493	3,803	16,583	82,879	76,713
Travel	90,368	57	2,352	92,777	109,883
Meetings and conferences	47,085	5,083	24,694	76,862	35,842
Professional and consulting services	2,001	-	-	2,001	12,815
Awards and grants	17,735	-	-	17,735	8,630
Real estate taxes	2,957	-	-	2,957	7,393
Repairs and maintenance	30,645	-	-	30,645	36,645
Rent	17,625	-	-	17,625	11,750
Utilities	15,839	-	-	15,839	18,496
Interest	190,193	32,415	-	222,608	186,310
Miscellaneous	21,356	8,629	308	30,293	15,702
Investment management fees	-	33,009	-	33,009	28,620
Other financial fees	<u>13</u>	<u>1,897</u>	<u>-</u>	<u>1,910</u>	<u>10,980</u>
	1,030,719	116,631	46,441	1,193,791	1,202,942
Impairment loss	275,670	-	-	275,670	-
Depreciation and amortization	<u>69,295</u>	<u>12,230</u>	<u>-</u>	<u>81,525</u>	<u>72,020</u>
	<u>\$1,375,684</u>	<u>\$ 128,861</u>	<u>\$ 46,441</u>	<u>\$ 1,550,986</u>	<u>\$ 1,274,962</u>

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

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

We have audited the financial statements of Fitchburg State College Foundation, Inc. (a not-for-profit Organization) as of and for the year ended June 30, 2010, and have issued our report thereon dated October 15, 2010. 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 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 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 Organization'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 College Foundation, Inc.'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 Directors, management, others within the Organization, and is not intended to be and should not be used by anyone other than these specified parties.

Ercoleini & Company LLP

October 15, 2010