

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

REPORT ON AUDITS OF FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

YEARS ENDED JUNE 30, 2011 AND 2010



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

Introduction

The following discussion and analysis are intended to provide an overview of the financial position and results of operations of Fitchburg State University (the "University") for the fiscal years ended June 30, 2011, 2010 and 2009. This discussion is provided by the management of the University and should be read in conjunction with the financial statements and notes thereto. The purpose of this document is to give some background to the financial statements, and foster an understanding of how these statements relate to the mission and activities of the University.

The University, located in North Central Massachusetts, is one of the nine comprehensive public universities in the Commonwealth of Massachusetts (the "Commonwealth"). These institutions, along with the five-campus University of Massachusetts system and the fifteen community colleges comprise public higher education in Massachusetts. The University offers approximately 49 undergraduate degree programs in eighteen academic departments, 20 Masters' degree programs and several Graduate Certificates of Advanced Study. During fiscal 2011, there were approximately 3,800 full-time students and thousands of part-time students enrolled in degree programs, for a combined full-time equivalent enrollment of approximately 5,300. Thousands more non-matriculated students take advantage of professional development programs through the Division of Graduate and Continuing Education (DGCE). The University awarded approximately 1,200 graduate and undergraduate degrees in fiscal 2011. The University is accredited by the New England Association of Schools and Colleges (NEASC) and many of the University's programs are accredited by program-specific accrediting bodies.

Financial Highlights

The University experienced positive results from operations in fiscal 2011 and remains on firm financial ground. The following are key financial highlights for the current period:

- General appropriations from the Commonwealth are approved by the legislature to help fund the day-to-day operations of the University. The University received appropriations of \$24.3 million in fiscal 2011. In addition, the University received \$3.1 million as a result of *The American Recovery and Reinvestment Act of 2009* (ARRA). ARRA funds were used primarily to support faculty payroll and fringe benefit costs. General appropriations were \$21.4 million in fiscal 2010 and \$26.3 million in fiscal 2009.
- Fees were increased to fund academic and capital initiatives. Total mandatory per semester fees were \$3,415, \$2,965, and \$2,715 in fiscal 2011, 2010 and 2009, respectively. Fees were also increased for undergraduate continuing education students. Tuition, which is controlled by the Commonwealth, has not increased since the fall of 2001 and remains at \$485 per semester for in-state students.
- The University expended \$8.2 million from current funds for capital additions in fiscal 2011. Projects completed during the year included completion of Phase III of the renovations to the Anthony Building, Phase I construction of new academic space on North Street and renovations to the entrance to Thompson Hall. An additional \$4.8 million was spent on the University's behalf by the Massachusetts Division of Capital Asset Management (DCAM) for the Science Center modernization project. Projects remaining in process at June 30, 2011 include the Hammond Campus Center renovations, the Science Center modernization project, renovations to Miller Hall and the Highland Avenue closure project.

- Total assets at the end of fiscal 2011 were \$125.5 million and exceeded liabilities and deferred inflows of resources of \$45.4 million by \$80.1 million (i.e. net position). Unrestricted net position available to support short-term operations totaled \$22.1 million, of which \$8.5 million has been designated for specific purposes.
- Total operating, non-operating, and gift revenue for fiscal 2011 was \$85.8 million, while expenses totaled \$72.6 million, resulting in an increase to net position of \$13.2 million. The increase in net position includes a 5.7% increase in student tuition and fee revenues.
- The consolidated financial information of the Fitchburg State University Foundation, Inc. is included in the University's financial statements as a component unit of the University. It is important to reiterate that the Foundation is a separate organization. Foundation funds are largely restricted, and unrestricted funds can only be expended by vote of the Board of Directors of the Foundation.

Using the Financial Statements

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

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

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

Statement of Net Position

The statement of net position presents the financial position of the University at the end of the year and includes all assets, liabilities and deferred inflows of resources of the University, with the difference reported as net position. Assets, liabilities and deferred inflows are generally measured using current values, with a notable exception in capital assets, which are stated at historical cost less an allowance for depreciation. Net position is one indicator of the financial condition of the University, while the change in net position from one period to the next is an indicator of whether the financial condition has improved or worsened. The statements of net position (condensed, in thousands) at June 30, 2011, 2010 and 2009, are as follows:

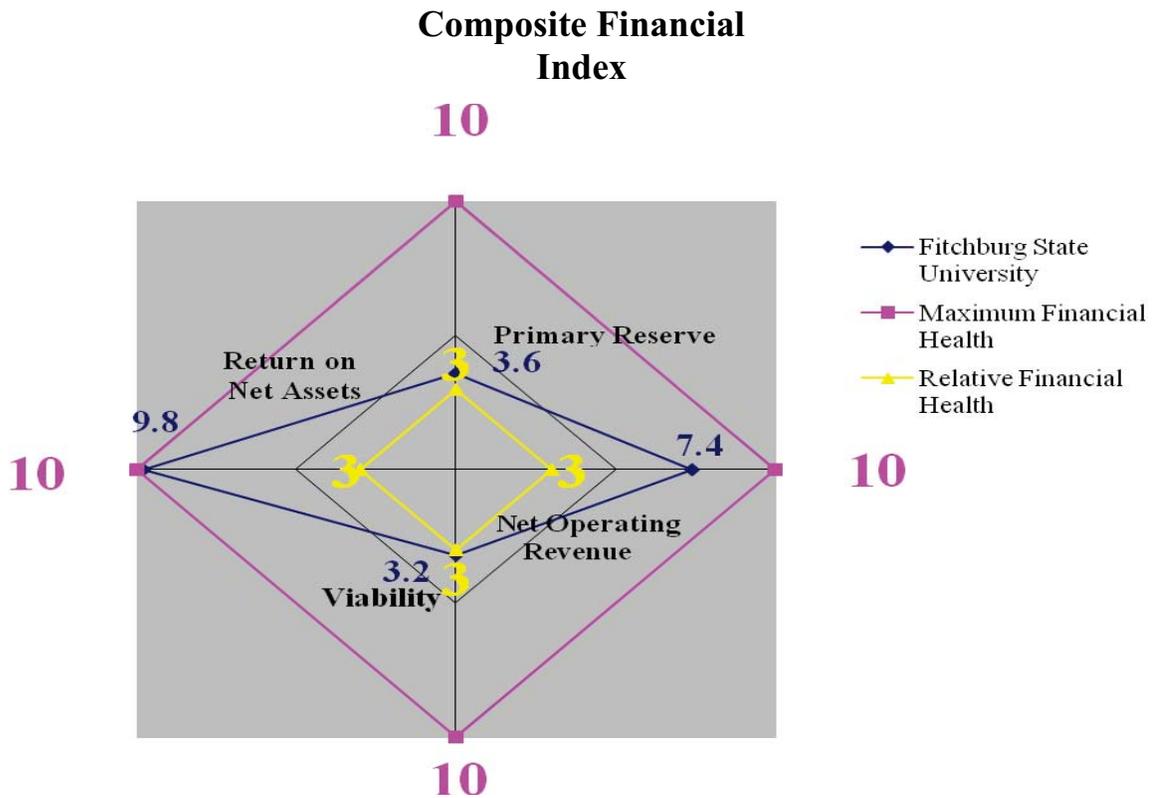
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets			
Current assets	\$ 29,673	\$ 20,743	\$ 10,601
Capital assets, net	66,192	55,386	53,816
Other	<u>29,702</u>	<u>16,708</u>	<u>18,345</u>
Total Assets	<u>125,567</u>	<u>92,837</u>	<u>82,762</u>
Liabilities			
Current liabilities	13,817	10,659	9,955
Long term liabilities	<u>28,999</u>	<u>14,258</u>	<u>15,446</u>
Total Liabilities	<u>42,816</u>	<u>24,917</u>	<u>25,401</u>
Deferred Inflows of Resources	<u>2,621</u>	<u>978</u>	<u>1,123</u>
Net Position			
Net investment in capital assets	44,551	40,791	39,531
Restricted:			
Nonexpendable	458	470	437
Expendable	13,045	8,403	6,515
Unrestricted:			
Designated	8,488	8,135	6,239
Undesignated	<u>13,588</u>	<u>9,143</u>	<u>3,516</u>
Total net position	<u>\$ 80,130</u>	<u>\$ 66,942</u>	<u>\$ 56,238</u>

Current assets consist primarily of cash and cash equivalents (88.8%). Other assets include non current restricted cash and cash equivalents, investments in marketable securities and loans receivable. Capital assets are used to provide services to students, faculty and staff. These assets are not available for current or future spending. Current liabilities primarily include trade accounts and salaries payable, accounts payable construction, the current portion of compensated absences and accrued faculty payroll. In the normal course of events and based on a consistent past history in this regard, it is anticipated that obligations due to employees will be funded by state appropriations. Deferred inflows of resources represent the acquisition of net assets applicable to future periods and are distinct from assets and liabilities. The increase in net position over the past three periods is indicative of the capital improvement initiatives undertaken during this time.

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

- **Current Ratio:** An excess of current assets over current liabilities (the current ratio) is a measure of liquidity and provides a buffer against future uncertainties. The University's current assets of \$29.7 million are sufficient to cover current liabilities of \$13.8 million. The University's current ratio at June 30 is 2.2 to 1 for 2011, 1.9 to 1 for 2010, and 1.1 to 1 for 2009.

- **Return on Net Position Ratio:** Net position represents the residual interest in the University's assets after liabilities and deferred inflows of resources are deducted. Comparing the current change in total net position to total net position at the beginning of the period (return on net position) is an economic measure that determines if the University is financially better off than in previous years. The University's return on net position at June 30, 2011, 2010 and 2009 was 19.7%, 19.0% and 5.6%, respectively. The ratio remains well above industry benchmarks.
- **Primary Reserve Ratio:** This ratio indicates how long the University could function using its expendable reserves without relying on additional net position generated by operations. The University's primary reserve ratio at June 30, 2011, 2010 and 2009 was 48.4%, 37.6% and 24.3%, respectively. An improving trend indicates the University has been able to increase its expendable net position in proportion to the rate of growth in total operating expenditures.
- **Secondary Reserve Ratio:** This ratio measures the significance of non expendable net position in relation to an institution's operating size. An improving trend shows an improved capital base and the higher the ratio value, the better the long term financial condition. The University's secondary reserve ratio at June 30, 2011, 2010 and 2009 was 62.0%, 60.5% and 59.8%, respectively.
- In order to assess and evaluate the total financial health of an institution, core financial ratios are weighted and combined into a single factor called the Composite Financial Index (CFI). When calculated, a strength factor of three indicates a relatively healthy institution that can sustain moderate growth with expendable net position exceeding debt levels, although not by excessive amounts. The University's CFI at June 30, 2011, 2010 and 2009 was 5.1, 5.7 and 2.5, respectively. The following graph illustrates the four core financial ratios after they have been weighted and strength factors calculated.



Statement of Revenues, Expenses and Changes in Net Position

The following Statements of Revenues, Expenses and Changes in Net Position (condensed, in thousands) presents information showing the University's results of operations for the fiscal years ended June 30, 2011, 2010 and 2009. Changes in net position are reported as soon as the underlying event given rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will result in cash flows in future periods (e.g. the accrual for compensated absences).

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<u>Operating revenues:</u>			
Tuition & fees (net)	\$ 29,985	\$ 28,372	\$ 26,737
Grants	9,714	12,780	4,483
Sales & service of educational department	1,458	1,416	1,421
Auxiliary	8,043	8,047	6,467
Other operating revenue	<u>712</u>	<u>680</u>	<u>678</u>
Total operating revenue	<u>49,912</u>	<u>51,295</u>	<u>39,786</u>
<u>Operating expenses:</u>			
Instruction	27,139	25,682	25,010
Research & public service	524	517	489
Academic support	4,807	4,361	4,539
Student services	8,031	7,445	7,299
Scholarships	1,619	1,609	1,457
Institutional support	6,768	5,988	6,464
Operations & maintenance	10,881	10,818	11,306
Depreciation	4,241	4,010	3,557
Auxiliary	<u>8,049</u>	<u>7,412</u>	<u>6,201</u>
Total operating expenses	<u>72,059</u>	<u>67,842</u>	<u>66,322</u>
Net operating loss	<u>(22,147)</u>	<u>(16,547)</u>	<u>(26,536)</u>
<u>Non-operating revenue & expenses:</u>			
State appropriations	29,333	24,622	29,416
Gifts	3	1	-
Investment income	1,123	1,329	(179)
Interest expense	(583)	(385)	(546)
State capital appropriations	140	-	498
Capital grants	<u>5,319</u>	<u>1,684</u>	<u>325</u>
Total non-operating revenue	<u>35,335</u>	<u>27,251</u>	<u>29,514</u>
<u>Increase in net position</u>	13,188	10,704	2,978
Net position, beginning of the year	<u>66,942</u>	<u>56,238</u>	<u>53,260</u>
Net position, end of the year	\$ <u>80,130</u>	\$ <u>66,942</u>	\$ <u>56,238</u>

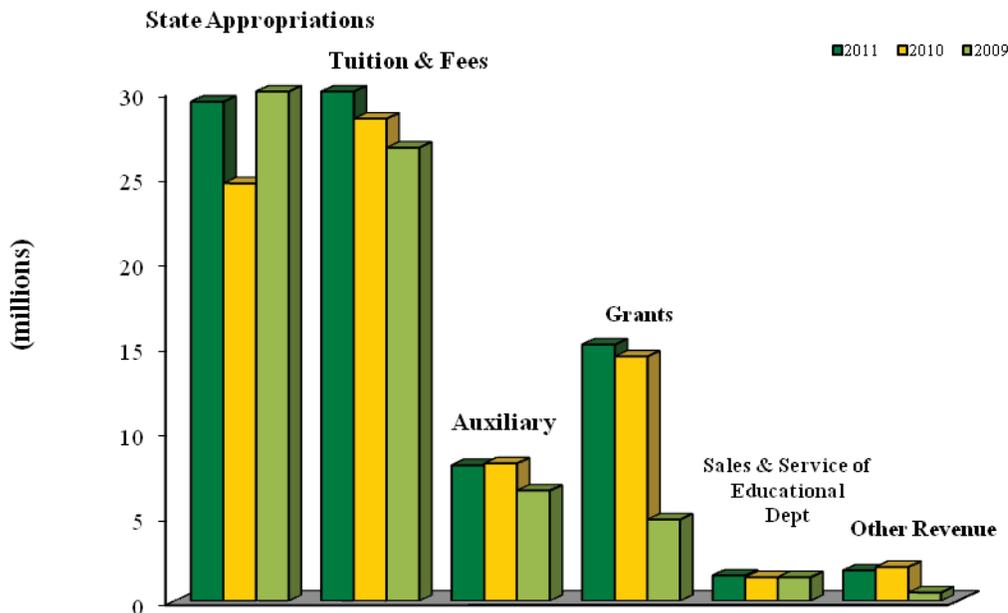
State appropriations are reported net of the amount of day school tuition collected by the University on behalf of the Commonwealth. The tuition collected (for state supported courses taught by state employees) is then remitted to the Commonwealth as required by Massachusetts General Law. The following schedule details the Commonwealth appropriations received by the University. Included in appropriations are the fringe benefit costs for University employees, which are paid by the Commonwealth. The Commonwealth appropriates general funds to cover the cost of fringe benefits for state employees, but these funds are not appropriated directly to the University. Non-state employees who are paid from trust funds, grants or other sources receive the same fringe benefits. The University reimburses the Commonwealth for the benefit costs associated with these employees. The fringe benefit rate charged by the Commonwealth, exclusive of compensated absences, for fiscal years 2011, 2010 and 2009 was 31.8%, 26.4% and 24.5%, respectively. The current fringe benefit rate includes group medical insurance (25.3%); retirement (5.3%) and terminal leave (1.2%).

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Commonwealth general appropriations	\$ 24,315	\$ 21,429	\$ 26,278
Appropriations to cover fringe benefits provided to employees of the Commonwealth	<u>7,486</u>	<u>5,581</u>	<u>6,334</u>
	31,801	27,010	32,612
Tuition remitted back to the Commonwealth	<u>(2,468)</u>	<u>(2,388)</u>	<u>(3,196)</u>
Net appropriations	29,333	24,622	29,416
Additional state capital appropriations	<u>140</u>	<u>-</u>	<u>498</u>
Total appropriations	<u>\$ 29,473</u>	<u>\$ 24,622</u>	<u>\$ 29,914</u>

The following is a graphic illustration of total revenue (operating, non-operating and capital) by source. Total revenue for the fiscal years ended June 30, 2011, 2010 and 2009 was \$85.8, \$78.9 and \$69.9 million, respectively.

Total Revenue by Source



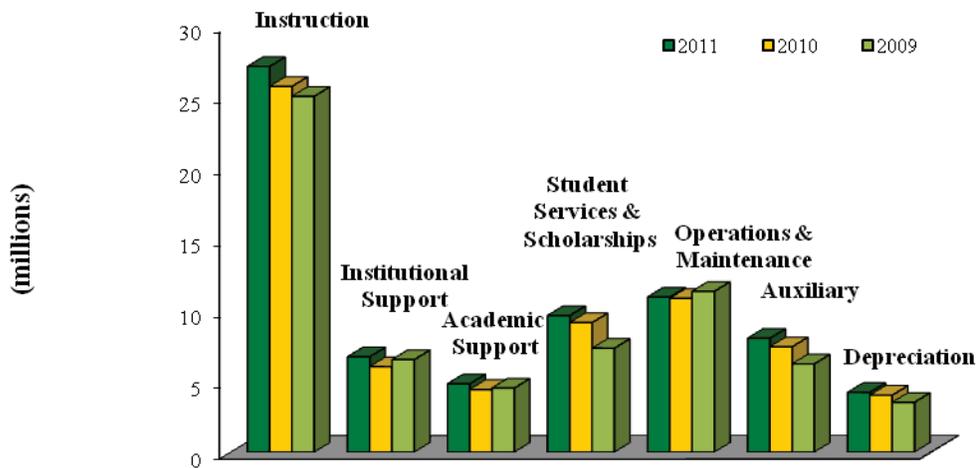
For the fiscal year ended June 30, 2011, total appropriations increased by 19.7% due to significant reductions that occurred in fiscal 2010. In fiscal 2010 reduced appropriations were replaced with ARRA funding which is now exhausted. Although appropriations in fiscal 2011 increased, the increase does not equate to the combination of appropriation and ARRA funding received in 2010. State support continues to trend down forcing the University to rely more heavily on student fees to support operations. Whereas state appropriations funded 61.5% of the total expenses in fiscal 2001, in fiscal 2011 that percentage is now 40.4%. All other operating costs incurred by the University are funded from other non state revenue sources. Tuition and fees are reported net of tuition waivers, exemptions, and scholarship allowances. The amount of tuition charged per student is controlled at the state level and remains unchanged. The increase in total tuition and fee revenue (5.7%) is due to increases in student fees and an increase in enrollment. During fiscal year 2011, 2010 and 2009, in-state tuition and fees for full time resident students was \$7,953, \$7,385 and \$6,880 per semester, respectively. In-state tuition and fees for commuting students in fiscal years 2011, 2010 and 2009 was \$3,900, \$3,450 and \$3,200 per semester, respectively.

Auxiliary revenue represents revenue received from the operations of the University’s residence halls. Auxiliary revenue does not include fees charged for the student housing facility owned and operated by the FSU Supporting Organization, Inc. (the “Supporting Organization”). The average residence hall occupancy rate for the year was 104% capacity.

Grant revenue is made up of federal, state and private grants. In fiscal 2011 the University received \$3.1 million in ARRA stabilization funds to help offset decreases in state appropriations. These funds were used to fund faculty payroll and fringe benefit costs. Grant revenue includes PELL, SEOG and Federal Work Study financial aid programs. Grant revenue also includes \$5.3 million in capital grant funds used for the various construction projects.

The following is a graphic illustration of total expenditures (operating and non-operating) by function. Total expenditures for the fiscal years ended June 30, 2011, 2010 and 2009 were \$72.6, \$68.2 and \$66.9 million, respectively.

Total Expenditures by Function



Total expenditures, exclusive of depreciation, increased by 6.5% primarily due to increased fringe benefit rates set by the Commonwealth. The most significant area of expense remains Instruction, which represents 37.7% of total operating expenses. Faculty payroll (\$17.4 million) and related benefits (\$5.3 million) represent approximately 84.4% of instructional expenditures. Institutional Support consists of the day-to-day operational support of the institution, excluding physical plant operations. Scholarships are funded from Title V entitlement programs such as PELL and SEOG, as well as, from institutional operating funds. Operations and Maintenance consists of expenditures related to physical plant. Expenditures in this functional area include general repair costs and deferred maintenance costs that are below the capitalization threshold of \$50,000. The financial statements include \$4.2, \$4.0 and \$3.6 million in depreciation expense for 2011, 2010 and 2009, respectively.

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

The following schedule (condensed, in thousands) illustrates the University's incurred losses from operations for the fiscal years ended June 30, 2011, 2010 and 2009.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Tuition & fees revenue, net	\$ 29,985	\$ 28,372	\$ 26,737
Other operating revenue	<u>19,927</u>	<u>22,923</u>	<u>13,049</u>
Total operating revenue	49,912	51,295	39,786
Operating expenses	<u>(72,059)</u>	<u>(67,842)</u>	<u>(66,322)</u>
Operating loss	(22,147)	(16,547)	(26,536)
Total state appropriations	29,333	24,622	29,914
Other revenue (expense), net	<u>6,002</u>	<u>2,629</u>	<u>(400)</u>
Increase in net position	\$ <u>13,188</u>	\$ <u>10,704</u>	\$ <u>2,978</u>

Net Operating Revenues Ratio: This ratio indicates whether total operating activities resulted in a surplus or deficit. A positive ratio indicates that the institution experienced an operating surplus and is indicative of efficient and effective operations. For the fiscal years ended June 30, 2011, 2010 and 2009, the University's net operating revenues ratio was 9.6%, 11.7% and 3.1%, respectively.

Statement of Cash Flows

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

The following are the University's statements of cash flows (condensed, in thousands) for the fiscal years ended June 30, 2011, 2010 and 2009:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Cash received from operations	\$ 50,760	\$ 50,918	\$ 39,783
Cash expended for operations	<u>(59,930)</u>	<u>(57,112)</u>	<u>(57,550)</u>
Net cash used by operations	(9,170)	(6,194)	(17,767)
Net cash provided by non-capital financing activities	21,850	19,043	23,082
Net cash used by capital and related financing activities	6,822	(5,895)	(9,955)
Net cash (used) provided by investing activities	<u>294</u>	<u>1,563</u>	<u>279</u>
Net increase (decrease) in cash and equivalents	19,796	8,517	(4,361)
Cash and equivalents, beginning of the year	<u>21,890</u>	<u>13,373</u>	<u>17,734</u>
Cash and equivalents, end of the year	\$ <u>41,686</u>	\$ <u>21,890</u>	\$ <u>13,373</u>

The University's cash and cash equivalents increased by approximately \$19.8 million during fiscal 2011, resulting in the cash and cash equivalents balance of \$41.7 million at fiscal year end. The increase is primarily due to proceeds received from the MSCBA bond issue for the renovation of the Hammond Campus Center. Non-capital financing activities, as defined by GASB, include state appropriations. These appropriations fund the operating activities of the University. Investing activities include interest and dividends received from portfolio investments,

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

Capital Assets

Capital assets consist of land, buildings and building improvements, equipment, library materials, and construction in progress. As of June 30, 2011, net capital assets increased to \$66.2 million after depreciation expense of \$4.2 million. During the current fiscal year there were \$15.0 million in additions to capital assets. Major capital initiatives either continuing or undertaken during 2011 include:

- Continuing construction for the Science Center Modernization project, \$6.6 million (to date)
- Continuing renovation of the Hammond Campus Center, \$3.4 million (to date)
- Completion of Phase I construction of new academic space on North Street, \$2 million
- Completion of Phase III of the Anthony Building renovations, \$1.1 million

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

Physical Asset Renewal Ratio: The extent to which capital renewal is occurring as compared to physical usage (depreciation) can be measured by the physical asset renewal ratio. A ratio above 1:1 indicates increasing investment in plant facilities. The University’s physical asset renewal ratio for fiscal years ended June 30, 2011, 2010 and 2009 was 3.1, 1.3 and 2.5, respectively.

Long Term Debt

The University has long term debt obligations issued for various capital projects. The debt was issued through several financing agreements with the Massachusetts Development Finance Agency (MDFA) (formerly the Massachusetts Health and Educational Facilities Authority (MHEFA)) and the Massachusetts State College Building Authority (MSCBA). The interest rate on the MDFA debt is a floating rate set every thirty five days based on market conditions. The interest rate on the MSCBA debt is based on an increasing coupon rate ranging from 3.00% to 6.54 % over the term of the debt as set by MSCBA. The debt is being repaid by the University primarily through dedicated student fees (DSF). The following table summarizes the various debt vehicles, interest rates, debt service and debt outstanding at June 30, 2011 and is inclusive of any bond premiums or discounts.

Issuing Agency	Construction Project	Fiscal Year Issued	Original Issue	Funding Source	Effective Interest Rate	Debt Service	Debt Outstanding	Maturity
MDFA	Recreation Center	1997	\$6,000,000	DSF	1.32%	\$217,945	\$4,037,685	2023
MSCBA	Holmes Dining Hall Renovations	2005	\$1,090,000	DSF	4.26%	\$82,894	\$845,000	2025
MSCBA	Elliot Athletic Field Improvements	2005	\$4,020,000	DSF	4.26%	\$304,369	\$3,110,000	2025
MSCBA	Holmes Dining Hall Renovations	2006	\$2,060,000	DSF	4.25%	\$165,012	\$1,783,353	2026
MSCBA	Hammond Campus Center Renovations	2011	\$15,935,656	DSF & operating funds	3.22%	\$203,072	\$15,923,924	2030
Total			\$29,105,656			\$973,292	\$25,699,962	

The University has acquired equipment through capital lease agreements with various financing companies. The capital lease agreements allow for the acquisition of telephone, printing and computer equipment, software and implementation costs, and various other furniture and equipment costs. Capital lease agreements are generally paid from operating funds and have terms ranging from three to five years. The following table summarizes the various capital lease agreements, interest rates, debt service and amounts outstanding at June 30, 2011.

Financing Agreement	Equipment Acquisition	Initial Lease Year	Original Amount Financed	Funding Source	Interest Rate	Debt Service	Debt Outstanding	Maturity
1	Student information system	2001	\$5,000,000	Operating funds	5.85%	\$308,166	-	2010
2	Residence Hall Furniture	2009	\$499,938	Operating funds	2.85%	\$107,636	\$332,974	2014
all others	Telephone, computer and other	2005 to 2009	\$538,455	Operating funds	3.27% - 6.29%	\$106,268	\$65,279	2010-2012
Total			\$6,038,393			\$522,070	\$398,253	

For the fiscal years ended June 30, 2011, 2010 and 2009, the total debt (current and long term) attributable to interagency payments, capital leases and bond premiums amounted to \$26.1, \$11.2 and \$13.1 million, respectively.

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

Viability Ratio: The availability of expendable net position to cover debt (the viability ratio) is a basic determinant of financial health. A viability ratio of 1.0 indicates that, as of the statement of net position date, the University has sufficient net position to satisfy its debt obligations. As of June 30, 2011, 2010 and 2009, the University's viability ratio was 1.4, 2.3 and 1.2, respectively.

Debt Burden: The debt burden ratio measures an institution's dependence on borrowed funds by comparing the level of debt service to total expenditures. In order to effectively manage resources, including debt, the Massachusetts Department of Higher Education recommends a debt burden ratio of no more than 5%. As of June 30, 2011, 2010 and 2009, the University's debt burden was 2.2%, 4.3% and 3.1%, respectively.

Looking Forward

Heavy construction equipment has become a constant feature on the campus as the University continues to invest in its buildings and grounds. The University has broken ground for the new Science Center. This is the first new academic building constructed at Fitchburg State University in thirty-five years. The 54,000 square foot addition to the existing Condike Science Building will be framed in the fall and is expected to be completed in two years, at which time the Condike Science Building will undergo a year-long renovation. The \$57 million project is expected to be completed in the spring of 2014.

Construction has also begun on renovations to the Hammond Campus Center. The \$26 million project will enhance the student life experience by creating new meeting spaces, student lounges and study spaces. The project will also create new office space for student support services and upgrade the building's mechanical infrastructure. The project is being funded by a combination of bond issues, capital appropriations and institutional funds. Other projects scheduled for completion in fiscal 2012 include Conlon lobby renovations, renovations of Miller Hall, renovations of Weston Auditorium and the Highland Avenue closure project.

The University continues to employ innovative uses of technology to maximize student learning. A new wireless system is now in place for all buildings on campus, including academic, administrative and residence halls as well

as common outdoor areas. The University has recently implemented a new application to connect faculty, staff and students. *Wimba Pronto* is a tool that allows users to utilize instant messaging, voice over internet protocols and video conferencing technologies in real time. During the summer, the University also began the deployment of virtual workstations that will place Fitchburg State University at the leading-edge of technology.

The University is near completion of its NEASC accreditation process. The New England Association of Schools and Colleges (NEASC) is the regional accrediting body that provides public assurance about educational quality. Institutions seeking accreditation must demonstrate adherence to eleven Standards of Accreditation which establish the criteria for institutional quality. The process begins with a lengthy self study meant to demonstrate that the institution has effective means to ensure institutional improvement and is completed prior to a formal peer evaluation. The self study is near completion and will be submitted to NEASC in advance of the evaluation team's March 2012 visit. The University's goal is to receive another 10 year accreditation.

In July 2010, the Massachusetts State Legislature passed legislation creating the Massachusetts State University system. As a result, Fitchburg State College officially became Fitchburg State University on October 26, 2010. The name change recognizes Fitchburg State as a comprehensive institution and allows it to better compete with peer institutions, access new opportunities and provide students with a competitive advantage.

Challenging economic times persisted through fiscal 2011 and are expected to continue well into the future. Federal stimulus funds, which supported operating budgets for the last two years, are now exhausted. Although there was some improvement in 2011, the economic environment remains volatile. Legislation was passed to allow institutions to retain out of state tuition which may give the University added flexibility. However, it comes with a corresponding reduction in state appropriations. There is little doubt that budget challenges will continue for additional years mandating that the University intensify its efforts to enhance current revenue, protect operating dollars, increase assets, and contain costs. These measures will ensure the long term solvency and success of the University, preserve its core mission, and make the best possible use of resources while at the same time positioning the institution for a viable, progressive and successful future.

Requests for Information

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Fitchburg State University
Fitchburg, Massachusetts

We have audited the accompanying financial statements of the business-type activities of Fitchburg State University (the University) (formerly known as Fitchburg State College) (a department of the Commonwealth of Massachusetts) as of and for the years ended June 30, 2011 and 2010, and the discretely presented component unit as of and for the years ended June 30, 2011 and 2010, which collectively comprise Fitchburg State University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Fitchburg State University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements of Fitchburg State University and its discretely presented component unit are intended to present the respective financial position, results of operations and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts that is attributable to the transactions of Fitchburg State University and its discretely presented component unit. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Massachusetts as of June 30, 2011 and 2010, the change in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of Fitchburg State University as of June 30, 2011 and 2010, and the respective results of operations and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, in fiscal 2011, the University elected to early implement the provisions of Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

In accordance with Government Auditing Standards, we have also issued a report dated October 18, 2011 on our consideration of Fitchburg State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters for the year ended June 30, 2011. 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 2011 audit.

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

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The residence hall fund and residence hall damage fund activity on pages 65 and 66, and the statistical section on pages 67 through 71 are presented for purposes of additional analysis and are not a required part of the 2011 financial statements. The residence hall fund and residence hall damage fund activity are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 2011 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2011 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2011 financial statements or to the 2011 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the residence hall fund and residence hall damage fund activity are fairly stated in all material respects in relation to the 2011 financial statements as a whole. The statistical section has not been subjected to the auditing procedures applied in the audit of the 2011 financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Ercolini & Company LLP

Boston, Massachusetts
October 18, 2011

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

STATEMENTS OF NET POSITION

JUNE 30, 2011 AND 2010

ASSETS	<u>2011</u>	Component Unit Fitchburg State University Foundation, Inc. <u>2011</u>	<u>2010</u>	Component Unit Fitchburg State University Foundation, Inc. <u>2010</u>
<u>Current Assets</u>				
Cash and cash equivalents	\$ 22,481,590	\$ 2,270,542	\$ 16,750,963	\$ 1,536,405
Restricted cash and cash equivalents	3,867,412	-	1,646,828	151,614
Investments	-	2,996,227	-	2,129,552
Accounts receivable, net	3,045,758	10,911	2,074,949	58,826
Contributions receivable, net	-	1,396,439	-	1,258,756
Loans receivable - current portion	4,189	-	2,570	-
Other current assets	<u>273,857</u>	<u>33,665</u>	<u>267,810</u>	<u>18,445</u>
Total current assets	<u>29,672,806</u>	<u>6,707,784</u>	<u>20,743,120</u>	<u>5,153,598</u>
<u>Noncurrent Assets</u>				
Restricted cash and cash equivalents	15,336,664	-	3,492,599	-
Investments	11,142,978	-	10,410,255	-
Endowment investments	699,432	7,122,220	671,693	6,996,347
Contributions receivable, net	-	104,426	-	252,097
Accounts receivable, net of current portion	408,721	-	-	-
Loans receivable, net of current portion	1,937,582	-	1,921,386	-
Capital assets, net	66,192,103	4,815,752	55,386,250	5,002,205
Other noncurrent assets	<u>177,185</u>	<u>153,737</u>	<u>211,803</u>	<u>150,299</u>
Total noncurrent assets	<u>95,894,665</u>	<u>12,196,135</u>	<u>72,093,986</u>	<u>12,400,948</u>
Total assets	<u>125,567,471</u>	<u>18,903,919</u>	<u>92,837,106</u>	<u>17,554,546</u>

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

STATEMENTS OF NET POSITION - CONTINUED

JUNE 30, 2011 AND 2010

LIABILITIES	<u>2011</u>	Component Unit Fitchburg State University Foundation, Inc. <u>2011</u>	<u>2010</u>	Component Unit Fitchburg State University Foundation, Inc. <u>2010</u>
<u>Current Liabilities</u>				
Interagency payables - current portion	\$ 1,146,738	\$ -	\$ 479,731	\$ -
Accounts payable and accrued liabilities	2,488,414	80,981	2,496,144	90,904
Accounts payable - construction	2,495,246	-	516,138	-
Accrued workers' compensation - current portion	148,183	-	130,238	-
Compensated absences - current portion	2,664,148	-	2,341,896	-
Faculty payroll accrual	2,624,441	-	2,488,554	-
Deferred revenue	1,642,678	22,405	1,203,210	42,005
Capital leases - current portion	166,275	-	497,437	-
Long-term debt - current portion	-	150,153	-	138,416
Deposits	259,160	-	319,850	-
Bank line of credit	-	-	-	125,000
Other current liabilities	<u>182,007</u>	<u>-</u>	<u>186,021</u>	<u>-</u>
Total current liabilities	<u>13,817,290</u>	<u>253,539</u>	<u>10,659,219</u>	<u>396,325</u>
<u>Noncurrent Liabilities</u>				
Interagency payables, net of current portion	24,553,224	-	9,786,006	-
Accrued workers' compensation, net of current portion	604,015	-	530,867	-
Compensated absences, net of current portion	1,709,652	-	1,673,143	-
Rebate payable	17,993	-	17,965	-
Capital leases, net of current portion	231,978	-	398,252	-
Long-term debt, net of current portion	-	3,653,458	-	3,803,481
Loan payable - federal financial assistance programs	<u>1,882,087</u>	<u>-</u>	<u>1,851,713</u>	<u>-</u>
Total noncurrent liabilities	<u>28,998,949</u>	<u>3,653,458</u>	<u>14,257,946</u>	<u>3,803,481</u>
Total liabilities	<u>42,816,239</u>	<u>3,906,997</u>	<u>24,917,165</u>	<u>4,199,806</u>
DEFERRED INFLOWS OF RESOURCES				
Service concession arrangement	<u>2,621,266</u>	<u>-</u>	<u>978,377</u>	<u>-</u>
Total deferred inflows of resources	<u>2,621,266</u>	<u>-</u>	<u>978,377</u>	<u>-</u>

See notes to financial statements.

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

STATEMENTS OF NET POSITION - CONTINUED

JUNE 30, 2011 AND 2010

NET POSITION	<u>2011</u>	Component Unit Fitchburg State University Foundation, Inc. <u>2011</u>	<u>2010</u>	Component Unit Fitchburg State University Foundation, Inc. <u>2010</u>
Net investment in capital assets	\$ 44,551,543	\$ 1,012,141	\$ 40,791,020	\$ 935,309
Restricted for:				
Non-expendable				
Scholarships and fellowships	458,004	4,078,595	470,158	4,161,886
Cultural programs	-	2,563,762	-	2,329,756
Centennial endowments	-	1,592,974	-	1,592,974
Other	-	80,095	-	73,186
Expendable				
Scholarships and fellowships	428,682	1,632,517	372,040	988,453
Cultural programs	-	1,090,192	-	810,625
Loans	256,995	-	252,226	-
Capital projects	8,857,161	-	3,589,443	-
Debt service	3,501,000	-	4,188,550	-
Other	930	327,139	930	294,447
Unrestricted	<u>22,075,651</u>	<u>2,619,507</u>	<u>17,277,197</u>	<u>2,168,104</u>
Total net position	<u>\$ 80,129,966</u>	<u>\$ 14,996,922</u>	<u>\$ 66,941,564</u>	<u>\$ 13,354,740</u>

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEARS ENDED JUNE 30, 2011 AND 2010

<u>OPERATING REVENUES</u>	<u>2011</u>	<u>Component Unit Fitchburg State University Foundation, Inc. 2011</u>	<u>2010</u>	<u>Component Unit Fitchburg State University Foundation, Inc. 2010</u>
Student tuition and fees	\$ 34,909,405	\$ -	\$ 32,449,385	\$ -
Student fees restricted for repayment of Interagency payables	1,453,795	-	1,479,837	-
Less: Scholarship allowances	(6,377,904)	-	(5,557,180)	-
Net student tuition and fees	29,985,296	-	28,372,042	-
Federal grants and contracts	6,282,893	-	5,603,958	-
State and local grants and contracts	88,284	44,036	196,606	20,880
Stimulus grants	3,098,023	-	6,666,991	-
Nongovernmental grants and contracts	244,867	-	312,022	-
Sales and services of educational departments	1,457,855	654,575	1,416,538	544,370
Gifts and contributions	-	3,313,136	-	456,229
Auxiliary enterprises:				
Residential life	8,010,522	200,120	8,014,002	185,873
Alcohol awareness and other programs	32,400	-	32,780	-
Other operating revenues	<u>712,028</u>	<u>6,909</u>	<u>680,069</u>	<u>4,816</u>
Total operating revenues	<u>49,912,168</u>	<u>4,218,776</u>	<u>51,295,008</u>	<u>1,212,168</u>
 <u>OPERATING EXPENSES</u>				
Educational and general:				
Instruction	27,138,609	2,896,430	25,682,331	62,204
Research	68,156	-	106,458	-
Public service	456,372	237,621	409,901	173,430
Academic support	4,806,942	13,985	4,361,103	14,407
Student services	8,030,813	127,590	7,445,019	175,969
Institutional support	6,767,632	313,982	5,988,283	201,371
Operations and maintenance of plant	10,881,270	69,092	10,818,202	335,269
Depreciation and amortization	4,241,022	101,729	4,010,435	81,525
Scholarships and awards	1,618,980	228,695	1,608,419	204,587
Auxiliary enterprises:				
Residential life	8,018,729	46,399	7,386,831	46,605
Alcohol awareness and other programs	<u>30,185</u>	<u>-</u>	<u>24,946</u>	<u>-</u>
Total operating expenses	<u>72,058,710</u>	<u>4,035,523</u>	<u>67,841,928</u>	<u>1,295,367</u>
Operating income (loss)	(22,146,542)	<u>183,253</u>	(16,546,920)	(83,199)

See notes to financial statements.

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

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

YEARS ENDED JUNE 30, 2011 AND 2010

<u>NONOPERATING REVENUES (EXPENSES)</u>	<u>2011</u>	Component Unit Fitchburg State University Foundation, Inc. <u>2011</u>	<u>2010</u>	Component Unit Fitchburg State University Foundation, Inc. <u>2010</u>
State appropriations	\$ 29,332,885	\$ -	\$ 24,622,349	\$ -
Gifts	2,740	-	1,271	-
Investment income (loss), net of investment expense	1,008,505	437,376	1,226,975	546,501
Investment income (loss) on restricted assets	114,426	1,099,417	100,845	453,484
Interest expense on Interagency payables and capital asset related debt	(583,060)	(228,580)	(384,861)	(222,608)
Net nonoperating revenues before capital and endowment additions	<u>29,875,496</u>	<u>1,308,213</u>	<u>25,566,579</u>	<u>777,377</u>
<u>INCOME BEFORE CAPITAL AND ENDOWMENT ADDITIONS</u>	<u>7,728,954</u>	<u>1,491,466</u>	<u>9,019,659</u>	<u>694,178</u>
State capital appropriations	140,046	-	-	-
Capital grants	5,319,402	-	1,683,802	-
Private gifts for endowment purposes	-	150,716	-	1,063,289
Total capital and endowment additions	<u>5,459,448</u>	<u>150,716</u>	<u>1,683,802</u>	<u>1,063,289</u>
<u>INCREASE (DECREASE) IN NET POSITION</u>	<u>13,188,402</u>	<u>1,642,182</u>	<u>10,703,461</u>	<u>1,757,467</u>
<u>NET POSITION - BEGINNING OF YEAR</u>	<u>66,941,564</u>	<u>13,354,740</u>	<u>56,238,103</u>	<u>11,597,273</u>
<u>NET POSITION - END OF YEAR</u>	<u>\$ 80,129,966</u>	<u>\$ 14,996,922</u>	<u>\$ 66,941,564</u>	<u>\$ 13,354,740</u>

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

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2011 AND 2010

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2011</u>	<u>2010</u>
Tuition and fees	\$ 29,920,906	\$ 27,937,671
Research grants and contracts	6,545,425	6,347,705
Stimulus funds	3,147,054	6,290,586
Payments to suppliers	(17,001,488)	(15,317,369)
Payments to utilities	(4,075,803)	(3,587,306)
Payments to employees	(34,404,372)	(33,930,067)
Payments for benefits	(2,449,114)	(2,348,948)
Payments for scholarships	(1,653,433)	(1,640,584)
Loans issued to students	(281,579)	(287,794)
Collection of loans to students	250,169	239,731
Auxiliary enterprise receipts:		
Residential life	8,022,787	8,015,838
Alcohol awareness program	32,400	32,780
Receipts from sales and services of educational departments	2,133,342	1,309,268
Other payments	(64,703)	67,237
Other receipts	<u>708,171</u>	<u>677,406</u>
Net cash provided by (used in) operating activities	(9,170,238)	(6,193,846)
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	24,314,689	21,426,785
Tuition remitted to State	(2,467,840)	(2,385,290)
Gifts from grants for other than capital purposes	<u>2,740</u>	<u>1,271</u>
Net cash provided by (used in) noncapital financing activities	<u>21,849,589</u>	<u>19,042,766</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State capital appropriations	140,046	-
Loan programs net funds received	34,418	20,576
Capital grants	573,382	-
Interagency payable proceeds received	15,935,656	-
Payments for capital assets	(8,194,122)	(3,065,878)
Principal paid on capital debt and leases	(981,453)	(2,448,026)
Interest paid on Interagency payables and capital leases	(507,920)	(401,194)
Bond issuance costs	<u>(178,440)</u>	<u>-</u>
Net cash provided by (used in) capital and related financing activities	<u>6,821,567</u>	<u>(5,894,522)</u>

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

STATEMENTS OF CASH FLOWS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

CASH FLOWS FROM INVESTING ACTIVITIES	<u>2011</u>	<u>2010</u>
Purchase of investments	(\$ 575,000)	(\$ 900,678)
Proceeds from sale of investments	575,000	2,087,113
Earnings on investments	<u>294,358</u>	<u>376,818</u>
Net cash provided by (used in) investing activities	<u>294,358</u>	<u>1,563,253</u>
Net increase (decrease) in cash and cash equivalents	19,795,276	8,517,651
Cash and cash equivalents - beginning of year	<u>21,890,390</u>	<u>13,372,739</u>
Cash and cash equivalents - end of year	<u>\$ 41,685,666</u>	<u>\$ 21,890,390</u>

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

Operating loss	(\$ 22,146,542)	(\$ 16,546,920)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Bad debt expense	47,067	122,582
Depreciation and amortization	4,241,022	4,010,435
Fringe benefits paid by the Commonwealth of Massachusetts	7,486,036	5,580,855
Changes in assets and liabilities:		
Receivables	162,305	(544,778)
Other current and noncurrent assets	207,012	229,514
Accounts payable and accrued liabilities	(96,610)	882,083
Accrued workers' compensation	91,093	157,337
Compensated absences	358,761	61,189
Accrued faculty payroll	135,887	(30,840)
Deferred revenue	439,468	(136,312)
Other current liabilities	(4,014)	18,463
Deposits	(60,690)	48,775
Loans to students	<u>(31,033)</u>	<u>(46,229)</u>
Net cash used in operating activities	<u>(\$ 9,170,238)</u>	<u>(\$ 6,193,846)</u>

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

STATEMENTS OF CASH FLOWS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

<u>SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:</u>	<u>2011</u>	<u>2010</u>
Acquisition of capital assets	\$ 15,046,875	\$ 5,581,039
Accounts payable thereon:		
Beginning of year	516,138	39,816
End of year	(2,495,246)	(516,138)
Acquisition of assets from capital lease obligations	-	(499,938)
Capital grants from DCAM	(4,873,645)	(1,538,901)
Net interest earned and incurred, capitalized in construction in progress	<u>-</u>	<u>-</u>
Payments for capital assets	<u>\$ 8,194,122</u>	<u>\$ 3,065,878</u>
Unrealized gain (loss) on investments	<u>\$ 738,899</u>	<u>\$ 1,097,274</u>
Fringe benefits paid by the Commonwealth of Massachusetts	<u>\$ 7,486,036</u>	<u>\$ 5,580,855</u>
Capital grants - amortization of deferred inflows of resources - service concession arrangement	<u>\$ 172,374</u>	<u>\$ 144,901</u>
 <u>RECONCILIATION OF CASH AND CASH EQUIVALENT BALANCES:</u>		
	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and cash equivalents	\$ 22,481,590	\$ 16,750,963
Restricted cash and cash equivalents	3,867,412	1,646,828
Noncurrent assets:		
Restricted cash and cash equivalents	<u>15,336,664</u>	<u>3,492,599</u>
Total cash and cash equivalents	<u>\$ 41,685,666</u>	<u>\$ 21,890,390</u>

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

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

1. Summary of significant accounting policies:

Organization:

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

1. Summary of significant accounting policies - continued:

Organization - continued:

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

During the year ended June 30, 2011, FSU Foundation distributed a net amount of \$355,744 to the University for both restricted and unrestricted purposes. During 2011, FSU Foundation distributed scholarships and awards in the amount of \$228,695 directly to students and faculty of the University, and incurred an additional \$3,679,664 in support of its mission in other ways. Complete financial statements for FSU Foundation can be obtained from the Office of the Vice President for Finance and Administration, Fitchburg State University, 160 Pearl Street, Fitchburg, MA 01420.

During the year ended June 30, 2010, FSU Foundation distributed a net amount of \$284,021 to the University for both restricted and unrestricted purposes. During 2010, FSU Foundation distributed scholarships and awards in the amount of \$204,587 directly to students and faculty of the University, and incurred an additional \$1,029,367 in support of its mission in other ways.

Basis of presentation:

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

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

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

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

1. Summary of significant accounting policies - continued:

Basis of presentation - continued:

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

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

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

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

Use of estimates:

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

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

1. Summary of significant accounting policies - continued:

Cash and cash equivalents and investments:

The University's cash and cash equivalents are considered to be cash on hand, cash and cash equivalents held by the Commonwealth's Treasurer and Receiver-General, MDFA and MSCBA, and short term investments with original maturities of three months or less from the date of acquisition.

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

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

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

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

At June 30, 2011 and 2010, the University had \$395,530 and \$339,238, respectively, in endowment income available for authorization for expenditure, which is included in restricted-expendable net position for scholarships and fellowships.

Massachusetts General Law, Chapter 15 grants authority to the University Boards of Trustees to administer the general business of the University. Inherent in this authority is the authority to invest funds of the University. Chapter 15 further grants the Trustees the authority to delegate, to the President, any said powers or responsibilities. The Board of Trustees of Fitchburg State University has delegated the authority to make specific investment decisions to the President of the University and the Finance Committee of the Board of Trustees. The University currently holds one publicly-traded equity security related to one of its endowments and it has invested in pooled investment funds with the Commonfund. The primary cash equivalent funds are the Massachusetts Municipal Depository Trust, an external investment pool for political subdivisions of the Commonwealth.

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

1. Summary of significant accounting policies - continued:

Cash and cash equivalents and investments - continued:

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

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

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

The University's and FSU Foundation's investment income are presented net of investment expense in the statements of revenues, expenses and changes in net position. The University's investment expense amounted to \$22,272 and \$32,392 for the years ended June 30, 2011 and 2010. The Foundation's investment expense amounted to \$42,923 and \$33,009 for the years ended June 30, 2011 and 2010, respectively.

Accounts receivable:

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

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

Loans receivable and payable:

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

1. Summary of significant accounting policies - continued:

Loans receivable and payable - continued:

refundable to the federal government upon the ending (liquidation) of the University's participation in the programs. The amount due to the federal government upon liquidation by the University is \$1,511,094 and \$1,489,744 for Perkins and \$370,993 and \$361,969 for NSL at June 30, 2011 and 2010, respectively. These amounts are included as a noncurrent liability in the accompanying statements of net position.

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

Capital assets:

Capital assets are controlled but not owned by the University. The University is not able to sell or otherwise pledge its assets, since the assets are all owned by the Commonwealth of Massachusetts. Capital assets, which include land, buildings, building improvements, equipment and other assets are reported in the statement of net position at cost. Capital assets are defined by the University as assets with an initial, individual cost of more than \$50,000 in accordance with the Commonwealth's capitalization policy. Prior to July 1, 2001, the Commonwealth's capitalization policy was for items with a unit cost of more than \$15,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The University does not hold collections of historical treasures, works of art, or other items not requiring capitalization or depreciation.

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

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

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

In addition, the land on which the residence halls stand is leased by the Massachusetts State College Building Authority (MSCBA) from the Commonwealth of Massachusetts at a yearly cost of one dollar. The residence halls have various lease terms which extend to the years 2012 and 2016. The leases can be extended at the end of the terms for additional 10-year periods.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

1. Summary of significant accounting policies - continued:

Capital assets - continued:

The University, per a management and services agreement between the MSCBA and Commonwealth of Massachusetts, is charged a semi-annual revenue assessment which is based on a certified occupancy report, the current rent schedule, and the design capacity for each of the residence halls. This revenue assessment is used by MSCBA to pay principal and interest due on its long-term debt obligations. These obligations may include the costs of periodic renovations and improvements to the residence halls. Certain obligations are guaranteed by the Commonwealth. The revenue assessment amounts for the years ended June 30, 2011 and 2010 were \$4,704,606 and \$4,219,772, respectively. These amounts are included in the Residential life auxiliary enterprises in the accompanying statements of revenues, expenses and changes in net position. All facilities and obligations of the MSCBA are included in the financial statements of the MSCBA. It is not practical to determine the specific asset cost or liability attributable to the University. The leases, therefore, are accounted for under the operating method for financial statement purposes.

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

Contributions and bequests:

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

Compensated absences:

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

1. Summary of significant accounting policies - continued:

Student fees:

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

Deferred revenue:

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

Agency funds:

Agency funds consist of resources held by the University as custodian or fiscal agent of student organizations, the State Treasurer and others. Transactions are recorded to asset and liability accounts. There were no material balances at June 30, 2011 and 2010.

Bond related items:

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

Interest expense and capitalization:

The University follows the policy of capitalizing interest expense as a component of the cost of capital assets constructed for its own use. During 2011 and 2010, total interest costs incurred were accounted for as follows:

	<u>2011</u>	<u>2010</u>
Total interest costs incurred	\$ 600,446	\$ 390,454
Less: Interest income on unused funds from tax exempt borrowings	-	-
Rebate payable increase (decrease)	28	90
Bond premium amortization	(17,414)	(5,683)
	583,060	384,861
Less: Capitalized portion of net interest earned and incurred	-	-
Interest expense	<u>\$ 583,060</u>	<u>\$ 384,861</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

1. Summary of significant accounting policies - continued:

Fringe benefits:

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

Tax status:

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

Reclassifications:

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation.

Recent accounting pronouncements:

Recently adopted accounting pronouncements -

In November, 2010, the GASB issued GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. GASB Statement No. 60 addresses the accounting, financial reporting and disclosure related to service concession arrangements. The University has a service concession arrangement with Compass Group, Inc. to manage and operate the University's food services operation. GASB Statement No. 60 is effective for financial statements for periods beginning after December 15, 2011. The University elected to early adopt the requirements of this Statement in fiscal 2011. The effect of the adoption of GASB Statement No. 60 in the accompanying financial statements is discussed in Note 11.

In December, 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statement No. 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (i) Financial Accounting Standards Board (FASB) Statements and Interpretations; (ii) Accounting Principles Board Opinions; and (iii) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedures. GASB Statement No. 62 also supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. The requirements of GASB Statement No. 62 are effective for financial statements for periods beginning after December 15, 2011 with earlier application encouraged. The University elected to early adopt the requirements of this Statement in fiscal 2011. The adoption of GASB Statement No. 62 did not have a material impact on the University's financial statements.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

1. Summary of significant accounting policies - continued:

Recent accounting pronouncements - continued:

Recently adopted accounting pronouncements - continued -

In June, 2011, the GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources (consumption of net assets that is applicable to a future reporting period) and deferred inflows of resources (acquisition of net assets that is applicable to a future reporting period) and distinguishes them from assets and liabilities. GASB Statement No. 63 also renames *net assets* to *net position* as the residual measure of the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources within a statement of financial position. GASB Statement No. 63 is effective for financial statements for periods beginning after December 15, 2011. The University elected to early adopt the requirements of this Statement in fiscal 2011. As a result of the early adoption, the University has renamed the Statement of Net Assets to the Statement of Net Position; reported deferred inflows of resources in a separate section following liabilities; and presented the Statement of Net Position in a format that displays assets, plus deferred outflows of resources (of which there are none), less liabilities, less deferred inflows of resources to equal net position. The Statement has been applied retroactively by reclassifying the Statement of Net Position and balance sheet information for the year ended June 30, 2010.

Recent accounting pronouncements not yet adopted -

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

2. Cash and cash equivalents, and investments:

Cash and cash equivalents - unrestricted and restricted - include the following at June 30, 2011 and 2010:

	2011		
	<u>Current Unrestricted</u>	<u>Current Restricted</u>	<u>Noncurrent Restricted</u>
Cash and money market accounts	\$ 1,966,465	\$ 238,370	\$ 41,463
Cash equivalents held by MDFA *	-	195,091	414,106
Cash equivalents held by MSCBA ***	-	1,271,600	13,686,794
Massachusetts Municipal Depository Trust	18,839,560	1,961,717	466,488
Massachusetts State Treasurer **	1,674,770	200,634	727,813
Petty cash	<u>795</u>	<u>-</u>	<u>-</u>
	<u>\$ 22,481,590</u>	<u>\$ 3,867,412</u>	<u>\$ 15,336,664</u>
	2010		
	<u>Current Unrestricted</u>	<u>Current Restricted</u>	<u>Noncurrent Restricted</u>
Cash and money market accounts	\$ 1,625,295	\$ 204,743	\$ 26,847
Cash equivalents held by MDFA *	-	184,048	414,458
Cash and cash equivalents held by MSCBA ***	-	-	835,566
Massachusetts Municipal Depository Trust	13,791,308	1,050,130	2,215,728
Massachusetts State Treasurer **	1,333,350	207,907	-
Petty cash	<u>1,010</u>	<u>-</u>	<u>-</u>
	<u>\$ 16,750,963</u>	<u>\$ 1,646,828</u>	<u>\$ 3,492,599</u>

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

** The University has recorded cash held for the benefit of the University by the State Treasurer in the amount of \$1,674,770 and \$1,333,350 at June 30, 2011 and 2010, respectively, for University funds and \$200,634 and \$207,907 at June 30, 2011 and 2010, respectively, to pay year-end liabilities. The latter balance represents amounts paid from State appropriations subsequent to the fiscal year end. At June 30, 2011, cash held for the benefit of the University by the State Treasurer also includes other restricted funds in the amount of \$727,813.

*** This amount consists of cash and cash equivalents which are restricted by the Massachusetts State College Building Authority (MSCBA) for the funding of certain construction projects at the University and payments to retire bonds (See Note 13). The University does not have access to these funds except by authorization of MSCBA.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

2. Cash and cash equivalents, and investments - continued:

Money market funds include the JPMorgan Prime Money Market Fund in the aggregate amount of \$879,048 and \$708,969 at June 30, 2011 and 2010, respectively. The JPMorgan Prime Money Market Fund invests in U.S. Treasury and government agency securities, high quality corporate securities, asset-backed and commercial and bank paper, repurchase agreements and reverse repurchase agreements, taxable municipal obligations and funding agreements issued by banks and highly rated U.S. insurance companies. The fund aims to provide the highest possible level of current income while still maintaining liquidity and preserving capital. At June 30, 2011 and 2010, the fund's investment securities had a weighted average maturity of 43 and 36 days, respectively. The fund had an average credit quality rating of AAAM at June 30, 2011 and 2010.

Money market funds include the State Street Institutional Liquid Reserves Fund in the aggregate amount of \$879,225 and \$708,969 at June 30, 2011 and 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, 2011 and 2010, the fund's investment securities had a weighted average maturity of 33 and 29 days, respectively. The fund had an average credit quality rating of AAAM at June 30, 2011 and 2010.

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

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

Custodial credit risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University's deposit policy provides for bank balances to be held in interest-bearing checking accounts and, where account activity and balances warrant it, in money market accounts. All bank balances are to be held at financial institutions of high credit quality. As of June 30, 2011 and 2010, all of the University's bank balances in excess of Federal Deposit Insurance Corporation (FDIC) limits are fully collateralized under an agreement with Sovereign Bank.

Credit risk

The University is required to comply with the Commonwealth of Massachusetts' deposit and investment policies which are principally defined in the Massachusetts General Laws, Chapter 29. State Statutes permit investment in obligations of the U.S. Treasury, authorized bonds of all states, bankers' acceptances, certificates of deposit,

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

2. Cash and cash equivalents, and investments - continued:

Credit risk - continued

commercial paper rated within the three highest classifications established by Standard & Poor's Corporation and Moody's Commercial Paper Record and repurchase agreements secured by any of these obligations. The University has also adopted its own formal investment policy, the objectives of which are: safety of principal; liquidity for operating needs; return on investment; and diversification of risk. The University's investment policy generally limits the maturities of investments to not more than one year. However, the University may invest in securities with maturities in excess of one year if it is determined to be in the best interest of the University as described in the University's investment policy. The University may also appoint a professional fund manager and invest in equity and bond funds. Eligible investments shall be consistent with those permitted by State Statutes.²

As of June 30, 2011 and 2010, the fair values of the University's deposits held at the Massachusetts Municipal Depository Trust were \$21,267,765 and \$17,057,166, respectively. At June 30, 2011, the approximate percentage of the University's deposits held at the MMDT and the respective investment maturities in days were as follows: 38% at 30 days or less; 27% at 31-90 days; 17% at 91-180 days; and 18% at 181 - 397 days. At June 30, 2011, approximately 98% of the MMDT's cash portfolio had a credit quality rating of P1 and the remaining 2% had a credit quality rating of P2.

The University's funds held at MDFA are invested in the Short Term Asset Reserve (STAR) Fund and had a fair value of \$609,197 and \$598,506 at June 30, 2011 and 2010, respectively. The STAR Fund invests primarily in U.S. Treasury bills, notes, and other obligations guaranteed by the U.S. government or its agencies or instrumentalities. Additionally, the fund invests in repurchase agreements, bankers' acceptances, certificates of deposit, commercial paper, notes, and both corporate floating rate and corporate fixed-rate securities. The STAR Fund maintains a net asset value of \$1 per share and had a fund credit quality rating of AAAM as of June 30, 2011 and 2010, respectively. The fund's investment securities maintain a weighted average maturity of less than 57 days.

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

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

2. Cash and cash equivalents, and investments - continued:

Credit risk - continued

At June 30, 2010, certain of the University's funds are held at MSCBA. Of the total, \$302,390 is deposited in various cash accounts which are fully collateralized by securities in accounts in the name of MSCBA, and \$533,176 is invested in various funds as listed below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			<u>Credit Rating</u>
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	
Federal Home Loan Mortgage Corporation discount note	\$ 388,335	\$ 388,335	\$ -	\$ -	AAA
Federal Home Loan Banks discount note	<u>144,841</u>	<u>144,841</u>	<u>-</u>	<u>-</u>	AAA
Total	<u>\$ 533,176</u>	<u>\$ 533,176</u>	<u>\$ -</u>	<u>\$ -</u>	

On August 5, 2011, Standard and Poor's (S&P) lowered its long-term Sovereign credit rating on the United States of America to 'AA+' from 'AAA'.

The University's investments are represented by the following at June 30, 2011 and 2010:

	<u>2011</u>		<u>2010</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
<u>Noncurrent:</u>				
Commonfund (pooled investment funds):				
Intermediate Term Fund	\$ 1,850,648	\$ 1,800,504	\$ 1,275,648	\$ 1,206,259
Multi-Strategy Equity Fund	3,000,000	3,074,307	3,000,000	2,443,695
High Quality Bond Fund	6,646,563	6,928,538	7,200,000	7,380,779
Bank of America Corporation common stock (3,564 shares)	<u>7,257</u>	<u>39,061</u>	<u>7,257</u>	<u>51,215</u>
	<u>\$ 11,504,468</u>	<u>\$ 11,842,410</u>	<u>\$ 11,482,905</u>	<u>\$ 11,081,948</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

2. Cash and cash equivalents, and investments - continued:

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

	<u>2011</u>	<u>2010</u>
Investments	\$ 11,142,978	\$ 10,410,255
Endowment investments	<u>699,432</u>	<u>671,693</u>
	<u>\$ 11,842,410</u>	<u>\$ 11,081,948</u>

The Intermediate Term Fund invests in high-quality fixed income securities with maturities generally ranging from 1-3 years. The fund may, however, invest in high-quality fixed income securities with maturities ranging from one day to 30 years. The fund's objective is to exceed the performance of the Merrill Lynch 1-3 Year Treasury Index. At June 30, 2011 and 2010, the fund's investment securities had a weighted average life of 2.9 years at each date and an effective duration of 1.6 and 1.5 years, respectively. The fund had an average credit quality rating of AA as of both June 30, 2011 and 2010.

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

The High Quality Bond Fund invests in debt securities across strategies in proportions that are considered to be optimal for a fully diversified fixed income portfolio. The fund's assets are primarily invested in U.S. government agency securities, mortgages, corporate bonds and commercial mortgage backed securities. The fund's objective is to exceed the return of the broad U.S. bond market as measured by the Barclays Capital U.S. Aggregate Bond Index. As of June 30, 2011 and 2010, the fund's investment securities had a weighted average life of 9.5 and 8.5 years, respectively, and an effective duration of 4.3 and 4.1 years, respectively. The fund had an average credit quality rating of AA as of both June 30, 2011 and 2010.

FSU Foundation's cash and cash equivalents consist of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Cash and other demand deposits	\$ 1,886,488	\$ 1,212,355
Money Market Funds	<u>384,054</u>	<u>475,664</u>
	<u>\$ 2,270,542</u>	<u>\$ 1,688,019</u>

Money market funds include the SSgA US Government Money Market Fund, the Schwab Advisor Cash Reserves Fund, and the Dreyfus Cash Management Institutional - Shares Fund in the amounts of \$154,884, \$31,140, and \$198,030, respectively, at June 30, 2011.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

2. Cash and cash equivalents, and investments - continued:

Money market funds include the JP Morgan Prime Money Market Fund and the State Street Institutional Liquid Reserve Fund in the amounts of \$237,829 and \$237,835, respectively, at June 30, 2010.

The cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Included in cash and equivalents at June 30, 2011 are overnight repurchase agreements in the amounts of \$1,624,569 and \$124,540 each at an interest rate of .15% per annum. 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. At June 30, 2011 and 2010, overnight repurchase agreements were fully collateralized under an agreement between Sovereign Bank and the University. At June 30, 2011 and 2010, FSU Foundation's uninsured cash and equivalent balances, including the SSgA US Government Money Market Fund, Schwab Advisor Cash Reserves Fund, Dreyfus Cash Management Institutional - Shares Fund, JPMorgan Prime Money Market Fund, and State Street Institutional Liquid Reserves Fund, amounted to \$384,054 and \$578,701, respectively.

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

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

FSU Foundation's investments are represented by the following at June 30, 2011:

	<u>Cost</u>	<u>Fair Value</u>
Equities	\$ 4,503,714	\$ 4,833,905
Preferred stock	201,927	203,862
Mutual funds	2,681,710	2,775,217
Corporate bonds	907,401	900,809
U.S. government securities	1,406,291	1,404,654
Commonfund Realty Investors, LLC	-	-
	<u>\$ 9,701,043</u>	<u>\$ 10,118,447</u>

FSU Foundation's investments are represented by the following at June 30, 2010:

	<u>Cost</u>	<u>Fair Value</u>
Commonfund (pooled investment funds):		
Intermediate Term Fund	\$ 41,050	\$ 36,734
Multi-Strategy Equity Fund	5,128,882	5,712,167
Multi-Strategy Bond Fund	3,091,150	3,376,998
Commonfund Realty Investors, LLC	-	-
	<u>\$ 8,261,082</u>	<u>\$ 9,125,899</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

2. Cash and cash equivalents, and investments - continued:

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

	<u>2011</u>	<u>2010</u>
Current assets:		
Investments	\$ 2,996,227	\$ 2,129,552
Noncurrent assets:		
Investments	-	-
Endowment investments	<u>7,122,220</u>	<u>6,996,347</u>
	<u>\$ 10,118,447</u>	<u>\$ 9,125,899</u>

At June 30, 2011, net unrealized gains in FSU Foundation's investment portfolio amounted to \$417,404. At June 30, 2010, net unrealized gains in FSU Foundation's investment portfolio amounted to \$864,817.

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

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

Investments held by FSU Foundation with an equivalent fair value of \$1,287,000 collateralize certain debt agreements (see Notes 14 and 15).

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.

FSU 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, 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. No redemptions have been scheduled for payment by the Fund.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

2. Cash and cash equivalents, and investments - continued:

On June 30, 2010, FSU Foundation wrote down its investment in Commonfund Realty Investors, LLC to zero representing its fair value based upon the latest available information (March 31, 2010) provided by its professional investment manager. The 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 investment income in FSU Foundation's 2010 statement of revenues, expenses and changes in net position. 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 were 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. Although the capital markets showed some 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 did not recover, and liquidity and capital sources remained unavailable to the investment fund at sensible pricing. The investment fund had been 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. The investment fund has no redemptions scheduled for payment to its investors. Due to these factors, in the opinion of management of FSU Foundation, the decline in fair value of this investment was considered to be other-than-temporary.

At June 30, 2011, the fair value of FSU's Foundation investments in debt securities by contractual maturities is as follows:

	Maturity				Total
	<u>Within 1 year</u>	<u>1 - 5 Years</u>	<u>5-10 Years</u>	<u>More Than 10 Years</u>	
Corporate bonds	\$ 62,712	\$ 536,411	\$ 301,686	\$ -	\$ 900,809
U.S. government securities	<u>103,652</u>	<u>1,120,611</u>	<u>180,391</u>	<u>-</u>	<u>1,404,654</u>
	<u>\$ 166,364</u>	<u>\$ 1,657,022</u>	<u>\$ 482,077</u>	<u>\$ -</u>	<u>\$ 2,305,463</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

2. Cash and cash equivalents, and investments - continued:

The following table presents the gross unrealized losses and fair values of FSU Foundation's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that the investments have been in a continuous unrealized loss position at June 30, 2011.

<u>Description of Investments</u>	<u>Less than 12 months</u>		<u>12 months or greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Equities	\$ 1,011,122	\$ 60,586	\$ -	\$ -	\$ 1,011,122	\$ 60,586
Preferred stocks	59,968	254	-	-	59,968	254
Mutual funds	532,545	11,618	-	-	532,545	11,618
Corporate bonds	672,487	9,625	-	-	672,487	9,625
U.S. government securities	<u>592,793</u>	<u>7,208</u>	<u>-</u>	<u>-</u>	<u>592,793</u>	<u>7,208</u>
Total	<u>\$ 2,868,915</u>	<u>\$ 89,291</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,868,915</u>	<u>\$ 89,291</u>

At June 30, 2010, the fair values and unrealized losses of FSU Foundation's investments in an unrealized loss position were not material.

Equities and preferred stocks

FSU Foundation has one hundred and one investments in equities of which twenty-four were in an unrealized loss position at June 30, 2011. FSU Foundation also has twenty investments in preferred stocks of which six were in an unrealized loss position at June 30, 2011. The fluctuation in the equity securities and preferred stocks reflects general economic conditions and current changes in the industries of the companies in which the securities are held. FSU Foundation has evaluated the severity and duration of the impairments. Based on that evaluation and FSU Foundation's ability and intent to hold these investments for a reasonable period of time sufficient for a recovery of fair value, FSU Foundation does not consider these investments to be other-than-temporarily impaired at June 30, 2011.

Mutual funds

FSU Foundation has twenty mutual fund investments of which four are in an unrealized loss position at June 30, 2011. The mutual funds are invested in equities and debt securities of companies in diverse industries and reflect current general economic conditions. FSU Foundation has evaluated the severity and duration of the impairments. Based on that evaluation and FSU Foundation's ability and intent to hold the investments for a reasonable period of time sufficient for a recovery of fair value, FSU Foundation does not consider these investments to be other-than-temporarily impaired at June 30, 2011.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

2. Cash and cash equivalents, and investments - continued:

Corporate bonds

At June 30, 2011, FSU Foundation's investments in corporate debt securities were in the form of interest bearing securities of top-rated corporate issuers. FSU Foundation has forty corporate debt security investments of which twenty-three are in an unrealized loss position at June 30, 2011. The securities in an unrealized loss position are comprised of fixed-rate debt securities of varying maturities. The value of fixed income securities is sensitive to interest rate fluctuations and the credit rating of the issuer.

There have been no indications of default on interest or principal payments by the issuers. FSU Foundation does not intend to sell nor does it believe it would be required to sell the corporate bonds before their anticipated market value recovery. Accordingly, FSU Foundation does not consider these investments to be other-than-temporarily impaired at June 30, 2011.

U.S. government obligations

FSU Foundation has nineteen U.S. government investment securities at June 30, 2011, of which eleven were in an unrealized loss position as a result of interest rate fluctuations. The contractual terms of the investments do not allow the issuer to settle the securities at a price less than the amortized cost of the investment. FSU Foundation does not intend to sell nor does it believe it would be required to sell these investment securities before their anticipated market value recovery. Accordingly, FSU Foundation does not consider the investments to be other-than-temporarily impaired at June 30, 2011.

Investment securities and real estate investments are exposed to various risks, such as interest rate, market, and credit risks. Real estate investments are exposed to additional risks based on investment concentrations by specific property type and geographic area. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the value of these investments will occur in the near term and such changes could materially affect the University's and FSU Foundation's investment account balances.

3. Accounts and contributions receivable:

The University's accounts receivable include the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Student accounts receivable	\$ 1,441,540	\$ 1,592,074
Parking and other fines receivable	114,395	149,955
Commissions receivable	147,434	88,008
Grants receivable (see Note 26)	407,713	498,744
Compass receivable, including accrued interest of \$58,724 (see Note 11)	1,589,146	-
Miscellaneous other receivable	<u>6,881</u>	<u>12,713</u>
	3,707,109	2,341,494
Less allowance for doubtful accounts	<u>(252,630)</u>	<u>(266,545)</u>
	<u>\$ 3,454,479</u>	<u>\$ 2,074,949</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

3. Accounts and contributions receivable - continued:

FSU Foundation's contributions receivable consist of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Receivable in less than one year	\$ 1,406,930	\$ 1,272,718
Receivable in one to five years	102,350	259,900
Receivable in one to five years	<u>3,000</u>	<u>-</u>
	1,512,280	1,532,618
Discount on pledges	(11,415)	(21,765)
	<u>\$ 1,500,865</u>	<u>\$ 1,510,853</u>

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

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

	<u>2011</u>	<u>2010</u>
Measured at fair value	\$ 382,835	\$ 530,970
Measured at net realizable value	<u>1,118,030</u>	<u>979,883</u>
	<u>\$ 1,500,865</u>	<u>\$ 1,510,853</u>

4. Loans receivable:

Loans receivable include the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Perkins loans receivable	\$ 1,580,099	\$ 1,560,043
Nursing loans receivable	357,483	361,343
Emergency student loans receivable	<u>5,086</u>	<u>4,058</u>
	1,942,668	1,925,444
Less allowance for doubtful accounts	(897)	(1,488)
	<u>\$ 1,941,771</u>	<u>\$ 1,923,956</u>

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

5. Capital assets:

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

Capital assets:	Totals <u>June 30, 2010</u>	<u>Additions</u>	Reclassifications* and <u>Reductions</u>	Totals <u>June 30, 2011</u>
<u>Non-depreciable capital assets</u>				
Land	\$ 4,597,544	\$ 145,221	\$ 388,076	\$ 5,130,841
Construction in progress	<u>3,294,351</u>	<u>9,430,189</u>	<u>(1,418,676)</u>	<u>11,305,864</u>
Total non-depreciable assets	<u>7,891,895</u>	<u>9,575,410</u>	<u>(1,030,600)</u>	<u>16,436,705</u>
<u>Depreciable capital assets</u>				
Buildings	44,491,325	-	-	44,491,325
Building improvements	41,593,669	5,143,078	1,030,600	47,767,347
Equipment	14,135,610	273,797	-	14,409,407
Furniture	597,676	-	-	597,676
Library materials	<u>320,942</u>	<u>54,590</u>	<u>(34,138)</u>	<u>341,394</u>
Total depreciable assets	<u>101,139,222</u>	<u>5,471,465</u>	<u>996,462</u>	<u>107,607,149</u>
Total capital assets	<u>109,031,117</u>	<u>15,046,875</u>	<u>(34,138)</u>	<u>124,043,854</u>
Less: accumulated depreciation				
Buildings	34,232,098	928,672	-	35,160,770
Building improvements	8,779,013	2,185,881	-	10,964,894
Equipment	10,509,522	959,764	-	11,469,286
Furniture	124,234	132,567	-	256,801
Library materials	<u>-</u>	<u>34,138</u>	<u>(34,138)</u>	<u>-</u>
Total accumulated depreciation	<u>53,644,867</u>	<u>4,241,022</u>	<u>(34,138)</u>	<u>57,851,751</u>
Capital assets, net	<u>\$ 55,386,250</u>	<u>\$ 10,805,853</u>	<u>\$ -</u>	<u>\$ 66,192,103</u>

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

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

The University has entered into various contract commitments with contractors for improvements to its facilities. The outstanding balances under commitment were approximately \$1,250,000 at June 30, 2011.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

5. Capital assets - continued:

Capital assets activity of the University for the year ended June 30, 2010 is as follows:

Capital assets:	Totals <u>June 30, 2009</u>	<u>Additions</u>	Reclassifications* and <u>Reductions</u>	Totals <u>June 30, 2010</u>
<u>Non-depreciable capital assets</u>				
Land	\$ 4,597,544	\$ -	\$ -	\$ 4,597,544
Construction in progress	<u>1,137,902</u>	<u>2,391,041</u>	(<u>234,592</u>)	<u>3,294,351</u>
Total non-depreciable assets	<u>5,735,446</u>	<u>2,391,041</u>	(<u>234,592</u>)	<u>7,891,895</u>
<u>Depreciable capital assets</u>				
Buildings	44,491,325	-	-	44,491,325
Building improvements	39,130,645	2,315,093	147,931	41,593,669
Equipment	13,769,419	294,529	71,662	14,135,610
Furniture	82,739	499,938	14,999	597,676
Library materials	<u>310,405</u>	<u>80,438</u>	(<u>69,901</u>)	<u>320,942</u>
Total depreciable assets	<u>97,784,533</u>	<u>3,189,998</u>	<u>164,691</u>	<u>101,139,222</u>
Total capital assets	<u>103,519,979</u>	<u>5,581,039</u>	(<u>69,901</u>)	<u>109,031,117</u>
Less: accumulated depreciation				
Buildings	33,303,426	928,672	-	34,232,098
Building improvements	6,793,276	1,985,737	-	8,779,013
Equipment	9,607,631	901,891	-	10,509,522
Furniture	-	124,234	-	124,234
Library materials	<u>-</u>	<u>69,901</u>	(<u>69,901</u>)	<u>-</u>
Total accumulated depreciation	<u>49,704,333</u>	<u>4,010,435</u>	(<u>69,901</u>)	<u>53,644,867</u>
Capital assets, net	<u>\$ 53,815,646</u>	<u>\$ 1,570,604</u>	<u>\$ -</u>	<u>\$ 55,386,250</u>

As of June 30, 2010, capital assets of the University with a cost of approximately \$12,745,000 were fully depreciated and still in service.

* Construction costs incurred for various capital projects were included in construction in progress and subsequently transferred to capital asset additions upon completion during the fiscal year ended June 30, 2010.

The University has considered the requirements of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, and has noted no implications of this standard to the University's financial statements for the years ended June 30, 2011 and 2010, respectively.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

5. Capital assets - continued:

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

Capital assets:	Totals June 30, 2010	Additions	Reclassifications and Reductions	Totals June 30, 2011
Real estate under lease to the University:				
Land	\$ 402,663	\$ -	\$ -	\$ 402,663
Building	1,557,724	-	-	1,557,724
Building improvements	<u>100,452</u>	-	-	<u>100,452</u>
	<u>2,060,839</u>	-	-	<u>2,060,839</u>
Real estate used for student housing:				
Land	253,555	-	-	253,555
Building	434,225	-	-	434,225
Building improvements	<u>28,600</u>	-	-	<u>28,600</u>
	<u>716,380</u>	-	-	<u>716,380</u>
Land	1,733,311	-	(123,270)	1,610,041
Land improvements	61,899	-	-	61,899
Buildings	556,478	-	-	556,478
Building improvements	39,569	-	-	39,569
Equipment	403,453	35,077	-	438,530
Furniture and fixtures	22,287	-	-	22,287
Library materials	<u>6,570</u>	-	-	<u>6,570</u>
Total capital assets	<u>5,600,786</u>	<u>35,077</u>	<u>(123,270)</u>	<u>5,512,593</u>
Less: accumulated depreciation				
Real estate under lease to the University:				
Land	-	-	-	-
Building	149,282	38,943	-	188,225
Building improvements	<u>15,905</u>	<u>5,022</u>	-	<u>20,927</u>
	<u>165,187</u>	<u>43,965</u>	-	<u>209,152</u>
Real estate used for student housing:				
Land	-	-	-	-
Building	33,471	10,856	-	44,327
Building improvements	<u>1,191</u>	<u>1,431</u>	-	<u>2,622</u>
	<u>34,662</u>	<u>12,287</u>	-	<u>46,949</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

5. Capital assets - continued:

	Totals		Reclassifications	
	<u>June 30, 2010</u>	<u>Additions</u>	<u>and</u>	<u>Totals</u>
			<u>Reductions</u>	<u>June 30, 2011</u>
Land	\$ -	\$ -	\$ -	\$ -
Land improvements	35,850	3,095	-	38,945
Buildings	26,377	13,912	-	40,289
Building improvements	2,043	1,978	-	4,021
Equipment	331,923	18,526	-	350,449
Furniture and fixtures	1,882	3,183	-	5,065
Library materials	<u>657</u>	<u>1,314</u>	<u>-</u>	<u>1,971</u>
Total accumulated depreciation	<u>598,581</u>	<u>98,260</u>	<u>-</u>	<u>696,841</u>
Capital assets, net	<u>\$ 5,002,205</u>	<u>(\$ 63,183)</u>	<u>(\$ 123,270)</u>	<u>\$ 4,815,752</u>

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

During fiscal 2010, FSU Foundation acquired two properties in Fitchburg, Massachusetts at an aggregate cost of \$528,940. One property, acquired at a cost of \$123,270, was sold during fiscal 2011 for \$120,000 less closing costs of \$1,130 to the Commonwealth of Massachusetts acting by and through its Division of Capital Asset Management and Maintenance (DCAM) on behalf of Fitchburg State University. A loss of \$4,400 was recorded from the sale of the property. The other property is currently serving as green space.

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

5. Capital assets - continued:

Capital assets activity of FSU Foundation for the year ended June 30, 2010 is as follows:

Capital assets:	Totals <u>June 30, 2009</u>	<u>Additions</u>	Reclassifications and <u>Reductions</u>	Totals <u>June 30, 2010</u>
Real estate under lease to the University:				
Land	\$ 402,663	\$ -	\$ -	\$ 402,663
Building	1,557,724	-	-	1,557,724
Building improvements	<u>100,452</u>	-	-	<u>100,452</u>
	<u>2,060,839</u>	<u>-</u>	<u>-</u>	<u>2,060,839</u>
Real estate used for student housing:				
Land	253,555	-	-	253,555
Building	434,225	-	-	434,225
Building improvements	<u>-</u>	<u>28,600</u>	<u>-</u>	<u>28,600</u>
	<u>687,780</u>	<u>28,600</u>	<u>-</u>	<u>716,380</u>
Land	1,480,040	528,941	(275,670)	1,733,311
Land improvements	61,899	-	-	61,899
Buildings	556,478	-	-	556,478
Building improvements	8,966	30,603	-	39,569
Equipment	333,728	69,725	-	403,453
Furniture and fixtures	-	22,287	-	22,287
Library materials	<u>-</u>	<u>6,570</u>	<u>-</u>	<u>6,570</u>
Total capital assets	<u>5,189,730</u>	<u>686,726</u>	<u>(275,670)</u>	<u>5,600,786</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

5. Capital assets - continued:

	Totals		Reclassifications	
	<u>June 30, 2009</u>	<u>Additions</u>	<u>and</u>	<u>Totals</u>
			<u>Reductions</u>	<u>June 30, 2010</u>
Less: accumulated depreciation				
Real estate under lease to the University:				
Land	\$ -	\$ -	\$ -	-
Building	110,338	38,944	-	149,282
Building improvements	<u>10,882</u>	<u>5,023</u>	-	<u>15,905</u>
	<u>121,220</u>	<u>43,967</u>	-	<u>165,187</u>
Real estate used for student housing:				
Land	-	-	-	-
Building	22,615	10,856	-	33,471
Building improvements	<u>-</u>	<u>1,191</u>	-	<u>1,191</u>
	<u>22,615</u>	<u>12,047</u>	-	<u>34,662</u>
Land	-	-	-	-
Land improvements	32,755	3,095	-	35,850
Buildings	12,465	13,912	-	26,377
Building improvements	529	1,514	-	2,043
Equipment	330,941	982	-	331,923
Furniture and fixtures	-	1,882	-	1,882
Library materials	<u>-</u>	<u>657</u>	-	<u>657</u>
Total accumulated depreciation	<u>520,525</u>	<u>78,056</u>	-	<u>598,581</u>
Capital assets, net	<u>\$ 4,669,205</u>	<u>\$ 608,670</u>	<u>(\$ 275,670)</u>	<u>\$ 5,002,205</u>

Non-depreciable capital assets of FSU Foundation totaled \$2,389,529 at June 30, 2010 and consisted of land.

In February, 2010, FSU Foundation acquired a property in close proximity to the Fitchburg State University campus consistent with FSU Foundation's mission and the University's strategic plan which includes campus expansion and additional green space. The property, which included land and a building, was purchased for an aggregate cost of \$405,670. The University subsequently razed the building and created green space. The land is being held for future use and development to further enhance the resources available for the University and City communities.

In April, 2010, FSU Foundation 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 FSU Foundation's fiscal 2010 cash flow or its ability to generate cash flow in the future. The impairment charge is reflected in operations and maintenance of plant in FSU Foundation's accompanying 2010 statement of revenues, expenses and changes in net position.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

5. Capital assets - continued:

As of June 30, 2010, capital assets of FSU Foundation with a cost of approximately \$331,000 were fully depreciated and still in service.

6. Accounts payable and accrued liabilities:

Accounts payable and accrued liabilities include the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Accounts payable - trade	\$ 824,761	\$ 1,114,261
Salaries and fringe benefits payable	1,280,844	1,179,028
Accrued interest payable	132,481	49,423
Tuition due State	<u>250,328</u>	<u>153,432</u>
	<u>\$ 2,488,414</u>	<u>\$ 2,496,144</u>

7. Accrued workers' compensation:

Independent actuarial reviews of the outstanding loss reserve requirements for the Commonwealth of Massachusetts' self-insured workers' compensation program were conducted as of June 30, 2011 and 2010. Based upon the Commonwealth's analyses, \$752,198 and \$661,105 of accrued workers' compensation has been recorded as a liability at June 30, 2011 and 2010, respectively.

8. Accrued compensated absences:

Accrued compensated absences are comprised of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Vacation time payable	\$ 2,101,884	\$ 2,004,822
Sick time payable	<u>2,271,916</u>	<u>2,010,217</u>
Total	<u>\$ 4,373,800</u>	<u>\$ 4,015,039</u>
Amount representing obligations due to employees funded through sources other than State appropriations	\$ 253,387	\$ 239,346
Amount representing obligations for employees compensated through State appropriations	<u>4,120,413</u>	<u>3,775,693</u>
Total	<u>\$ 4,373,800</u>	<u>\$ 4,015,039</u>

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

8. Accrued compensated absences - continued:

It is anticipated that the obligation due to employees funded through State appropriations will be discharged through future State appropriations and the balance is expected to be liquidated through trust funds. Had these amounts not been reflected as obligations of the University, the University's unrestricted net position balances would be \$26,196,064 and \$21,052,890 at June 30, 2011 and 2010, respectively. (See Note 1, Compensated absences).

9. Faculty payroll accrual:

The contract for full-time faculty begins on September 1 and ends on May 31, of any given academic year. The Commonwealth of Massachusetts and Fitchburg State University pay all faculty over the twelve month period from September through August. Consequently, on June 30 of each year there is a balance due on each faculty contract which is to be paid from the subsequent year's State appropriation. The total amount due at June 30, 2011 of \$2,624,441 will be paid from the University's fiscal 2012 State appropriations. The total amount due at June 30, 2010 of \$2,488,554 was paid from the University's fiscal 2011 State appropriations.

10. Deferred revenue:

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

Deferred revenue includes the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Tuition, fees and professional development	\$ 1,574,582	\$ 1,079,838
Grants	58,796	119,767
Other	<u>9,300</u>	<u>3,405</u>
	<u>\$ 1,642,678</u>	<u>\$ 1,203,010</u>

11. Deferred inflows of resources:

Deferred inflows of resources at June 30, 2011 and 2010 in the amounts of \$2,621,266 and \$978,577, respectively, consist of the unamortized balances of a service concession arrangement with Compass Group USA, Inc. (Compass) to manage and operate the University's food services operation at the University's dining services locations as more fully described in the arrangement. The service concession arrangement commenced on July 1, 1999 for a term of ten years through June 30, 2009 and has been amended several times thereafter to modify its terms, provide for additional payments to the University for investment in improvements in or at the University as mutually agreed upon by the parties, and extend the term of the arrangement until June 30, 2024. The last such amendment to the service concession arrangement was effective August 1, 2010 and provides for the extension of the arrangement to June 30, 2024 and payments to the University totaling \$2,000,000. These payments shall be made to the University by Compass in six installments as follows: \$300,000 in fiscal 2011; \$1,200,000 in fiscal 2012; \$200,000 in fiscal 2014; \$200,000 in fiscal 2016; \$50,000 in fiscal 2020; and \$50,000

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

11. Deferred inflows of resources - continued:

in fiscal 2022. As of June 30, 2011, the University has received the first installment from Compass. In addition, Compass has agreed to pay the University specified percentages of 4%, 4 ½% or 12% of specified sales receipts from the food services operation as more fully described in the arrangement. All improvements and equipment purchased with the payments received from Compass shall remain the property of the University. The arrangement may be terminated by either party at any time, without cause, by giving not less than sixty days prior written notice to the other party. The arrangement contains provisions, whereby, in the event of termination of the arrangement, the University shall be required to repay a portion of any payments made to the University by Compass. The portion required to be repaid shall be determined in accordance with amortization schedules prepared by Compass. The amortization schedules assume that all funds will be received from Compass. The University does not anticipate that the arrangement will be terminated prior to its expiration date.

In fiscal 2011, the University elected to early adopt the requirements of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The effect of adopting GASB Statement No. 60 on prior years was not material to the University's financial statements. Accordingly, the prior period presented has not been restated. Instead, an adjustment for the effect on prior periods has been included as a reduction of capital grants revenue in the accompanying 2011 statement of revenues, expenses and changes in net position. In addition, the effect of adopting GASB Statement No. 60 in the current fiscal year was not material. As a result of the adoption of GASB Statement No. 60, the University has recorded the service concession arrangement as a deferred inflow of resources at its present value using a 5% discount rate determined by management of the University. The unamortized balance of the service concession arrangement at June 30, 2010 has been reclassified from a liability to a deferred inflow of resources in the accompanying 2010 statement of net position. The University has also recorded, in fiscal 2011, an accounts receivable from Compass at the present value of the future payments to be received from Compass, using a 5% discount rate determined by management of the University. The University received \$300,000 from Compass in fiscal 2011 which was applied as follows: interest income - \$15,159; and a reduction of the accounts receivable - \$284,841. At June 30, 2011, the accompanying statement of net position includes a remaining accounts receivable from Compass in the amount of \$1,589,146, which includes accrued interest receivable of \$58,724 (see Note 3). The deferred inflow of resources is being amortized to revenue on a straight-line basis over the term of the arrangement. Amortization in the amounts of \$172,374 and \$144,901, respectively, has been recognized in capital grants revenue in the accompanying statements of revenues, expenses and changes in net position for the years ended June 30, 2011 and 2010.

12. Capital lease obligations:

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

12. Capital lease obligations - continued:

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

During fiscal 2006, the University entered into two noncancellable capital leases for upgrades to the voice, data and video cable system. The leases had terms of four years and required aggregate monthly payments of \$2,819. The assets and capital lease obligations were recorded at the present value of the future minimum lease payments based upon interest rates of 4.96% and 7.93% which were determined to be applicable at the inception of the leases. The leases were satisfied in full during fiscal 2010.

During fiscal 2007, the University entered into a noncancellable capital lease for an upgrade to its network system hardware and software. The lease had a term of five years and required quarterly payments of \$106,607 which commenced on September 30, 2007 and were to continue through June 30, 2012. The University prepaid the lease in full during fiscal 2010. The asset and capital lease obligation were recorded at the present value of the future minimum lease payments based upon an interest rate of 5.13% which was determined to be applicable at the inception of the lease. In connection with this capital lease, the University entered into a maintenance and ongoing support agreement with a term of five years which commenced on July 1, 2007. In order to obtain favorable pricing terms, the University agreed to prepay the entire cost of the contract totaling \$1,059,020. The University paid \$500,000 prior to June 30, 2007 and the balance of \$559,020 in July, 2007. Of the total payments made, \$211,803 and \$211,808 are included in other current assets at June 30, 2011 and 2010, respectively and \$211,803 is included in other noncurrent assets at June 30, 2010.

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

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

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

12. Capital lease obligations - continued:

During fiscal 2010, the University entered into a noncancellable capital lease for furniture. The lease has a term of five years and requires quarterly payments of \$26,909 which commenced on September 30, 2009 and shall continue through September 30, 2014. The assets and capital lease obligation have been recorded at the present value of the future minimum lease payments based upon an interest rate of 2.85% which was determined to be applicable at the inception of the lease.

Capital lease assets are secured by the related assets.

The University's assets held under capital leases at June 30, 2011 and 2010 consists of the following:

	<u>2011</u>	<u>2010</u>
Printing equipment	\$ -	\$ 55,375
Voice, data and video cable system	1,182,652	1,259,114
Student records system	-	5,184,072
Building wiring and cabling	130,126	130,126
Equipment	65,000	65,000
Furniture	<u>597,675</u>	<u>597,675</u>
	<u>\$ 1,975,453</u>	<u>\$ 7,291,362</u>

The assets under capital leases are being depreciated over their useful lives and the depreciation on these assets is included in depreciation expense. The accumulated depreciation on these leased assets amounted to \$1,139,343 and \$5,098,850 at June 30, 2011 and 2010, respectively. Depreciation expense totaled \$213,427 and \$745,018 for 2011 and 2010, respectively.

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

The following is a schedule of future minimum lease payments under capital leases:

Year ending June 30,	Total <u>Payments</u>
2012	\$ 173,975
2013	107,636
2014	107,636
2015	<u>26,909</u>
Total minimum lease payments	416,156
Less amount representing interest	(<u>17,903</u>)
Present value of future minimum lease payments	<u>\$ 398,253</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

13. Interagency payables:

MDFA -

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

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

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

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

The University is required to make annual funding payments of principal on this debt each July 1. The principal payment due July 1, 2011 of \$195,091 was made as scheduled. These payments are made to a restricted cash account held in escrow in the University's name and recorded on the books of the University. These amounts, along with the initial deposit of \$502,899, are to be held in escrow until July 1, 2023, when the total debt is due and payable unless the University elects to release the funds in the debt service reserve to redeem portions of the debt obligation. Earnings on this balance are transferred and used by the University to offset the administrative costs associated with this debt. In a prior year, the University elected to release the annual funding payments from the reserve to redeem portions of the debt obligation. Accordingly, each year the funding payments are now being released from the debt service reserve to redeem portions of the outstanding debt obligation. Furthermore, during fiscal 2011 and 2010, additional amounts of \$9,968 and \$20,584 were released from the debt service reserve and used to redeem portions of the outstanding debt obligation. The outstanding principal balance of this Interagency payable at June 30, 2011 and 2010 was \$4,037,685 and \$4,231,701, respectively.

Interest on the debt is paid every thirty-five days at a floating rate of interest subject to market conditions. The interest rate is determined by MDFA conducting a true auction of their debt issuance every thirty-five days, in which the University's obligation is pooled with other higher education institutions within the Commonwealth who have debt funded through MDFA. The most recent auctioned interest rate in effect at June 30, 2011 and 2010 was 0.831% and 0.883%, respectively. The University is also responsible to pay for program expenses at an annual rate of 0.504% (2011) and 0.825% (2010) of the outstanding principal balance, calculated and payable every thirty-five days when the rate is auctioned. The effective interest rate (including annual program expenses) for 2011 and 2010 amounted to 1.32% each year.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

13. Interagency payables - continued:

MDFA - continued -

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

For the year ending June 30,	<u>Principal</u>	<u>Estimated Interest (1)</u>	<u>Total</u>
2012	\$ 195,091	\$ 31,932	\$ 227,023
2013	200,797	30,263	231,060
2014	219,204	28,442	247,646
2015	232,356	26,511	258,867
2016	246,298	24,464	270,762
2017-2021	1,471,708	87,054	1,558,762
2022-2024	<u>1,119,534</u>	<u>18,515</u>	<u>1,138,049</u>
	3,684,988	247,181	3,932,169
Balance of restricted cash held for debt principal	<u>352,697</u>	<u>-</u>	<u>352,697</u>
Total	<u>\$ 4,037,685</u>	<u>\$ 247,181</u>	<u>\$ 4,284,866</u>

(1) The interest rate in effect at June 30, 2011 of 0.831% was used to calculate the estimated interest on the debt obligation of \$4,037,685. The estimated interest also reflects the reduction of the outstanding debt obligation each year by the annual funding payments.

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

MSCBA -

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

As of June 30, 2010, unexpended net proceeds amounted to \$1,007. During fiscal 2010, the unexpended University contribution of \$246,186 was transferred and combined with the remaining funds from the Hammond Campus Center Project (see below).

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

13. Interagency payables - continued:

MSCBA - continued -

As of June 30, 2011 and 2010, amounts held by MSCBA related to the debt issue and the Projects are as follows:

	<u>2011</u>	<u>2010</u>
Unexpended debt proceeds	\$ -	\$ 1,007
Unexpended University contribution	-	-
Debt service reserve fund	<u>388,335</u>	<u>388,335</u>
	<u>\$ 388,335</u>	<u>\$ 389,342</u>

The amounts held by MSCBA are included in the accompanying statements of net position at June 30, 2011 and 2010 as follows:

	<u>2011</u>	<u>2010</u>
Restricted cash and cash equivalents:		
Current	\$ -	\$ -
Noncurrent	<u>388,335</u>	<u>389,342</u>
	<u>\$ 388,335</u>	<u>\$ 389,342</u>

The University is required to make annual principal payments on this debt each May 1. The final principal payment is due on May 1, 2025. Interest on the debt is payable May 1 and November 1 each year. Interest payments are based on an amortization schedule prepared by MSCBA using an increasing coupon rate of interest ranging from 3.5% to 5% over the term of the debt to maturity. Funds from the debt service reserve fund will be applied to reduce the semi annual interest payments on the debt pursuant to the amortization schedule prepared by MSCBA. Earnings on the balance in the debt service reserve fund are to be used to defray debt service costs. For the years ended June 30, 2011 and 2010, the effective interest rate on this debt was 4.26% and 4.23%, respectively. The outstanding balance of this Interagency payable was \$3,955,000 and \$4,165,000 at June 30, 2011 and 2010, respectively.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

13. Interagency payables - continued:

MSCBA - continued -

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

For the year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 215,000	\$ 169,913	\$ 384,913
2013	220,000	162,388	382,388
2014	235,000	153,588	388,588
2015	240,000	144,188	384,188
2016	255,000	134,588	389,588
2017-2021	1,420,000	511,656	1,931,656
2022-2025	<u>1,370,000</u>	<u>173,100</u>	<u>1,543,100</u>
Total	<u>\$ 3,955,000</u>	<u>\$ 1,449,421</u>	<u>\$ 5,404,421</u>

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

As of June 30, 2010, unexpended net proceeds amounted to \$6,291.

As of June 30, 2011 and 2010, amounts held by MSCBA related to the debt issue and the Project are as follows:

	<u>2011</u>	<u>2010</u>
Unexpended debt proceeds	\$ -	\$ 6,291
Debt service reserve fund	<u>144,841</u>	<u>144,841</u>
	<u>\$ 144,841</u>	<u>\$ 151,132</u>

The amounts held by MSCBA are included in the accompanying statements of net position at June 30, 2011 and 2010 as follows:

	<u>2011</u>	<u>2010</u>
Restricted cash and cash equivalents:		
Current	\$ -	\$ -
Noncurrent	<u>144,841</u>	<u>151,132</u>
	<u>\$ 144,841</u>	<u>\$ 151,132</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

13. Interagency payables - continued:

MSCBA - continued -

The University is required to make annual principal payments on this debt each May 1. The final principal payment is due on May 1, 2026. Interest on the debt is payable May 1 and November 1 each year. Interest payments are based on an amortization schedule prepared by MSCBA using an increasing coupon rate of interest ranging from 3.5% to 5% over the term of the debt to maturity. Funds from the debt service reserve fund will be applied to reduce the semi annual interest payments on the debt pursuant to the amortization schedule prepared by MSCBA. Earnings on the balance in the debt service reserve fund are to be used to defray debt service costs. For the years ended June 30, 2011 and 2010, the effective interest rate on this debt was 4.25% and 4.23%, respectively. The outstanding balance of this Interagency payable was \$1,783,353 and \$1,869,036 at June 30, 2011 and 2010, respectively, including unamortized premium.

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

For the year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 80,000	\$ 81,813	\$ 161,813
2013	85,000	77,813	162,813
2014	90,000	73,563	163,563
2015	95,000	69,963	164,963
2016	95,000	65,450	160,450
2017-2021	550,000	258,150	808,150
2022-2026	<u>705,000</u>	<u>109,500</u>	<u>814,500</u>
	1,700,000	736,252	2,436,252
Plus: Unamortized premiums	<u>83,353</u>	<u>-</u>	<u>83,353</u>
Total	<u>\$ 1,783,353</u>	<u>\$ 736,252</u>	<u>\$ 2,519,605</u>

In December 2005, the University advanced \$300,000 to MSCBA to be used for renovations to the Hammond Campus Center. In 2007, the University advanced an additional \$842,000 to MSCBA to be used for renovations to the Hammond Campus Center. During fiscal 2009, the renovations were placed in service and are being depreciated. During fiscal 2010, the remaining funds of \$246,186 from the athletic fields and dining hall projects were transferred to and combined with the remaining funds from the Hammond Campus Center Project. As of June 30, 2011 and 2010, the unexpended portion of the University's contribution held by MSCBA amounted to \$142,159 and \$295,092, respectively.

The amounts held by MSCBA related to the Hammond Campus Center Project are included in the accompanying statements of net position at June 30, 2011 and 2010 as follows:

	<u>2011</u>	<u>2010</u>
Restricted cash and cash equivalents:		
Current	\$ -	\$ -
Noncurrent	<u>142,159</u>	<u>295,092</u>
	<u>\$ 142,159</u>	<u>\$ 295,092</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

13. Interagency payables - continued:

MSCBA - continued -

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

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

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

As of June 30, 2011, unexpended net proceeds amounted to \$12,833,282.

As of June 30, 2011, amounts held by MSCBA related to the debt issue and the Project are as follows:

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

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

	<u>2011</u>
Restricted cash and cash equivalents:	
Current	\$ 1,271,600
Noncurrent	<u>13,011,459</u>
	<u>\$ 14,283,059</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

13. Interagency payables - continued:

MSCBA - continued -

The University is required to make annual principal payments on this debt each May 1 commencing in fiscal 2012. The final principal payment is due on May 1, 2030. Interest on the debt is payable May 1 and November 1 each year. Interest payments are based on an amortization schedule prepared by MSCBA with interest rates ranging from 3.0% to 6.54% over the term of the debt to maturity. Funds from the debt service reserve fund will be applied to reduce the semi annual interest payments on the debt pursuant to the amortization schedule prepared by MSCBA. Earnings on the balance in the debt service reserve fund are to be used to defray debt service costs. For the year ended June 30, 2011, the effective interest rate on this debt was 3.22%. The outstanding balance of this Interagency payable was \$15,923,924 at June 30, 2011, including unamortized premium.

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

For the year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 571,715	\$ 533,797	\$ 1,105,512
2013	589,374	516,645	1,106,019
2014	607,033	498,964	1,105,997
2015	631,315	474,683	1,105,998
2016	655,596	449,430	1,105,026
2017-2021	3,730,495	1,861,913	5,592,408
2022-2026	4,478,801	1,151,916	5,630,717
2027-2030	<u>4,269,099</u>	<u>271,242</u>	<u>4,540,341</u>
	15,533,428	5,758,590	21,292,018
Plus: Unamortized premiums	<u>390,496</u>	<u>-</u>	<u>390,496</u>
Total	<u>\$ 15,923,924</u>	<u>\$ 5,758,590</u>	<u>\$ 21,682,514</u>

14. FSU Foundation long term debt:

FSU Foundation's long-term debt consists of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
First mortgage notes payable	\$ 3,121,795	\$ 3,224,841
Notes payable - bank	<u>681,816</u>	<u>717,056</u>
	3,803,611	3,941,897
Less current portion	<u>150,153</u>	<u>138,416</u>
	<u>\$ 3,653,458</u>	<u>\$ 3,803,481</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

14. FSU Foundation long term debt - continued:

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 University campus and were previously owned by an unrelated third party. The acquisitions were funded with the proceeds of a mortgage 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, 2011 and 2010, the outstanding principal balance of this mortgage note payable amounted to \$500,402 and \$517,127, respectively.

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

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 succession in interest to Chittenden Trust Company, is the bond Trustee. MDFA assigned all of its rights, title, and interest in and to the loan and related loan documents to the bond Trustee as security for repayment of the bonds. The loan is secured by a first mortgage interest in the real estate and related personal property located thereon, and an assignment of leases and rents. Payment and performance of the Foundation Supporting Organization's obligations under the loan agreement have been guaranteed by the Foundation.

The loan agreement has a term of twenty years and provides for a fixed rate of interest of 5.5% per annum for the first five years of the loan term. Thereafter, the interest rate will be adjusted at five-year intervals (August 16, 2011, 2016 and 2021) to a fixed rate of interest equal to 80% of the bank's prime rate, but no greater than 1% or less than 1% of the interest rate in effect for the immediately preceding five-year adjustment interval. The interest rate was adjusted to 4.5% per annum on August 16, 2011 pursuant to the provisions of the loan agreement. The loan required monthly installments of principal and interest of \$13,154 through August 16, 2011. Commencing thereafter, the monthly installments of principal and interest are \$12,306 until the next five-year interval adjustment date of August 16, 2016. The loan matures on August 16, 2026. The loan agreement requires the Supporting Organization to maintain a Debt Service Coverage Ratio, as defined, of not less than 1.10 to 1 to be measured annually at the end of its fiscal year.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

14. FSU Foundation long term debt - continued:

The mortgage note was issued pursuant to the Loan and Trust Agreement and related loan documents and is subject to and governed by the terms and conditions of those agreements. The loan may be prepaid in accordance with the terms of the Loan and Trust Agreement for prepayment of the bonds as more fully described in the Loan and Trust Agreement.

The loan documents contain cross default provisions with the DCAM lease.

At June 30, 2011 and 2010, the outstanding principal balance of this first mortgage note payable amounted to \$1,612,542 and \$1,678,437, respectively.

Workers' Credit Union (WCU) provided financing to the Foundation Supporting Organization in the form of a note, dated February 27, 2009, in the amount of \$750,000. The proceeds of the loan were used primarily to repay advances made to the Foundation Supporting Organization by the Foundation for the acquisition of four real estate properties. The note is secured by a first mortgage interest in certain real estate owned by the Foundation Supporting Organization and an assignment of certain leases and rents. The note is also collateralized by all funds held by the lender. At June 30, 2011 and 2010, the Foundation Supporting Organization has total cash balances of \$81,194 and \$82,428, respectively, held at WCU which serve as additional collateral for both WCU loans to the Foundation Supporting Organization (see below).

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

As of June 30, 2011 and 2010, the outstanding principal balance of this first mortgage loan amounted to \$716,105 and \$731,099, respectively.

During fiscal 2010, Workers' Credit Union provided financing to the Foundation Supporting Organization in the form of a note, dated February 19, 2010, in the amount of \$300,000. The proceeds of the loan were used to finance the acquisition of a real estate property. The note is secured by a first mortgage interest in the property and an assignment of leases and rents on this property. The note is also collateralized by all funds held by the lender. At June 30, 2011 and 2010, the Foundation Supporting Organization has total cash balances of \$81,194 and \$82,428, respectively, held at WCU which serve as additional collateral for both WCU loans to the Foundation Supporting Organization.

In June, 2010, the Foundation 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 Foundation Supporting Organization recorded an impairment loss. As a result, WCU required additional collateral to further secure this loan. On October 25, 2010, the Foundation Supporting Organization provided WCU with a second mortgage interest in the real estate and related personal property located at 167 Klondike Avenue in Fitchburg, Massachusetts. The first mortgage on that property secures the Foundation Supporting Organization's obligations under the MDFA Revenue Bonds Issue. The Foundation Supporting Organization also provided WCU with a second assignment of leases and rents related to that property.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

14. FSU Foundation long term debt - 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. The loan documents contain cross default - cross collateralization provisions with all other obligations of the Foundation Supporting Organization to WCU.

As of June 30, 2011 and 2010, the outstanding principal balance of the mortgage loan amounted to \$292,746 and \$298,178, respectively.

In connection with the fiscal 2010 loan, the Foundation Supporting Organization was required to establish an escrow account held at WCU in the amount of \$75,000 until the Foundation Supporting Organization resolved certain environmental matters related to the property. The environmental matters have since been resolved and WCU released the escrow in fiscal 2011.

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, 2011 and 2010, the outstanding principal balance of this note payable amounted to \$42,590 and \$67,820, respectively.

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

The acquisitions were funded with the proceeds of a note payable in the amount of \$680,000, dated April 26, 2007, with Enterprise Bank and Trust Company. The note is secured by investments with an equivalent fair value of \$972,000. In addition, payment and performance of the Foundation Supporting Organization's obligations under the loan agreement have been guaranteed by the Foundation.

The promissory note has a term of thirty years, expiring on May 5, 2037, and provides for a fixed rate of interest of 6% per annum for the first five years of the loan term. Thereafter, the interest rate will be adjusted at five-year intervals 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.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

14. FSU Foundation long term debt - continued:

At June 30, 2011 and 2010, the outstanding principal balance of this note payable amounted to \$639,226 and \$649,236, respectively.

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

For the year ending June 30,	<u>Principal</u>	<u>Estimated Interest (1)</u>	<u>Total</u>
2012	\$ 150,153	\$ 202,256	\$ 352,409
2013	148,358	191,300	339,658
2014	139,180	184,128	323,308
2015	146,444	176,866	323,310
2016	152,729	169,580	322,309
2017-2021	1,115,996	698,892	1,814,888
2022-2026	1,102,831	397,389	1,500,220
2027-2031	481,094	172,116	653,210
2032-2036	346,237	51,043	397,280
2037	<u>20,589</u>	<u>310</u>	<u>20,899</u>
Total	<u>\$ 3,803,611</u>	<u>\$ 2,243,880</u>	<u>\$ 6,047,491</u>

(1) The interest rates in effect at June 30, 2011 of 5.75%, 5.5% (adjusted to 4.5% on August 16, 2011), 5.74%, and 6.03% on the first mortgage notes payable and 5% and 6% on the notes payable - bank were used to calculate the estimated interest on these debt obligations.

15. FSU Foundation line of credit:

In March, 2011, the Foundation renewed, under substantially the same terms, its existing revolving working capital line of credit agreement with Workers' Credit Union which permits the Foundation to borrow up to \$250,000. At June 30, 2011, there were no borrowings outstanding under the line of credit. At June 30, 2010, the Foundation had an outstanding balance of \$125,000 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, 2011 and 2010, the effective interest rates were 6% per annum. Borrowings are secured by investments with an equivalent fair value of \$315,000. The line of credit agreement expires on March 17, 2013. The Foundation may prepay outstanding revolving loans under the agreement in whole or in part at any time without premium or penalty.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

16. Long term liabilities:

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

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

Long-term liability activity of the University for the year ended June 30, 2010 included the following:

	Totals			Totals June 30, 2010	
	June 30, 2009	Additions	Reductions	Ending	Current
				Balance	Portion
Interagency payables and capital leases:					
Interagency payables	\$ 10,745,634	\$ -	\$ 479,897	\$ 10,265,737	\$ 479,731
Capital leases	<u>2,369,565</u>	<u>499,938</u>	<u>1,973,814</u>	<u>895,689</u>	<u>497,437</u>
Total	<u>13,115,199</u>	<u>499,938</u>	<u>2,453,711</u>	<u>11,161,426</u>	<u>977,168</u>
Other liabilities:					
Workers' compensation	503,768	256,579	99,242	661,105	130,238
Compensated absences	3,953,850	2,383,433	2,322,244	4,015,039	2,341,896
Rebate payable	17,875	90	-	17,965	-
Loan payable - federal financial assistance	<u>1,833,747</u>	<u>53,453</u>	<u>35,487</u>	<u>1,851,713</u>	<u>-</u>
Total other liabilities	<u>6,309,240</u>	<u>2,693,555</u>	<u>2,456,973</u>	<u>6,545,822</u>	<u>2,472,134</u>
Long term obligations	<u>\$ 19,424,439</u>	<u>\$ 3,193,493</u>	<u>\$ 4,910,684</u>	<u>\$ 17,707,248</u>	<u>\$ 3,449,302</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

16. Long term liabilities - continued:

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

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

Long-term liability activity of FSU Foundation for the year ended June 30, 2010 included the following:

	<u>Totals</u>			<u>Totals June 30, 2010</u>	
	<u>June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u>	<u>Current</u>
				<u>Balance</u>	<u>Portion</u>
First mortgage notes Payable	\$ 3,018,845	\$ 300,000	\$ 94,004	\$ 3,224,841	\$ 102,952
Note payable - bank	<u>658,859</u>	<u>77,952</u>	<u>19,755</u>	<u>717,056</u>	<u>35,464</u>
Long-term obligations	<u>\$ 3,677,704</u>	<u>\$ 377,952</u>	<u>\$ 113,759</u>	<u>\$ 3,941,897</u>	<u>\$ 138,416</u>

17. Unrestricted net position:

Unrestricted net position is comprised of net assets that are not subject to externally imposed stipulations; however, they may be subject to internal restrictions. For example, unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Certain unrestricted net assets are internally designated for academic and research programs and initiatives, and graduate and continuing education programs. Designated unrestricted net assets were \$8,488,308 and \$8,134,673 at June 30, 2011 and 2010, respectively. Undesignated unrestricted net assets were \$13,587,343 and \$9,142,524 at June 30, 2011 and 2010, respectively.

The unrestricted net position amount of \$22,075,651 includes the effect of deferring the recognition of revenue from the installment payments associated with the dining facilities service concession arrangement. The \$2,621,266 balance of the deferred inflow of resources at June 30, 2011 will be recognized as revenue and increase unrestricted net position over the remaining thirteen years of the arrangement.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

18. Net position restricted by enabling legislation:

Fitchburg State University Foundation, Inc.'s consolidated statements of net position as of June 30, 2011 and 2010 reflect a restricted net position of \$11,365,274 and \$10,251,327, respectively. Of these amounts, \$2,357,931 for each year, are restricted by enabling legislation for the State Matching Funds Program.

19. Operating expenses:

The University's operating expenses for the years ended June 30, 2011 and 2010, on a natural classification basis, are comprised of the following:

	<u>2011</u>	<u>2010</u>
Salaries:		
Faculty	17,381,110	\$ 16,568,424
Exempt wages	2,794,427	3,734,036
Non-exempt wages	14,868,032	13,750,367
Benefits	9,983,512	8,250,267
Scholarships (endowed)	1,653,433	1,640,584
Utilities	3,996,055	3,698,307
Supplies and other services	17,141,119	16,189,508
Depreciation	<u>4,241,022</u>	<u>4,010,435</u>
Total operating expenses	<u>\$ 72,058,710</u>	<u>\$ 67,841,928</u>

20. State controlled accounts:

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

The estimated amounts of funding attributable for the Commonwealth's retirement system contribution and the employer's share of health care premiums for the years ended June 30, 2011, 2010 and 2009 were as follows (See State appropriations under Note 25):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Commonwealth's retirement system Contributions	\$ 1,519,792	\$ 1,489,214	\$ 1,962,325
Employers share of health care premium	\$ 5,966,244	\$ 4,091,641	\$ 4,371,925

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

21. Retirement plan:

Substantially all of the University's full-time employees are covered by the Massachusetts State Employees' Retirement System (SERS). SERS, a single employer defined benefit public employee retirement system, is administered by the Massachusetts State Retirement Board and covers substantially all non-student employees. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Chapter 32A of the General Laws of the Commonwealth of Massachusetts assigns the authority to establish and amend benefit provisions to the Massachusetts Legislature. The University is not required to contribute from its appropriation allocation or other University funds to SERS for employees compensated from State appropriations. For University employees covered by SERS but compensated from a trust fund or other source, the University is required to contribute an amount determined as a percentage of compensation in accordance with a fringe benefit rate established by the State. The total amount of current funding by the State related to the University's employees was \$1,519,792, \$1,489,214 and \$1,962,325 during 2011, 2010 and 2009, respectively. Annual covered payroll was approximately 67%, 62% and 76% of total payroll for the University for the years ended June 30, 2011, 2010 and 2009, respectively.

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

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

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

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

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

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

Post Employment Other than Pensions

In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities, and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

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

Post Employment Other than Pensions - continued

retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefit costs which is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies.

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

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

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

The GIC is a quasi-independent state agency governed by an eleven-member body (the Commission) appointed by the Governor. The GIC is located administratively within the Executive Office of Administration and Finance, and is responsible for providing health insurance and other benefits to the Commonwealth's employees and retirees and their survivors and dependents. During the fiscal years ended on June 30, 2011 and 2010, the GIC provided health insurance for its members through indemnity, PPO, and HMO plans. The GIC also administered carve-outs for the pharmacy benefit and mental health and substance abuse benefits for certain of its health plans. In addition to health insurance, the GIC sponsors life insurance, long-term disability insurance (for active employees only), dental and vision coverage for employees not covered by collective bargaining, a retiree discount vision plan and retiree dental plan, and finally, a pre-tax health care spending account and dependent care assistance program (for active employees only).

The amount of funding by the University related to benefits other than pensions for the years ended June 30, 2011, 2010 and 2009 were \$9,983,512, \$8,250,267 and \$7,620,674, respectively, which equaled the required contributions each year charged to it through the Commonwealth's fringe benefit recovery program.

23. Lease and license agreements:

As disclosed in Note 14, the Foundation Supporting Organization entered into a long-term operating lease agreement with DCAM on behalf of the University. The lease commenced on August 16, 2006. The lease is for a term of ten years and provides for base rent of \$165,000 per year, payable in monthly installments of \$13,750, for the entire lease term. The University is also responsible for the payment of normal operating, maintenance

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

23. Lease and license agreements - continued:

and repair costs associated with its use of the property. At the expiration of the lease term, the Foundation Supporting Organization expects the lease will be renewed with DCAM on behalf of the University. For the years ended June 30, 2011 and 2010, rental income for the Foundation Supporting Organization amounted to \$165,000 in each year. The rental income is reflected in revenue from sales and services of educational departments in the accompanying statements of net position. The corresponding rent expense of the University is reflected in operations and maintenance of plant.

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

<u>Year ending June 30,</u>	<u>Amount</u>
2012	\$ 165,000
2013	165,000
2014	165,000
2015	165,000
2016	165,000
2017	<u>20,625</u>
	<u>\$ 845,625</u>

On August 6, 2008, the Foundation Supporting Organization entered into a ten year operating lease agreement with an unrelated third party for 2,350 square feet of office space located in Fitchburg, Massachusetts. The lease commenced on November 1, 2008 and shall expire on October 31, 2018. The space is being used by Fitchburg State University as office and classroom space for its Center for Professional Studies. The lease provides for a base annual rent of \$17,625 for each of the first three years of the lease term, payable in monthly installments of \$1,469. Beginning with the fourth year of the lease there will be a 7.5% increase at the commencement of each three year period of the lease term, including the continuous period of any extensions thereof. The Foundation Supporting Organization may extend the initial term of the lease, under the same terms and conditions, for successive periods of one year provided it is not then in default of the lease terms and it gives proper notice. The Foundation Supporting Organization may cancel the lease at any time after November 1, 2009 with the payment of two months' base rent as a termination charge. The Foundation Supporting Organization is also responsible for the payment of normal operating, maintenance and repair costs associated with the use of the property. For the years ended June 30, 2011 and 2010, rent expense amounted to \$17,625 each year.

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

<u>Year ending June 30,</u>	<u>Amount</u>
2012	\$ 18,506
2013	18,947
2014	18,947
2015	19,895
2016	20,368
2017 - 2019	<u>49,053</u>
	<u>\$ 145,716</u>

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

23. Lease and license agreements - continued:

The Foundation Supporting Organization and the University entered into a License Agreement whereby the Foundation Supporting Organization granted the University an irrevocable and exclusive license to occupy, manage, maintain and operate certain property owned by the Foundation 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 provided for an annual license fee of \$108,875 payable, in arrears, in twelve equal monthly installments. The annual license fee was increased to \$177,455 commencing July 1, 2010 by agreement between the parties. All costs to operate and maintain the property, including any capital improvements made thereto, shall be borne by the University. 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 University may terminate the agreement at any time with the giving of proper notice. For the years ended June 30, 2011 and 2010, license fee income for the Foundation Supporting Organization amounted to \$177,455 and \$108,875, respectively. The license fee income is reflected in revenue from sales and services of educational departments in the accompanying statements of net position. The corresponding license fee expense of the University is reflected in operations and maintenance of plant.

24. Donated equipment, materials and services:

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

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

The computer software license has been renewed for another term of one year expiring on June 30, 2012 and it is currently expected to be renewed annually thereafter. The Foundation shall record donation revenue each year in an amount equal to the then commercial value of the license to use the software.

25. Management Accounting and Reporting System:

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

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

25. Management Accounting and Reporting System - continued:

State appropriations:

The University's State appropriations are comprised of the following for the years ended June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Gross State appropriations	\$ 24,454,735	\$ 21,429,373
Add: Fringe benefits for benefited employees on the Commonwealth payroll	7,486,036	5,580,855
Less: Day school tuition remitted to the Commonwealth and included in tuition and fee revenue	(2,467,840)	(2,387,879)
Net State appropriations	<u>\$ 29,472,931</u>	<u>\$ 24,622,349</u>

\$29,332,885 and \$24,622,349 represent appropriations for maintenance and payroll during 2011 and 2010, respectively, and \$140,046 represents appropriations for capital improvements for 2011. These amounts are presented separately in the accompanying statements of revenues, expenses and changes in net position.

Day school tuition receipts and transfers have been recorded in an agency fund during the year and had no material balance outstanding at June 30, 2011 and 2010.

26. Stimulus grants:

In fiscal years 2011 and 2010, Fitchburg State University, through the Department of Higher Education, was the subrecipient of \$3,098,023 and \$6,666,991, respectively, in stimulus grants as part of the American Recovery and Reinvestment Act of 2009 (ARRA). As of June 30, 2011 and 2010, \$327,374 and \$376,405, respectively, of the total awarded for fiscal 2011 and 2010 is included in accounts receivable in the accompanying 2011 and 2010 statements of net position. The funds awarded have been expended as follows:

	<u>2011</u>	<u>2010</u>
Regular employee compensation	\$ 2,311,522	\$ 2,335,343
Pension and insurance	779,676	649,226
Capital lease payments	-	1,121,070
Scholarship allowances	<u>6,825</u>	<u>2,561,352</u>
	<u>\$ 3,098,023</u>	<u>\$ 6,666,991</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

27. Risk management:

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

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

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

28. Commitments and contingencies:

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

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

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

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

FITCHBURG STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

29. McKay Agreement:

The University has an agreement with the City of Fitchburg, whereby the City can use the McKay building to provide elementary education to local residents on a year to year basis. The University receives quarterly payments from the City to reimburse the University for its share of payroll and related operating expenses (the McKay School expenditures). Reimbursements received for each of the years ended June 30, 2011 and 2010 were \$994,887. These reimbursements are included in the Sales and Services of Educational Departments revenue amount and the McKay School expenditures are included in the appropriate categories under Operating Expenses in the accompanying statements of revenues, expenses and changes in net position.

30. Civic Center:

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

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

On February 1, 2009, the Commonwealth of Massachusetts acting by and through its Division of Capital Asset Management and Maintenance on behalf of the University entered into a sublease agreement with FMC for a term of twenty-five years commencing on the date of the agreement. The sublease agreement is a net lease and, accordingly, FMC is responsible for all costs associated with the operations, management, and maintenance of the sublease premises as well as repairs and required capital improvements. The sublease premises consist of the facilities and related equipment associated with the operation of a public ice-skating rink program. The planetarium is not part of the sublease premises and it is not currently operational. FMC is also responsible for certain other payments for and on behalf of the University related to obligations in existence at the date the University initially assumed management of the Civic Center. During the term of the sublease agreement, FMC is required to pay the University monthly percentage rent based upon the actual gross revenues from its

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2011 AND 2010

30. Civic Center - continued:

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

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

SUPPLEMENTAL INFORMATION

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

JUNE 30, 2011 AND 2010

The University's Residence Hall Fund and Residence Hall Damage Fund non-classified Statements of Net Position at June 30, 2011 are as follows:

Statements of Net Position

	<u>Residence Hall Fund</u>	<u>Residence Hall Damage Fund</u>
Assets:		
Cash	\$ 681,734	\$ 92,579
Cash held by State Treasurer	150,438	-
Investments	1,726,459	-
Accounts receivable, net	31,944	17,971
Prepaid expenses	<u>525</u>	<u>-</u>
Total assets	2,591,100	110,550
Liabilities:		
Accounts payable	91,190	487
Deposits	259,160	-
Salaries payable	82,864	-
Compensated absences	108,801	-
Deferred revenue	<u>2,400</u>	<u>-</u>
Total liabilities	<u>544,415</u>	<u>487</u>
Net position	<u>\$ 2,046,685</u>	<u>\$ 110,063</u>

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

YEAR ENDED JUNE 30, 2011 AND 2010

The University's Residence Hall Fund and Residence Hall Damage Fund Statements of Revenues, Expenses and Changes in Net Position (presented in accordance with the Commonwealth of Massachusetts' Expenditure Classification plan) for the year ended June 30, 2011 are as follows:

	<u>Residence Hall Fund</u>	<u>Residence Hall Damage Fund</u>
Revenues:		
Student fees	\$ 7,756,640	\$ 338
Interest	52,204	1,360
Investment income (loss)	94,136	2,440
Commissions	34,341	-
Rentals	29,284	-
Room damage assessments	-	9,874
Miscellaneous	<u>29,905</u>	<u>-</u>
Total revenues	<u>7,996,510</u>	<u>14,012</u>
Expenses:		
Regular employee compensation	1,047,763	-
Regular employee related expenses	7,888	-
Special employee/contract services	190,620	-
Pension and insurance	352,242	-
Facility operating supplies and related expenses	7,093	-
Administrative expenses	22,882	-
Energy and space rental	1,083,177	-
Consultant services	5,508	-
Operational services	26,712	87
Equipment purchases	71,745	1,670
Equipment lease - purchase, lease, rent, repair	11,732	-
Purchased client services and programs	4,064	-
Construction and improvements	360,790	20,036
Benefit program	34,453	-
Loans and special payments	4,755,410	-
Other - bad debt expense (recovery)	1,747	(2,217)
Information technology expenses	<u>15,327</u>	<u>-</u>
Total expenses	<u>7,999,153</u>	<u>19,576</u>
Transfers (in)/out:		
Interdepartmental rental income	(111,949)	-
Printing	12,164	-
Other	<u>31,291</u>	<u>-</u>
Total transfers	<u>(68,494)</u>	<u>-</u>
Total expenses and transfers	<u>7,930,659</u>	<u>19,576</u>
Increase (decrease) in net position	65,851	(5,564)
Net position - beginning of year	<u>1,980,834</u>	<u>115,627</u>
Net position - end of year	<u>\$ 2,046,685</u>	<u>\$ 110,063</u>

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

FITCHBURG STATE UNIVERSITY
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Supplemental Statistical Information - Unaudited

Schedule of Net Position by Category	Fiscal Year										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 ^a	
Net investment in capital assets	\$ 20,780,141	\$ 20,793,469	\$ 21,045,366	\$ 20,186,185	\$ 20,360,103	\$ 25,806,513	\$ 30,983,682	\$ 39,530,560	\$ 40,791,020	\$ 44,551,543	
Restricted-expendable	4,483,491	4,076,361	3,816,427	7,138,933	9,083,307	10,946,782	9,850,228	6,515,426	8,403,189	13,044,768	
Restricted-non-expendable	529,685	521,361	576,826	588,587	597,461	600,377	511,206	437,045	470,158	458,004	
Unrestricted	4,493,708	6,881,233	9,583,813	11,085,627	14,253,916	12,699,422	11,914,978	9,755,072	17,277,197	22,075,651	
Total net position	\$ 30,287,025	\$ 32,272,424	\$ 35,022,432	\$ 38,999,332	\$ 44,294,787	\$ 50,053,094	\$ 53,260,094	\$ 56,238,103	\$ 66,941,564	\$ 80,129,966	

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

Sources and Uses of Funds

Source of Revenue	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Student charges (net of scholarships)	\$ 11,213,515	\$ 13,943,385	\$ 16,035,993	\$ 18,083,828	\$ 20,877,997	\$ 22,942,610	\$ 25,033,128	\$ 26,737,289	\$ 28,372,042	\$ 29,985,296
Grants & contracts	2,930,694	3,081,004	3,962,244	3,831,266	3,486,257	3,656,979	3,951,007	4,483,292	6,112,586	6,616,044
Stimulus grants	-	-	-	-	-	-	-	-	6,666,991	3,098,023
Auxiliary enterprises	3,477,126	3,877,418	4,317,584	5,027,889	5,485,605	5,946,282	6,085,147	6,467,184	8,046,782	8,042,922
Other operating revenue	1,702,415	1,806,843	1,796,923	1,889,756	1,927,868	1,987,191	1,963,274	2,098,358	2,096,607	2,169,883
Total operating revenue	19,323,750	22,708,650	26,112,744	28,832,739	31,777,727	34,533,062	37,032,556	39,786,123	51,295,008	49,912,168
State appropriations	29,808,715	27,974,237	25,199,981	27,375,808	29,645,087	31,702,393	34,063,661	29,415,783	24,622,349	29,332,885
State capital appropriations	486,480	177,600	-	407,191	1,195,000	1,799,754	475,000	497,822	-	140,046
Capital grants	23,750	85,000	118,358	121,217	123,535	123,535	178,264	325,351	1,683,802	5,319,402
Other non-operating revenue	383,553	260,729	265,905	510,689	1,078,894	1,393,662	819,844	(179,115)	1,329,091	1,125,671
Total non-operating revenue	30,702,498	28,497,566	25,584,244	28,414,905	32,042,516	35,019,344	35,536,769	30,059,841	27,635,242	35,918,004
Total revenue	\$ 50,026,248	\$ 51,206,216	\$ 51,696,988	\$ 57,247,644	\$ 63,820,243	\$ 69,552,406	\$ 72,569,325	\$ 69,845,964	\$ 78,930,250	\$ 85,830,172

Functional Expense

Instruction	\$ 20,092,140	\$ 19,366,094	\$ 18,019,813	\$ 18,847,979	\$ 22,856,426	\$ 24,193,071	\$ 26,699,550	\$ 25,010,246	\$ 25,682,331	\$ 27,138,609
Research	1,323	2,499	130,803	164,787	165,550	61,077	37,104	99,265	106,458	68,156
Public service	640,666	810,173	785,084	636,765	598,273	486,633	558,388	390,127	409,901	456,372
Academic support	5,038,238	4,553,718	4,301,883	4,607,796	4,631,842	5,108,978	5,344,027	4,538,538	4,361,103	4,806,942
Student services	5,284,418	5,772,833	5,426,794	5,980,391	6,560,972	7,022,806	7,478,709	7,299,258	7,445,019	8,030,813
Institutional support	6,414,461	5,998,902	6,764,298	7,179,198	6,169,474	6,648,295	7,228,110	6,464,395	5,988,283	6,767,632
Operations and maintenance of plant	6,233,864	5,911,344	5,944,096	7,246,710	8,185,991	9,699,216	11,040,391	11,306,190	10,818,202	10,881,270
Scholarships	345,591	760,798	926,658	949,222	971,606	1,198,719	1,280,862	1,456,842	1,608,419	1,618,980
Sub-total	44,050,701	43,176,561	42,299,429	45,612,848	50,140,134	54,418,795	59,667,141	56,564,861	56,419,716	59,768,774
Auxiliary enterprises	2,908,940	3,576,732	4,032,223	4,762,364	5,419,873	5,714,435	5,809,898	6,200,539	7,411,777	8,048,914
Total operating expense	46,959,641	46,753,093	46,331,652	50,375,212	55,560,007	60,133,230	65,477,039	62,765,400	63,831,493	67,817,688
Interest expense	177,366	146,440	198,855	307,292	316,491	548,265	657,783	545,680	384,861	583,060
Total non-operating expense	177,366	146,440	198,855	307,292	316,491	548,265	657,783	545,680	384,861	583,060
Total expenses	\$ 47,137,007	\$ 46,899,533	\$ 46,530,507	\$ 50,682,504	\$ 55,876,498	\$ 60,681,495	\$ 66,134,822	\$ 63,311,080	\$ 64,216,354	\$ 68,400,748

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

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

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

Supplemental Statistical Information - Unaudited

Schedule of Capital Asset Information

	Academic Year	2011	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Land (acreage)	222											
Buildings (square feet)												
100 Instruction /classroom		85,840										
200 Labs		87,517										
300 Administrative		125,860										
400 Study facilities		56,289										
52x Athletic		48,827										
5xx Other Special Use		5,243										
600 General Use		122,721										
700 Support facilities		21,296										
800 Health Care		878										
000 Unclassified		7,197										
Unassigned/ unassignable		299,006										
Total Sq Ft		860,674										
Residence Halls		438,140										
Rental space		111,775										
Dormitories - # of residents		1,215	1,305	1,355	1,434	1,443	1,466	1,499	1,483	1,639	1,620	

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

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

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

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

Supplemental Statistical Information - Unaudited

Schedule of Tuition & Mandatory Fees

	Academic Year										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
<i>Resident Undergraduate</i>											
Tuition	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970
Mandatory Fees	2,018	2,718	3,216	3,618	4,032	4,572	5,022	5,430	5,930	6,830	
Total	\$ 2,988	\$ 3,688	\$ 4,186	\$ 4,588	\$ 5,002	\$ 5,542	\$ 5,992	\$ 6,400	\$ 6,900	\$ 7,800	
<i>Non Resident Undergraduate</i>											
Tuition	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050
Mandatory Fees	2,018	2,718	3,216	3,618	4,032	4,572	5,022	5,430	5,930	6,830	
Total	\$ 9,068	\$ 9,768	\$ 10,266	\$ 10,668	\$ 11,082	\$ 11,622	\$ 12,072	\$ 12,480	\$ 12,980	\$ 13,880	
<i>Resident Graduate</i>											
Tuition	\$ 900	\$ 900	\$ 900	\$ 900	\$ 900	\$ 900	\$ 900	\$ 900	\$ 900	\$ 900	\$ 900
Mandatory Fees	107	117	432	432	510	510	653	653	720	762	
Total	\$ 1,007	\$ 1,017	\$ 1,332	\$ 1,332	\$ 1,410	\$ 1,410	\$ 1,553	\$ 1,553	\$ 1,620	\$ 1,662	

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

FITCHBURG STATE UNIVERSITY
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Supplemental Statistical Information - Unaudited

Admissions, Enrollment, and Degree Statistics

	Fall Term											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
Admissions-Freshman (1)												
Applications	2,681	3,289	3,861	3,514	3,859	3,880	4,057	4,342	4,572	4,193	4,193	4,193
Applications accepted	1,804	2,163	2,498	2,468	2,777	2,795	2,838	2,982	3,152	3,034	3,034	3,034
Accepted as a percentage of applications	67%	66%	65%	70%	72%	72%	70%	69%	69%	72%	72%	72%
Students enrolled (2)	763	887	988	1,016	1,007	1,086	1,067	1,133	1,163	1,085	1,085	1,085
Enrolled as a percentage of accepted	42%	41%	40%	41%	36%	39%	38%	38%	37%	36%	36%	36%

(1) Includes all undergraduate admissions including transfer students.

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

Annual

	Annual											
	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY11	
Enrollment												
Full-time equivalent	4,448	4,648	4,360	4,670	5,029	5,018	5,159	5,305	5,461	5,287	5,287	5,287
Unduplicated credit headcount	13,649	13,107	11,302	11,272	12,578	11,906	11,756	12,140	11,855	11,784	11,784	11,784
Percent undergraduate (3)	64%	67%	70%	68%	68%	68%	57%	60%	41%	42%	42%	42%
Percent graduate	36%	33%	30%	32%	32%	32%	43%	40%	59%	58%	58%	58%

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

Fall Term

	Fall Term											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
Student Population Demographics (4)												
Percentage of men	36%	37%	39%	38%	38%	38%	37%	39%	39%	39%	39%	39%
Percentage of women	64%	63%	61%	62%	62%	62%	63%	61%	61%	61%	61%	61%
Percentage of African-American	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Percentage of White	92%	92%	92%	92%	92%	92%	92%	92%	92%	92%	92%	89%
Percentage of Latino	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	5%
Percentage of Other (5)	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	3%
< 20	17%	18%	21%	22%	21%	21%	18%	18%	19%	18%	18%	18%
20 to 24	36%	37%	38%	36%	38%	40%	35%	36%	34%	37%	37%	37%
25 to 44	33%	32%	30%	30%	29%	29%	33%	33%	33%	32%	32%	32%
44 & Over	14%	13%	11%	12%	12%	10%	14%	13%	14%	13%	13%	13%

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

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

Degrees Granted

	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
Bachelor's	468	516	579	489	553	622	628	640	696	696
Master's	463	379	465	368	484	475	370	531	460	506

FITCHBURG STATE UNIVERSITY
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Supplemental Statistical Information - Unaudited

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

(1) Includes Instruction, Research & Public Service

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

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

To the Board of Trustees of
Fitchburg State University
Fitchburg, Massachusetts

We have audited the financial statements of the business type activities and discretely presented component unit of Fitchburg State University (the University) (a department of the Commonwealth of Massachusetts) as of and for the year ended June 30, 2011, which collectively comprise Fitchburg State University's basic financial statements, and have issued our report thereon dated October 18, 2011, which included an explanatory paragraph as indicated on page 1. 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 University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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

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

Compliance and Other Matters

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

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

Ercoleini & Company LLP

Boston, Massachusetts
October 18, 2011