

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

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

YEARS ENDED JUNE 30, 2007 AND 2006

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TABLE OF CONTENTS

	<u>Page</u>
Management's Discussion and Analysis (Unaudited)	i - xi
Independent auditor's report	1 - 2
Statements of net assets	3 - 5
Statements of revenues, expenses and changes in net assets	6 - 7
Statements of cash flows	8 - 9
Notes to financial statements	10 - 43
Supplemental information (Unaudited):	
Independent auditor's report on supplemental information	44
Residence hall and residence hall damage fund activity	45 - 46
Statistical section (Unaudited)	47 - 51
Independent auditor's report on internal control over financial reporting and on compliance and other matters	52 - 53

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

Introduction

The following discussion and analysis is intended to provide an overview of the financial position and fiscal activities of Fitchburg State College (the "College") for the fiscal years ended June 30, 2007 and 2006. This discussion is provided by the management of the College 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 College.

The College, located in North Central Massachusetts, is one of the nine comprehensive public colleges in the Commonwealth of Massachusetts (the "Commonwealth"). These institutions, along with the five-campus University of Massachusetts System and the fifteen Community Colleges (all reporting to the Board of Higher Education in varying degrees) comprise public higher education in Massachusetts. The College offers Baccalaureate and Masters' degree programs and Certificates of Advanced Study in eighteen departments. During fiscal 2007, there were approximately 3,350 full time students and thousands of part-time students enrolled in degree programs, for a combined full-time equivalent enrollment of approximately 5,000. Thousands more non-matriculated students take advantage of professional development programs through the Division of Graduate and Continuing Education (DGCE). The College awarded approximately 1,150 graduate and undergraduate degrees in fiscal 2007. The College is accredited by the New England Association of Schools and Colleges (NEASC) and many of the College's programs are accredited by program-specific accrediting bodies.

Financial Highlights

The College again experienced positive results from operations in fiscal 2007 and the financial position of Fitchburg State College remains strong. The College continues to embark on major capital improvements to the campus that not only foster teaching and learning but also provide our students with an enriched social and culturally diverse environment. 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 College. The College received \$26.9 million in fiscal 2007 compared with \$26.0 million in fiscal 2006. The increase primarily funded collective bargaining agreements. In addition, the College received another \$1.8 million in capital appropriations to fund various capital projects.
- Fees were increased to fund academic and capital initiatives. The mandatory per semester college fee increased from \$1,887 in fiscal 2006 to \$2,043 in fiscal 2007. 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.
- Capital project initiatives continue to pepper the College landscape. The strategic redevelopment of the North Street corridor continued with the acquisition of a number of targeted properties including a six unit multi family dwelling that has been converted to a new dormitory facility. Two major projects, the Holmes Dining renovations and the Elliot Athletic Field improvements that began in fiscal 2005 have now been completed and the facilities are fully operational.

- Total assets at the end of fiscal 2007 were \$79.5 million and exceeded liabilities of \$29.4 million by \$50.1 million (i.e. net assets). Unrestricted net assets available to support short-term operations totaled \$14.1 million, of which \$4.6 million has been designated for specific purposes.
- Total operating, non-operating, and gift revenue for fiscal 2007 was \$68.4 million, while expenses totaled \$62.6 million, resulting in an increase to net assets of \$5.8 million. The increase in net assets is a result of increased fees and increased enrollment.
- The consolidated financial information of the Fitchburg State College Foundation, Inc. is included in the College's financial statements as a component unit of the College. It is important to reiterate that the Foundation is indeed 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. In general, these funds are not available for operational costs of the College.

Using the Financial Statements

Fitchburg State College 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 College and all pending obligations of the College are accounted for in the appropriate period, thus giving a clear picture of the College's financial position. The College is a department of the Commonwealth of Massachusetts. A summary of our financial statements is incorporated in the Commonwealth's Comprehensive Annual Financial Report in its government-wide financial statements.

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

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

Statements of Net Assets

The statement of net assets presents the financial position of the College at the end of the year and includes all assets and liabilities of the College, with the difference reported as net assets. Assets and liabilities 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 assets are one indicator of the financial condition of the College, while the change in net assets from one period to the next is an indicator of whether the financial condition has improved or worsened. The statements of net assets (condensed, in thousands) at June 30, 2007 and 2006, are as follows:

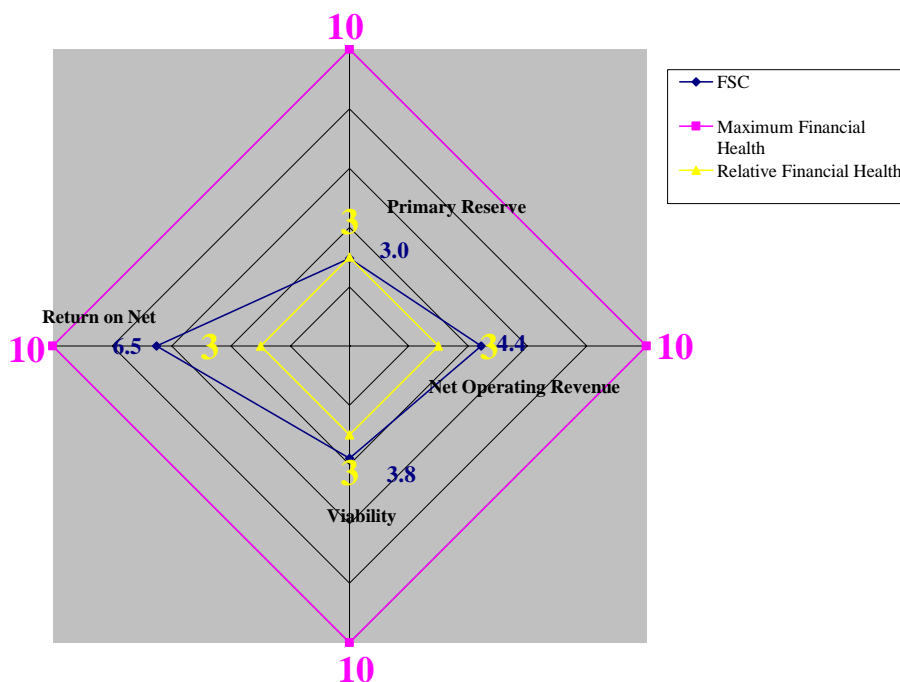
	<u>2007</u>	<u>2006</u>
Assets		
Current assets	\$ 25,442	\$ 25,526
Capital assets, net	44,080	36,102
Other	<u>9,964</u>	<u>11,333</u>
Total Assets	<u>\$ 79,486</u>	<u>\$ 72,961</u>
Liabilities		
Current liabilities	\$ 10,001	\$ 10,087
Long term liabilities	<u>19,432</u>	<u>18,579</u>
Total Liabilities	<u>29,433</u>	<u>28,666</u>
Net Assets		
Invested in capital assets, net of related debt	24,862	20,360
Restricted:		
Nonexpendable	600	598
Expendable	10,501	9,083
Unrestricted:		
Designated	4,580	5,737
Undesignated	<u>9,510</u>	<u>8,517</u>
Total net assets	<u>50,053</u>	<u>44,295</u>
Total Liabilities & Net Assets	<u>\$ 79,486</u>	<u>\$ 72,961</u>

Current assets consist primarily of cash and cash equivalents (90.1%). Current liabilities include trade accounts and salaries payable, 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 the obligation due to employees will be funded by state appropriations.

Ratio analysis measures certain elements of an institution's financial health. Although there are minor decreases in some of the ratios, the results are still positive and remain indicators of the overall financial health of the institution. All ratios are either at or above benchmark industry standards.

- The College's current assets of \$25.4 million are sufficient to cover current liabilities of \$10.0 million. An excess of current assets over current liabilities (the current ratio) is a measure of liquidity and provides a buffer against future uncertainties. The College's current ratio, at June 30 remains at 2.5 to 1 for both 2007 and 2006.

- Net assets represent the residual interest in the College's assets after liabilities are deducted. Comparing the current change in total net assets to total net assets at the beginning of the period (return on net assets) is an economic measure that determines if the College is financially better off than in previous years. The College's return on net assets, at June 30, 2007 and 2006 was 13.0% and 13.6%, respectively.
- The primary reserve ratio indicates how long the College could function using its expendable reserves without relying on additional net assets generated by operations. The College's primary reserve ratio, at June 30, 2007 and 2006 was 39.3% and 40.5%, respectively. The slight decrease in the ratio is a result of the College's decision to spend some of its accumulated reserves to acquire key properties in the targeted redevelopment zone.
- 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 assets exceeding debt levels, although not by excessive amounts. The College's CFI at June 30, 2007 and 2006 was 4.10 and 4.24, respectively. The following graph illustrates the four core financial ratios after they have been weighted and strength factors calculated. As noted above all four factors are at or above the minimum measure of a healthy institution.



Statements of Revenues and Expenses and Changes in Net Assets

The following Statements of Revenues, Expenses and Changes in Net Assets (condensed, in thousands) presents information showing the College's results of operations for the fiscal years ended June 30, 2007 and 2006. All changes in net assets 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 these statements for some items that will result in cash flows in future periods (e.g. the accrual for compensated absences).

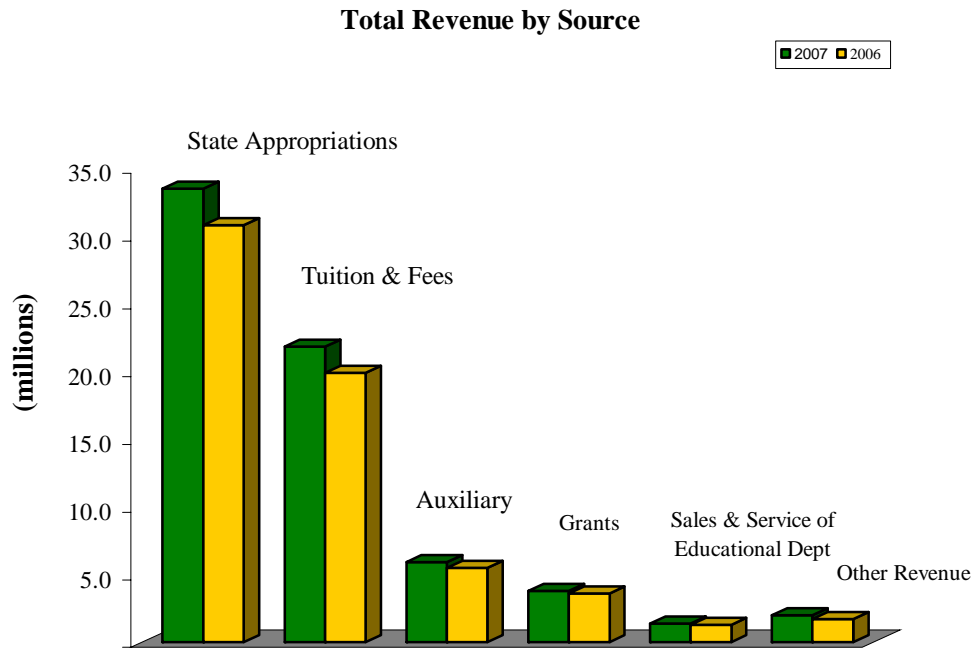
	<u>2007</u>	<u>2006</u>
<u>Operating revenues:</u>		
Tuition & fees (net)	\$ 21,778	\$ 19,928
Grants	3,657	3,486
Sales & service of educational department	1,366	1,301
Auxiliary	5,915	5,466
Other operating revenue	<u>621</u>	<u>627</u>
Total operating revenue	33,337	30,808
<u>Operating expenses:</u>		
Instruction	24,193	22,856
Research & public service	548	764
Academic support	5,109	4,632
Student services & scholarships	7,025	6,563
Institutional support	6,648	6,169
Operations & maintenance	9,699	8,186
Depreciation	3,113	2,648
Auxiliary	<u>5,714</u>	<u>5,420</u>
Total operating expenses	<u>62,049</u>	<u>57,238</u>
Net operating loss	(28,712)	(26,430)
<u>Non-operating revenue & expenses:</u>		
State appropriations	31,702	29,645
Gifts	13	7
Investment income	1,379	1,071
Interest expense	(548)	(316)
State capital appropriations	1,800	1,195
Capital grants	<u>124</u>	<u>124</u>
Total non-operating revenue	34,470	31,726
<u>Increase in net assets</u>	5,758	5,296
Net assets, beginning of the year	<u>44,295</u>	<u>38,999</u>
Net assets, end of the year	\$ <u>50,053</u>	\$ <u>44,295</u>

State appropriations are reported net of the amount of day school tuition collected by the College 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 College. Included in appropriations are the fringe benefit costs for College 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 College. Non-state employees who are paid from trust funds, grants or other sources receive the same fringe benefits. The College 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 2007 and 2006 was 31.3% and 27.0%, respectively. The current fringe benefit rate includes group medical insurance (22.2%); retirement (7.9%) and terminal leave (1.2%).

The following schedule (condensed, in thousands) details the Commonwealth appropriations received by the College.

	<u>2007</u>	<u>2006</u>
Commonwealth general appropriations	\$ 26,924	\$ 26,044
Appropriations to cover fringe benefits provided to employees of the Commonwealth	<u>7,747</u>	<u>6,309</u>
	34,671	32,353
Tuition remitted back to the Commonwealth	<u>(2,969)</u>	<u>(2,708)</u>
Net appropriations	31,702	29,645
Additional state capital appropriations	<u>1,800</u>	<u>1,195</u>
Total appropriations	\$ <u>33,502</u>	\$ <u>30,840</u>

The following is a graphic illustration of total revenue (operating and non-operating) by source. Total revenue for the fiscal years ended June 30, 2007 and 2006 was \$68.4 and \$62.8 million, respectively. The increase in total revenue is the result of additional state appropriations, increased fees and increased enrollment.



Total state appropriations are reported net of the amount of day school tuition collected by the College and returned to the Commonwealth. State appropriations also include funds the Commonwealth appropriates to cover the cost of fringe benefits of state employees. For the period ended June 30, 2007, total appropriations increased by 8.6%. The increase is primarily the result of funding increases in collective bargaining agreements and additional capital appropriations. It is important to note that the state appropriations the College receives essentially fund payroll and benefit costs. The majority of operating costs incurred by the College 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 remained at fiscal 2006 levels. The increase in

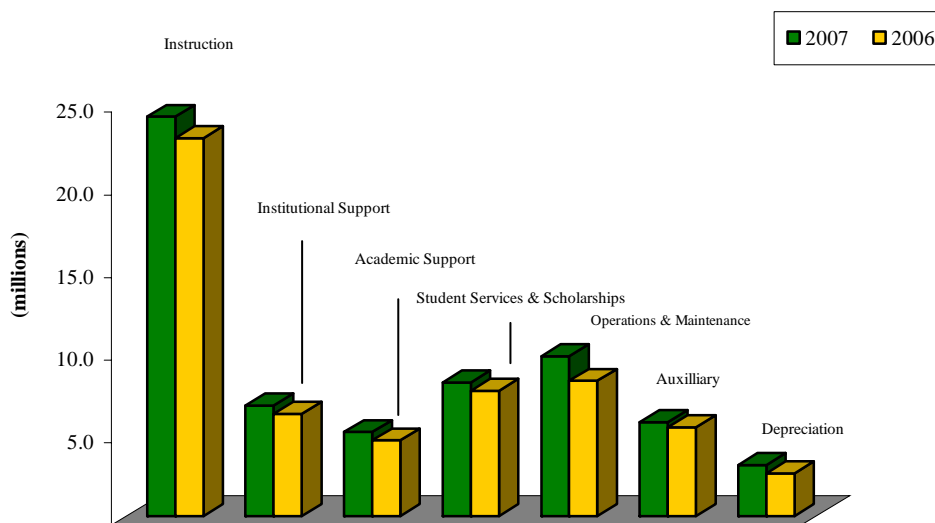
total tuition and fee revenue (9.2%) is due to an increase in student fees and an increase in enrollment. It is important to note that although there was a modest increase in student fees during fiscal 2007, there was also a 22.0% increase in scholarships awarded to students. Approximately 2,700 students received aid illustrating the College's commitment to maintaining access to affordable education. During fiscal year 2007 and 2006, in-state tuition and fees for full time resident students was \$6,107 and \$5,638 per semester, respectively. In-state tuition for commuting students in fiscal year 2007 and 2006 was \$2,771 and \$2,501 per semester, respectively.

Auxiliary revenue represents revenue received from the operations of the College's residence halls. Auxiliary revenue increased 8.2% due to a combination of increased fees and increased occupancy rates. Much of the fee increase has been driven by the need to fund bond payments for significant renovation and repair of the residence halls. Residence Hall occupancy is currently at 105% capacity and there are plans to begin construction of additional townhouse units in Mara Village.

Grant revenue is made up of federal, state and private grants. The most significant of these is the PELL and SEOG federal financial aid programs.

The following is a graphic illustration of total expenditures (operating and non-operating) by function. Total expenditures for the fiscal years ended June 30, 2007 and 2006 were \$62.6 million and \$57.5 million, respectively.

Total Expenditures by Function



The most significant area of expense is instruction which represents 38.9% of total operating expenses. Faculty payroll (\$15.0 million) and related benefits (\$4.7 million) represent approximately 81.5% of instructional expenditures. Increases in instructional expense over the past year relate to the hiring of additional faculty positions during the period and increases in collective bargaining agreements. Institutional support consists of the day-to-day operational support of the institution, excluding physical plant operations. Operations and maintenance consists of expenditures related to physical plant. Increases in this functional area include the costs relating to the College acquiring a long term lease of an off site service center in fiscal 2007 and an increase in amounts budgeted for general repair projects. The financial statements include \$3.1 and \$2.6 million in depreciation expense for 2007 and 2006, respectively.

Total expenses for fiscal year 2007, excluding depreciation, increased by approximately \$4.6 million (8.3%) when compared to fiscal 2006. The increase is due to the collective bargaining agreements, costs associated with increased enrollment and various deferred maintenance projects.

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

The following schedule (condensed, in thousands) illustrates the College's incurred losses from operations for the fiscal years ended June 30, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Tuition & fees revenue, net	\$ 21,778	\$ 19,928
Other operating revenue	<u>11,559</u>	<u>10,880</u>
Total operating revenue	33,337	30,808
Operating expenses	<u>(62,049)</u>	<u>(57,238)</u>
Operating loss	(28,712)	(26,430)
Total state appropriations	33,502	30,840
Other revenue (expense), net	<u>968</u>	<u>886</u>
Increase in net assets	\$ <u><u>5,758</u></u>	\$ <u><u>5,296</u></u>

The net operating revenues ratio indicates whether total operating activities resulted in a surplus or deficit. A positive ratio indicates that the institution experienced an operating surplus. For the periods ended June 30, 2007 and 2006, the College's net operating revenues ratio was 5.77% and 6.46%, respectively. Although the ratio did decline in fiscal 2007, it still remains above the 2007 projected target of 5.11%. It is also important to note the ratio has remained above 5.00% for the past four fiscal periods illustrating that the College produces a positive return on its current activities.

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 College's statements of cash flows (condensed, in thousands) for the fiscal years ended June 30, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Cash received from operations	\$ 33,669	\$ 30,736
Cash expended for operations	<u>(52,016)</u>	<u>(47,703)</u>
Net cash used by operations	(18,347)	(16,967)
Net cash provided by non-capital financing activities	23,969	23,343
Net cash (used) by capital and related financing activities	(9,239)	(4,699)
Net cash provided by investing activities	<u>1,420</u>	<u>1,101</u>
Net increase (decrease) in cash and equivalents	(2,197)	2,778
Cash and equivalents, beginning of the year	<u>32,910</u>	<u>30,132</u>
Cash and equivalents, end of the year	\$ <u>30,713</u>	\$ <u>32,910</u>

The College's cash and cash equivalents decreased by approximately \$2.2 million during fiscal 2007, resulting in the cash and cash equivalents balance of \$30.7 million at fiscal year end. The decrease is attributed to the completion of major construction projects funded by bond proceeds received in fiscal 2006 and expended in fiscal 2007. Investment income includes interest earned on College funds, and unrealized gains on endowment equities. Idle cash is invested in the Massachusetts Municipal Depository Trust (MMDT), a short-term money management vehicle provided by the Commonwealth. Non-capital financing activities, as defined by GASB, include state appropriations. These appropriations fund the operating activities of the College.

Capital Assets

Capital assets consist of land, buildings and building improvements, equipment, library materials, and construction in progress. As of June 30, 2007, net capital assets increased to \$44.1 million after depreciation expense of \$3.1 million. During the current period there were \$11.1 million in additions to capital assets. Included in this amount is \$1.6 million in property acquisitions along the North Street corridor and other key properties adjacent to the College. Also included is \$4.8 million in construction costs to complete the Holmes Dining Hall and Elliot Athletic Field improvement project, \$1.9 million Network Upgrade project and \$2.8 million in various construction projects in progress at June 30, 2007. Other projects completed in fiscal 2007 include the construction of the new Faculty Center for Technology and the renovation of Thompson Hall's main lobby. The lobby has been renovated to bring back some of its original architectural features with the goal of recreating the original atmosphere of the 1896 building and preserving the history of the College's first and oldest building. Projects in progress include replacement of the southwest exterior façade of the Hammond Campus Center and the North Street retaining wall. These projects are expected to be completed in fiscal 2008.

Long Term Debt

The College has long term debt obligations issued for various capital projects. The debt was issued through several financing agreements with the Massachusetts Health and Educational Facilities Authority (MHEFA) and the Massachusetts State College Building Authority (MSCBA). The interest rate on the MHEFA 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 3.50% to 5.00 % over the term of the debt as set by MSCBA. The debt is being repaid by the College through dedicated student fees (DSF). The following table summarizes the various debt vehicles, interest rates, debt service and debt outstanding at June 30, 2007 and is inclusive of any bond premiums or discounts.

Issuing Agency	Construction Project	Fiscal Year Issued	Original Issue	Funding Source	Interest Rate	Debt Service	Debt Outstanding	Maturity
MHEFA	Recreation Center	1997	\$6,000,000	DSF	3.76%	\$416,918	\$4,767,596	2023
MSCBA	Holmes Dining Hall Renovations	2005	\$1,090,000	DSF	3.50%	\$83,469	\$1,015,000	2025
MSCBA	Elliot Athletic Field Improvements	2005	\$4,020,000	DSF	3.50%	\$304,944	\$3,740,000	2025
MSCBA	Holmes Dining Hall Renovations	2006	\$2,060,000	DSF	3.50%	\$160,888	\$2,101,085	2026
Total			\$13,170,000			\$966,219	\$11,623,681	

The College has also acquired equipment through capital lease agreements with various financing companies. The capital lease agreements allow for the acquisition of telephone, printing and computer equipment, as well as software and implementation costs. Capital lease agreements are generally paid for from operating funds and have terms ranging from five to ten years. The following table summarizes the various capital lease agreements, interest rates, debt service and amounts outstanding at June 30, 2007.

Financing Agreement	Equipment Acquisition	Initial Lease Year	Original Amount Financed	Funding Source	Interest Rate	Debt Service	Debt Outstanding	Maturity
1	Voice, data and video cable system	1997	\$2,725,000	DSF	5.66%	\$183,435	-	2007
2	Student information system	2001	\$5,000,000	Operating funds	5.85%	\$616,332	\$1,925,362	2010
3	Network system upgrade	2007	\$1,870,144	Operating funds	5.13%	\$426,427	\$1,870,144	2012
all others	Telephone, computer and printing equipment	2005-2007	\$245,593	Operating funds	4.96% - 7.93%	\$65,575	\$177,361	2010-2011
Total			\$9,840,737			\$1,291,769	\$3,972,867	

For the periods ended June 30, 2007 and 2006, the total debt (current and long term) attributable to interagency payments, capital leases and bond premiums amounted to \$15.6 million and \$14.9 million, respectively. The availability of expendable net assets to cover debt (the viability ratio) is a basic determinant of financial health. A viability ratio of 1.00 indicates that, as of the balance sheet date, the College has sufficient net assets to satisfy its debt obligations. As of June 30, 2007 and 2006, the College's viability ratio was 1.58 and 1.57, respectively. 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 Board of Higher Education recommends a debt burden ratio of no more than 5%. As of June 30, 2007 and 2006, the College's debt burden was 3.04 and 2.95, respectively.

Looking Forward

The College has completed the most ambitious year to date of its five year strategic plan and the face of the campus is changing. Major capital projects that began in Phase 1 of the plan have now been completed. Common areas have been created throughout the campus to provide students, faculty and staff with comfortable places to gather together enhancing the learning and community environment. Improvements to the College's technological environment have also been completed. The College's network has been upgraded and approximately 85% of the classrooms are now mediated. The laptop initiative requiring all incoming freshman to have laptop computers has been fully implemented and the College begins a faculty laptop program in fiscal 2008. The College intends to launch a new Internet navigational platform. This campus portal solution will bring information, services, and communication together in a unified digital manner allowing streamlined access to Campus information and services. The portal will integrate with the College's student information system to provide an online environment that can be personalized by end users to present the most important information in an easy to read manner.

In fiscal 2007, the College directly acquired seven properties in the area surrounding the campus. In addition, the Fitchburg State College Foundation and the FSC Foundation Supporting Organization have acquired six other properties in support of the College's mission. The largest acquisition has been a \$1.9 million off site Service Center which is now fully functional housing materials management operations, print services and mail delivery operations. The College and or its Foundations now control a significant number of properties along the North Street corridor. The acquisition of these properties continues the College's efforts to work collaboratively with the City of Fitchburg to provide a safe environment for our students, revitalize a troubled neighborhood and create a gateway from the College to downtown Fitchburg. Renovation of the properties will begin in fiscal 2008. Some of the properties will be used to create green space and parking along the corridor. Other properties will be renovated to expand student housing, provide additional faculty office space and relocate Campus Police to the area.

The College, the City of Fitchburg and the Massachusetts Division of Capital Asset Management (DCAM) are in the process of finalizing a long term lease that will effectively turn the operation and administration of the George R. Wallace, Jr. Civic Center and the Alice G. Wallace Planetarium over to the College. Renovations to the facility's roof and refrigeration systems will begin in 2008. Funds appropriated to the Massachusetts Department of Housing and Community Development included an earmark of \$2 million to fund these renovations. An additional \$500,000 was earmarked in subsequent legislation for certain deferred maintenance and general purpose expenditures.

The College continues to pursue a new science facility. The College completed a study for the facility in fiscal 2007 and is now awaiting passage of a Capital Bond bill to secure funding for the project. The College has been working collaboratively with DCAM to complete the study in advance of the bond bill. This will enable the design phase of the project to begin immediately upon passage of the bill.

The College continues to refer to the strategic plan as a roadmap for future initiatives and remains committed to its focus on long term planning. Aligning operating and capital budgets with the strategic plan allows the College to maintain a balance between immediate needs and long term demands in order to sustain an effective and efficient operation that will ensure the long term viability of the institution. The College remains committed to establishing Fitchburg State College as an academically competitive institution, to provide our students with the skills and competencies necessary to succeed and to offer the support and resources that will facilitate that goal.

Requests for Information

This financial report is designed to provide a general overview of the finances of Fitchburg State College 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 College, 160 Pearl Street, Fitchburg, Massachusetts, 01420.

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Fitchburg State College
Fitchburg, Massachusetts

We have audited the accompanying financial statements of the business-type activities of Fitchburg State College (a department of the Commonwealth of Massachusetts) as of and for the years ended June 30, 2007 and 2006, and the discretely presented component unit as of and for the years ended June 30, 2007 and 2006, which collectively comprise Fitchburg State College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Fitchburg State College'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 College 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 College 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, 2007 and 2006, 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 College as of June 30, 2007 and 2006, 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.

In accordance with Government Auditing Standards, we have also issued a report dated September 28, 2007 on our consideration of Fitchburg State College'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, 2007. 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 2007 audit.

The Management's Discussion and Analysis (MD&A) on pages i to xi is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Escolini & Company LLP

September 28, 2007

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

STATEMENTS OF NET ASSETS

JUNE 30, 2007 AND 2006

ASSETS

		Component Unit Fitchburg State College Foundation, Inc.		Component Unit Fitchburg State College Foundation, Inc.
	<u>2007</u>	<u>2007</u>	<u>2006</u>	<u>2006</u>
<u>Current Assets</u>				
Cash and cash equivalents	\$ 20,319,968	\$ 522,636	\$ 21,876,523	\$ 352,152
Restricted cash and cash equivalents	2,598,535	94,552	1,618,173	107,690
Investments	-	4,484,268	-	3,627,905
Accounts receivable, net	2,138,599	93,535	1,910,860	57,716
Contributions receivable, net	-	219,214	-	3,522
Loans receivable - current portion	2,983	-	2,935	-
Other current assets	<u>382,428</u>	<u>16,446</u>	<u>117,182</u>	<u>65,435</u>
Total current assets	<u>25,442,513</u>	<u>5,430,651</u>	<u>25,525,673</u>	<u>4,214,420</u>
<u>Noncurrent Assets</u>				
Restricted cash and cash equivalents	7,794,902	292,639	9,415,617	-
Endowment investments	174,244	6,394,609	171,428	5,983,976
Contributions receivable, net	-	13,876	-	-
Loans receivable, net of current portion	1,691,615	-	1,746,176	-
Capital assets, net	44,080,116	3,359,960	36,102,210	215,632
Other noncurrent assets	<u>303,061</u>	<u>114,140</u>	<u>-</u>	<u>64,249</u>
Total noncurrent assets	<u>54,043,938</u>	<u>10,175,224</u>	<u>47,435,431</u>	<u>6,263,857</u>
TOTAL ASSETS	<u>\$ 79,486,451</u>	<u>\$ 15,605,875</u>	<u>\$ 72,961,104</u>	<u>\$ 10,478,277</u>

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

STATEMENTS OF NET ASSETS - CONTINUED

JUNE 30, 2007 AND 2006

LIABILITIES AND NET ASSETS

LIABILITIES	<u>2007</u>	Component Unit Fitchburg State College Foundation, Inc. <u>2007</u>	<u>2006</u>	Component Unit Fitchburg State College Foundation, Inc. <u>2006</u>
<u>Current Liabilities</u>				
Interagency payables - current portion	\$ 420,213	\$ -	\$ 401,466	\$ -
Accounts payable and accrued liabilities	2,125,125	24,996	2,293,680	11,724
Accounts payable - construction	312,953	-	832,031	-
Accrued workers' compensation - current portion	100,588	-	114,966	-
Compensated absences - current portion	2,047,183	-	2,005,559	-
Faculty payroll accrual	2,234,005	-	2,084,259	-
Deferred revenue - current portion	1,489,143	96,366	1,223,616	20,488
Capital leases - current portion	905,801	-	698,200	-
Long-term debt - current portion	-	63,990	-	-
Deposits	247,285	-	253,237	-
Other current liabilities	<u>119,083</u>	<u>-</u>	<u>179,613</u>	<u>-</u>
Total current liabilities	<u>10,001,379</u>	<u>185,352</u>	<u>10,086,627</u>	<u>32,212</u>
<u>Noncurrent Liabilities</u>				
Interagency payables, net of current portion	11,203,468	-	11,718,729	-
Accrued workers' compensation, net of current portion	410,010	-	468,620	-
Compensated absences, net of current portion	1,662,874	-	1,564,906	-
Deferred revenue, net of current portion	1,307,654	-	1,047,192	-
Rebate payable	13,681	-	5,308	-
Capital leases, net of current portion	3,067,066	-	2,042,694	-
Long-term debt, net of current portion	-	2,466,833	-	-
Loan payable - federal financial assistance programs	<u>1,767,225</u>	<u>-</u>	<u>1,732,241</u>	<u>-</u>
Total noncurrent liabilities	<u>19,431,978</u>	<u>2,466,833</u>	<u>18,579,690</u>	<u>-</u>
Total liabilities	<u>29,433,357</u>	<u>2,652,185</u>	<u>28,666,317</u>	<u>32,212</u>

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

STATEMENTS OF NET ASSETS - CONTINUED

JUNE 30, 2007 AND 2006

LIABILITIES AND NET ASSETS - CONTINUED

		Component Unit Fitchburg State College Foundation, Inc.		Component Unit Fitchburg State College Foundation, Inc.
	<u>2007</u>	<u>2007</u>	<u>2006</u>	<u>2006</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 24,862,027	\$ 871,433	\$ 20,360,103	\$ 215,632
Restricted for:				
Non-expendable				
Scholarships and fellowships	600,377	3,456,139	597,461	3,048,856
Cultural programs	-	1,335,496	-	1,332,146
Centennial endowments	-	1,592,974	-	1,592,974
Other	-	59,053	-	54,539
Expendable				
Scholarships and fellowships	298,049	1,352,227	257,162	964,129
Cultural programs	-	693,609	-	669,330
Loans	241,829	-	237,620	-
Capital projects	5,107,795	-	4,605,890	-
Debt service	4,851,815	-	3,975,802	-
Other	930	182,856	6,833	261,405
Unrestricted	<u>14,090,272</u>	<u>3,409,903</u>	<u>14,253,916</u>	<u>2,307,054</u>
Total net assets	<u>50,053,094</u>	<u>12,953,690</u>	<u>44,294,787</u>	<u>10,446,065</u>
LIABILITIES AND NET ASSETS	<u>\$ 79,486,451</u>	<u>\$ 15,605,875</u>	<u>\$ 72,961,104</u>	<u>\$ 10,478,277</u>

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2007 AND 2006

		Component Unit Fitchburg State College Foundation, Inc.		Component Unit Fitchburg State College Foundation, Inc.
<u>OPERATING REVENUES</u>	<u>2007</u>	<u>2007</u>	<u>2006</u>	<u>2006</u>
Student tuition and fees	\$ 24,458,748	\$ -	\$ 21,752,654	\$ -
Student fees restricted for repayment of Interagency payables	1,319,093	-	1,453,318	-
Less: Scholarship allowances	(4,000,131)	-	(3,277,753)	-
Net student tuition and fees	21,777,710	-	19,928,219	-
Federal grants and contracts	3,391,927	-	3,175,644	-
State and local grants and contracts	137,608	5,200	277,460	6,330
Nongovernmental grants and contracts	127,444	51,030	33,153	7,930
Sales and services of educational departments	1,366,139	416,734	1,300,528	257,477
Gifts and contributions	-	1,239,914	-	230,761
Auxiliary enterprises:				
Residential life	5,876,405	-	5,433,220	-
Alcohol awareness and other programs	38,358	-	32,807	-
Other operating revenues	<u>621,052</u>	<u>4,515</u>	<u>627,340</u>	<u>25,439</u>
Total operating revenues	<u>33,336,643</u>	<u>1,717,393</u>	<u>30,808,371</u>	<u>527,937</u>
 <u>OPERATING EXPENSES</u>				
Educational and general:				
Instruction	24,193,071	103,479	22,856,426	33,317
Research	61,077	-	165,550	-
Public service	486,633	172,769	598,273	239,642
Academic support	5,108,978	23,635	4,631,842	9,971
Student services	7,022,806	123,319	6,560,972	105,429
Institutional support	6,648,295	387,399	6,169,474	216,524
Operations and maintenance of plant	9,699,216	126,367	8,185,991	-
Depreciation	3,112,604	66,105	2,648,290	95,333
Scholarships and awards	2,300	183,084	2,250	173,260
Auxiliary enterprises:				
Residential life	5,679,902	-	5,384,899	-
Alcohol awareness and other programs	<u>34,533</u>	<u>-</u>	<u>34,974</u>	<u>-</u>
Total operating expenses	<u>62,049,415</u>	<u>1,186,157</u>	<u>57,238,941</u>	<u>873,476</u>
Operating income (loss)	(28,712,772)	<u>531,236</u>	(26,430,570)	(345,539)

See notes to financial statements.

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

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

YEARS ENDED JUNE 30, 2007 AND 2006

<u>NONOPERATING REVENUES (EXPENSES)</u>	<u>2007</u>	Component Unit Fitchburg State College Foundation, Inc. <u>2007</u>	<u>2006</u>	Component Unit Fitchburg State College Foundation, Inc. <u>2006</u>
State appropriations	\$ 31,702,393	\$ -	\$ 29,645,087	\$ -
Gifts	13,327	-	7,549	-
Investment income, net of investment expense	808,709	1,182,682	651,287	460,883
Investment income on restricted assets	571,626	403,075	420,058	218,495
Interest expense on Interagency payables and capital asset related debt	(548,265)	-	(316,491)	-
Net nonoperating revenues before capital and endowment additions	<u>32,547,790</u>	<u>1,585,757</u>	<u>30,407,490</u>	<u>679,378</u>
<u>INCOME BEFORE CAPITAL AND ENDOWMENT ADDITIONS</u>	<u>3,835,018</u>	<u>2,116,993</u>	<u>3,976,920</u>	<u>333,839</u>
State capital appropriations	1,799,754	-	1,195,000	-
Capital grants	123,535	-	123,535	-
Private gifts for endowment purposes	-	390,632	-	187,006
Total capital and endowment additions	<u>1,923,289</u>	<u>390,632</u>	<u>1,318,535</u>	<u>187,006</u>
<u>INCREASE IN NET ASSETS</u>	<u>5,758,307</u>	<u>2,507,625</u>	<u>5,295,455</u>	<u>520,845</u>
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>44,294,787</u>	<u>10,446,065</u>	<u>38,999,332</u>	<u>9,925,220</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 50,053,094</u>	<u>\$ 12,953,690</u>	<u>\$ 44,294,787</u>	<u>\$ 10,446,065</u>

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

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2007 AND 2006

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2007</u>	<u>2006</u>
Tuition and fees	\$ 21,841,382	\$ 19,558,319
Research grants and contracts	3,974,864	3,402,514
Payments to suppliers	(13,494,222)	(11,831,606)
Payments to utilities	(4,225,520)	(3,323,896)
Payments to employees	(32,643,830)	(31,021,673)
Payments for benefits	(1,263,770)	(1,209,959)
Payments for scholarships	(2,300)	(2,250)
Loans issued to students	(319,502)	(296,352)
Collection of loans to students	358,288	366,832
Auxiliary enterprise receipts:		
Residential life	5,909,209	5,462,770
Alcohol awareness program	39,610	32,807
Receipts from sales and services of educational departments	926,886	1,260,385
Other payments	(66,482)	(17,190)
Other receipts	<u>618,299</u>	<u>651,994</u>
Net cash used in operating activities	<u>(18,347,088)</u>	<u>(16,967,305)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	26,931,911	26,022,130
Tuition remitted to State	(2,976,034)	(2,685,945)
Gifts from grants for other than capital purposes	<u>13,327</u>	<u>7,549</u>
Net cash provided by noncapital financing activities	<u>23,969,204</u>	<u>23,343,734</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State capital appropriations	1,799,754	1,195,000
Loan programs net funds received	54,921	63,086
Interagency payable proceeds received	-	2,173,663
Capital grants	382,837	1,200,000
Payments for capital assets	(9,631,597)	(7,680,219)
Principal paid on capital debt and leases	(1,205,464)	(1,118,527)
Interest paid on Interagency payables and capital leases	<u>(639,503)</u>	<u>(532,172)</u>
Net cash used in capital and related financing activities	<u>(9,239,052)</u>	<u>(4,699,169)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Earnings on investments	<u>1,420,028</u>	<u>1,101,302</u>
Net cash provided by investing activities	<u>1,420,028</u>	<u>1,101,302</u>
Net increase (decrease) in cash and cash equivalents	(2,196,908)	2,778,562
Cash and cash equivalents - beginning of year	<u>32,910,313</u>	<u>30,131,751</u>
Cash and cash equivalents - end of year	<u>\$ 30,713,405</u>	<u>\$ 32,910,313</u>

See notes to financial statements.

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

STATEMENTS OF CASH FLOWS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

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

	<u>2007</u>	<u>2006</u>
Operating loss	(\$ 28,712,772)	(\$ 26,430,570)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Bad debt expense (credit)	56,036	69,586
Gain on sale of surplus property	-	(43,942)
Depreciation expense	3,112,604	2,648,290
Fringe benefits paid by the Commonwealth of Massachusetts	7,747,168	6,308,902
Changes in assets and liabilities:		
Receivables	(290,328)	(503,661)
Other current and noncurrent assets	(567,558)	(76,754)
Accounts payable and accrued liabilities	(164,394)	197,691
Accrued workers' compensation	(72,988)	90,839
Compensated absences	139,592	194,892
Accrued salaries	166,562	411,914
Deferred revenue	266,686	39,427
Other current liabilities	(60,530)	41,501
Deposits	(5,952)	14,100
Loans to students	38,786	70,480
Net cash used in operating activities	<u>(\$ 18,347,088)</u>	<u>(\$ 16,967,305)</u>

SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

Acquisition of capital assets	\$ 11,090,510	\$ 8,301,728
Accounts payable thereon:		
Beginning of year	832,031	501,907
End of year	(312,953)	(832,031)
Acquisition of assets from capital lease obligation	(1,946,606)	(121,755)
Net interest incurred and earned, capitalized in construction in progress	(31,385)	(169,630)
 Payments for capital assets	 <u>\$ 9,631,597</u>	 <u>\$ 7,680,219</u>
 Unrealized gain on marketable securities	 <u>\$ 2,816</u>	 <u>\$ 8,874</u>
 Fringe benefits paid by the Commonwealth of Massachusetts	 <u>\$ 7,747,168</u>	 <u>\$ 6,308,902</u>
 Interagency receivable - DCAM from sale of surplus property	 <u>\$ -</u>	 <u>\$ 291,590</u>

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2007 AND 2006

1. Summary of significant accounting policies:

Organization:

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

The College is a department of the Commonwealth of Massachusetts (the "State" and the "Commonwealth"). The accompanying financial statements reflect only the transactions of the College 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 College had been operated as an independent institution.

Fitchburg State College Foundation, Inc. (the "Foundation") is a component unit of Fitchburg State College. 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 College, to establish scholarships and make awards to educationally talented and needy students; to establish a Distinguished Professor award within the faculty of the College; to subsidize inter-collegiate athletic programs; to subsidize budgets of departments of the College as needed for particular purposes; to encourage public use and support of functions and activities which further the mission of the College; and to encourage other activities necessary for, or incidental to, any or all of the foregoing. The following programs are supported under the auspices of the Foundation: Center Stage, Alumni Association, Women in Today's Society, Amelia V. Gallucci - Cirio endowment and the College's Booster Clubs. The Board of the Foundation is self-perpetuating and consists of graduates and friends of the College. Although the College 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 College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit of the College and is discretely presented in the College's financial statements. The College provides, at no cost, certain administrative services to the Foundation.

FSC Foundation Supporting Organization, Inc. (the "Foundation Supporting Organization") was organized on October 29, 1999 for the exclusive benefit of the Foundation and all of its educational and charitable activities. 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, 2007, has been to acquire, hold, operate and lease real estate and related improvements for the benefit of the Foundation and the College. 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 FSC Foundation.

During the year ended June 30, 2007, FSC Foundation distributed a net amount of \$189,086 to the College for both restricted and unrestricted purposes. During 2007, FSC Foundation distributed scholarships and awards in the amount of \$183,084 directly to students and faculty of the College, and expended an additional \$813,987 in support of its mission in other ways. Complete financial statements for FSC Foundation can be obtained from the Office of the Vice President for Finance and Administration, Fitchburg State College, 160 Pearl Street, Fitchburg, MA 01420.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

1. Summary of significant accounting policies - continued:

Organization - continued:

During the year ended June 30, 2006, FSC Foundation distributed a net amount of \$39,340 to the College for both restricted and unrestricted purposes. During 2006, FSC Foundation distributed scholarships and awards in the amount of \$173,260 directly to students and faculty of the College, and expended an additional \$660,876 in support of its mission in other ways.

Basis of presentation:

The College'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.

FSC Foundation, as a nonprofit organization, reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Reporting of Not-for-Profit Organizations*. 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 FSC Foundation's consolidated financial information in the College's financial reporting entity for these differences.

The College's policy for defining operating activities in the statements of revenues, expenses and changes in net assets 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 College'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 College's policy to use the restricted resources first, then unrestricted resources as they are needed.

The College has elected not to adopt the pronouncements issued by the Financial Accounting Standards Board (FASB) after November 30, 1989.

The accompanying statements of revenues, expenses and changes in net assets 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

1. Summary of significant accounting policies - continued:

Basis of presentation - continued:

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

- **Invested in capital assets, net of related debt:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- **Restricted:**
 - Nonexpendable** - Net assets subject to externally-imposed stipulations that they be maintained permanently by the College. Such assets include the College's permanent endowment funds.
 - Expendable** - Net assets whose use by the College is subject to externally-imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time.
- **Unrestricted:** All other categories of net assets. Unrestricted net assets 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 College'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.

Cash and cash equivalents and investments:

The College'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, MHEFA and MSCBA, and short term investments with original maturities of three months or less from the date of acquisition.

Investments for the College are reported at fair value. Any investments held with the Commonwealth's Treasurer and Receiver-General in the Massachusetts Municipal Depository Trust is 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

1. Summary of significant accounting policies - continued:

Cash and cash equivalents and investments - continued:

Investments include marketable equity securities which are carried at their readily determinable fair values. 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. Investment income is recognized when earned and is generally credited to the trust fund holding the related assets. There were no significant realized gains or losses on College investments during the years ended June 30, 2007 and 2006.

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

- (i) as increases in restricted - nonexpendable net assets 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 assets if the terms of the gift or the College's interpretation of relevant state law impose restrictions on the current use of the income or net gains. The College 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 assets in all other cases.

At June 30, 2007 and 2006, the College had \$268,157 and \$257,162, respectively, in endowment income available for authorization for expenditure, which is included in restricted-expendable net assets for scholarships and fellowships.

Massachusetts General Law, Chapter 15 grants authority to the College Boards of Trustees to administer the general business of the institution. Inherent in this authority is the authority to invest funds of the College. 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 College has delegated the authority to make specific investment decisions to the President of the institution and the Finance Committee of the Board of Trustees. The College currently holds one publicly-traded equity security related to one of its endowments. All other funds are in cash or cash equivalents. The primary cash equivalent funds are the Massachusetts Municipal Depository Trust, an external investment pool for political subdivisions of the Commonwealth.

The College's authorized spending rule provides that all earnings on endowment investments may be expended pursuant to the stipulations placed on these endowments.

FSC Foundation's investments consist of pooled investment funds that invest in debt and marketable equity securities and real estate. The investments in debt and marketable equity securities are carried at their readily determinable fair values. The investment in the real estate fund is carried at its estimated fair value as determined by the Commonfund Realty Investors, LLC. Realized and unrealized gains and losses are included in revenue. Restricted investment income and gains are reported as increases in unrestricted net assets, unless a donor or law temporarily (expendable) or permanently (non-expendable) restricts their use. Gains and losses on the disposition of investments are determined based on the average cost method.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

1. Summary of significant accounting policies - continued:

Cash and cash equivalents and investments - continued:

FSC 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 assets and temporarily restricted (expendable) net assets are reflected in the fund in which the assets are recorded.

FSC Foundation's investment income is presented net of investment expense in the statements of revenues, expenses and changes in net assets. The Foundation's investment expense amounted to \$35,414 and \$33,638 for the years ended June 30, 2007 and 2006, respectively.

Accounts receivable:

Accounts receivable are stated at the amount the College expects to collect from outstanding balances. The College 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 College has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

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 refundable to the federal government upon the ending ("liquidation") of the College's participation in the programs. The amount due to the federal government upon liquidation by the College is \$1,431,602 and \$1,404,736 for Perkins and \$335,623 and \$327,505 for NSL at June 30, 2007 and 2006, respectively. These amounts are included as a noncurrent liability in the financial statements.

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 College. The College 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 assets at cost. Capital assets are defined by the College 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 College does not hold collections of historical treasures, works of art, or other items not requiring capitalization or depreciation.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

1. Summary of significant accounting policies - continued:

Capital assets - continued:

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, which range from 3 to 40 years.

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 asset 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.

The College, 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. These obligations are guaranteed by the Commonwealth. The revenue assessment amounts for the years ended June 30, 2007 and 2006 were \$2,881,814 and \$2,647,935, respectively. These amounts are included in the Residential life auxiliary enterprises in the accompanying statements of revenues, expenses and changes in net assets. 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 College. The leases, therefore, are accounted for under the operating method for financial statement purposes.

FSC Foundation's property and equipment are recorded at cost, if purchased or constructed and, if donated, at fair market value at the date of donation. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets which range from 3 to 40 years.

Contributions and bequests:

FSC Foundation recognizes contributions revenue when the donor makes a promise to give, that is, in substance, unconditional. Unconditional promises to give which are to be received in more than one year are reflected net of a discount as determined by management of FSC 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 market value on the date of the donation. All contributions are considered to be available for unrestricted use by FSC Foundation unless specifically restricted by the donor. FSC 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

1. Summary of significant accounting policies - continued:

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 of each year. Pursuant to statewide experience on sick pay buy-back agreements applicable to state employees, the College accrues sick leave to a level representing 20 percent of amounts earned by those College 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).

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 College'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 College 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, 2007 and 2006.

Bond related items:

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

Interest expense and capitalization:

The College follows the policy of capitalizing interest expense as a component of the cost of capital assets constructed for its own use. During 2007 and 2006, total interest costs incurred were accounted for as follows:

	<u>2007</u>	<u>2006</u>
Total interest costs incurred	\$ 618,524	\$ 538,427
Less: Interest income on unused funds from tax exempt borrowings	(41,564)	(55,200)
Rebate payable increase (decrease)	8,373	4,788
Bond premium amortization	(5,683)	(1,894)
	<u>579,650</u>	<u>486,121</u>
Less: Capitalized portion of interest incurred	(31,385)	(169,630)
Interest expense	<u>\$ 548,265</u>	<u>\$ 316,491</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

1. Summary of significant accounting policies - continued:

Fringe benefits:

The College 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 College. Workers' compensation and unemployment insurance costs are assessed separately based on the College's actual experience.

Tax status:

The College 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 2006 financial statements to conform to the 2007 presentation.

2. Cash and cash equivalents, and investments:

Cash and cash equivalents - unrestricted and restricted - include the following at June 30, 2007 and 2006:

	<u>2007</u>		
	<u>Current Unrestricted</u>	<u>Current Restricted</u>	<u>Noncurrent Restricted</u>
Cash and money market accounts	\$ 346,477	\$ -	\$ 38,423
Cash equivalents held by MHEFA *	-	154,530	442,687
Cash equivalents held by MSCBA ***	-	263,029	1,529,085
Massachusetts Municipal Depository Trust	17,787,383	1,947,217	4,131,496
Massachusetts State Treasurer **	2,185,183	233,759	1,653,211
Petty cash	925	-	-
	<u>\$ 20,319,968</u>	<u>\$ 2,598,535</u>	<u>\$ 7,794,902</u>
	<u>2006</u>		
	<u>Current Unrestricted</u>	<u>Current Restricted</u>	<u>Noncurrent Restricted</u>
Cash and money market accounts	\$ 222,396	\$ 15,360	\$ 40,548
Cash equivalents held by MHEFA *	-	145,783	529,087
Cash and cash equivalents held by MSCBA ***	-	816,671	2,350,054
Massachusetts Municipal Depository Trust	18,554,054	573,293	5,424,539
Massachusetts State Treasurer **	3,098,125	67,066	1,071,389
Petty cash	1,948	-	-
	<u>\$ 21,876,523</u>	<u>\$ 1,618,173</u>	<u>\$ 9,415,617</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

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

- * This amount consists of cash equivalents which are restricted by the Massachusetts Health and Educational Facilities Authority (MHEFA) for the funding of payments to retire the bonds (See Note 12). The College does not have access to these funds except by the authorization of MHEFA.
- ** The College has recorded cash held for the benefit of the College by the State Treasurer in the amount of \$2,185,183 and \$3,098,125 at June 30, 2007 and 2006, respectively, for college funds and \$1,886,970 and \$1,138,455 at June 30, 2007 and 2006, respectively, to pay year-end liabilities. The latter balance represents amounts paid from State appropriations subsequent to the fiscal year end.
- *** 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 College and payments to retire bonds (See Note 12). The College does not have access to these funds except by authorization of MSCBA.

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 money market instruments. The MMDT is not a bank, savings institution, or financial institution. The MMDT is an instrumentality of the State Treasurer.

The College maintains a cash 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. The method of allocating interest earned on pooled cash 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 College's deposits may not be returned to it. The College'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, 2007, all of the College's bank balances in excess of Federal Deposit Insurance Corporation (FDIC) limits are fully collateralized under an agreement with Sovereign Bank. As of June 30, 2006, all of the College's bank balances in excess of FDIC limits are fully collateralized under the Commonwealth of Massachusetts' collateral agreement. Pursuant to this agreement, securities are deposited into an account in the name of the Commonwealth of Massachusetts to fully collateralize these bank balances.

Credit risk

The College is required to comply with the Commonwealth of Massachusetts' deposit and investment policies which are principally defined in the Massachusetts General Laws, Chapter 29. State Statutes permit investment in obligations of the U.S. Treasury, authorized bonds of all states, bankers' acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by Standard & Poor's Corporation and Moody's Commercial Paper Record and repurchase agreements secured by any of these obligations. The College 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 College's investment policy generally

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

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

Credit risk - continued

limits the maturities of investments to not more than one year. However, the College may invest in securities with maturities in excess of one year if it is determined to be in the best interest of the College as described in the College's investment policy. Eligible investments are consistent with those permitted by State Statutes.

As of June 30, 2007 and 2006, the fair values of the Colleges' deposits held at the Massachusetts Municipal Depository Trust were \$23,866,096 and \$24,551,886, respectively. The weighted average maturity in years and days of the MMDT's investments were .1748 years and 64 days, respectively, as of June 30, 2007 and 0.1826 years and 67 days, respectively, as of June 30, 2006. The MMDT is not rated for credit risk.

The College's funds held at MHEFA are invested in the Short Term Asset Reserve (STAR) Fund and had a fair value of \$597,217 and \$674,870 at June 30, 2007 and 2006, 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 may invest 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, 2007 and 2006, respectively. The Fund's investment securities maintain a weighted average maturity of less than 60 days.

At June 30, 2007, certain of the College's funds are held at MSCBA. Of the total, \$1,205,262 is deposited in various cash accounts which are fully collateralized by securities in accounts in the name of MSCBA, and \$586,852 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					
(FHLMC) discount note	\$ 387,234	\$ 387,234	\$ -	\$ -	A-1+
Fannie Mae Corporation					
(FNMA) discount note	144,841	144,841	-	-	A-1+
First American Treasury					
Fund Class D mutual					
fund	<u>54,777</u>	<u>54,777</u>	<u>-</u>	<u>-</u>	AAAm
Total	<u>\$ 586,852</u>	<u>\$ 586,852</u>	<u>\$ -</u>	<u>\$ -</u>	

At June 30, 2006, certain of the College's funds are held at MSCBA. Of the total, \$577,364 is deposited in various cash accounts which are fully collateralized by securities in accounts in the name of MSCBA, and \$2,589,361 is invested in various funds as listed below:

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

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

<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>	
Morgan Stanley Guaranteed Investment Contract	\$ 572,473	\$ 572,473	\$ -	\$ -	A+
Morgan Stanley Guaranteed Investment Contract	1,484,813	-	1,484,813	-	A+
Fannie Mae Corporation (FNMA) discount note	387,234	387,234	-	-	A-1+
Federal Home Loan Banks (FHLB) discount note	<u>144,841</u>	<u>144,841</u>	<u>-</u>	<u>-</u>	A-1+
Total	<u>\$ 2,589,361</u>	<u>\$ 1,104,548</u>	<u>\$ 1,484,813</u>	<u>\$ -</u>	

The College's endowment fund marketable equity investment is represented by the following at June 30, 2007 and 2006:

	<u>2007</u>		<u>2006</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Bank of America Corp. (3,564 shares)	<u>\$ 7,257</u>	<u>\$174,244</u>	<u>\$ 7,257</u>	<u>\$171,428</u>

FSC Foundation's cash and cash equivalents consist of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Cash, checking	\$ 83,707	\$ 31,309
Money Market Fund	533,481	428,533
Collateral escrow deposit	<u>292,639</u>	<u>-</u>
	<u>\$ 909,827</u>	<u>\$ 459,842</u>

The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At June 30, 2007 and 2006, FSC Foundation's uninsured cash and equivalent balances amounted to \$653,323 and \$359,837, respectively.

A collateral escrow deposit in the amount of \$280,000 was required by Fitchburg Savings Bank, FSB as additional security in connection with the Foundation Supporting Organization's first mortgage note payable (see Note 13). The account shall at all times be held by and subject to the control of the bank. All interest earnings on the account also serve as additional collateral on the loan. At June 30, 2007, the account is invested in a bank certificate of deposit, with a term of eleven-months, maturing on June 14, 2008, yielding an annual interest rate of 5.03%. The balance in this account, which includes accumulated interest earned of \$12,639, is reflected as a noncurrent cash and cash equivalent in the accompanying 2007 statement of net assets of FSC Foundation.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

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

FSC Foundation's investment policy consists of an asset allocation policy of 60% equity, 35% fixed income securities and 5% in a real estate fund with Commonfund. The investment also provides the Finance Committee with the flexibility to vary the percentage invested in equity securities from 50% to a maximum of 70% based on the economic outlook.

FSC Foundation's investments are included at their fair values and consist of the following at June 30, 2007 and 2006:

	<u>2007</u>		<u>2006</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Commonfund (pooled investment funds):				
Intermediate Term Fund	\$ 142,813	\$ 139,821	\$ 328,878	\$ 320,421
Multi-Strategy Equity Fund	5,123,348	7,428,941	5,123,348	6,183,847
Multi-Strategy Bond Fund	2,915,115	3,050,312	3,029,488	3,107,613
Commonfund Realty Investors, LLC	<u>246,623</u>	<u>259,803</u>	<u>-</u>	<u>-</u>
	<u>\$ 8,427,899</u>	<u>\$ 10,878,877</u>	<u>\$ 8,481,714</u>	<u>\$ 9,611,881</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. As of June 30 2007 and 2006, the fund's investment securities had a weighted average life of 2.2 and 2.8 years, respectively, and an effective duration of 1.5 and 1.6 years, respectively. The fund had an average credit quality rating of AA+ as of both June 30, 2007 and 2006.

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. An aggregate dollar value of \$1,287,000 in this fund serves as collateral for certain debt agreements (see Notes 13 and 14).

The Multi-Strategy Bond Fund invests in debt securities across strategies in proportions that are considered to be optimal for a fully diversified fixed income portfolio. The majority of the fund's assets are invested in traditional core strategies focused on domestic investment grade securities. The fund's objective is to exceed the return of the broad U.S. bond market as measured by the Lehman Aggregate Bond Index. As of June 30, 2007 and 2006, the fund's investment securities had a weighted average life of 6.6 and 7.9 years, respectively, and an effective duration of 4.0 and 4.4 years, respectively. The fund had an average credit quality rating of AA as of both June 30, 2007 and 2006.

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

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

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

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

3. Accounts receivable:

Accounts receivable include the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Student accounts receivable	\$ 1,304,403	\$ 1,244,844
Parking and other fines receivable	95,969	68,674
Commissions receivable	104,128	65,509
Grants receivable	150,289	355,870
Interest receivable	5,578	4,745
Miscellaneous other receivable	28,659	20,000
Interagency receivable - DCAM	291,590	291,590
Due from Commonwealth of Massachusetts	<u>310,026</u>	<u>-</u>
	2,290,642	2,051,232
Less allowance for doubtful accounts	<u>(152,043)</u>	<u>(140,372)</u>
	<u>\$ 2,138,599</u>	<u>\$ 1,910,860</u>

In September, 2005, the College sold a certain building and land that had been declared surplus property by a vote of the Board of Trustees of the College. At June 30, 2007 and 2006, the net proceeds from the sale of \$291,590 are receivable from DCAM (the State agency overseeing the sale).

At June 30, 2007, the College has a receivable totaling \$310,026 from the State representing expenses incurred in connection with the initial management, maintenance and operation of the George R. Wallace, Jr. Civic Center and the Alice G. Wallace Planetarium (collectively the Civic Center) (see Note 26). The College expects to collect this receivable in fiscal 2008 from monies appropriated by the State specifically for this purpose.

4. Loans receivable:

Loans receivable include the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Perkins loans receivable	\$ 1,389,080	\$ 1,435,832
Nursing loans receivable	302,535	310,345
Emergency student loans receivable	<u>20,310</u>	<u>19,605</u>
	1,711,925	1,765,782
Less allowance for doubtful accounts	<u>(17,327)</u>	<u>(16,671)</u>
	<u>\$ 1,694,598</u>	<u>\$ 1,749,111</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

5. Capital assets:

Capital assets activity for the year ended June 30, 2007 is as follows:

Capital assets:	Totals		Reclassifications*	Totals
	<u>June 30, 2006</u>	<u>Additions</u>	<u>and</u>	<u>June 30, 2007</u>
			<u>Reductions</u>	
<u>Non-depreciable capital assets</u>				
Land	\$ 2,990,832	\$ 997,743	\$ -	\$ 3,988,575
Construction in progress	<u>8,284,377</u>	<u>2,601,051</u>	<u>8,045,603</u>	<u>2,839,825</u>
Total non-depreciable assets	<u>11,275,209</u>	<u>3,598,794</u>	<u>8,045,603</u>	<u>6,828,400</u>
 <u>Depreciable capital assets</u>				
Buildings	44,491,325	-	-	44,491,325
Building improvements	9,391,360	13,164,292	122,300	22,433,352
Equipment	11,093,358	2,321,399	323,430	13,091,327
Library materials	<u>475,591</u>	<u>51,628</u>	<u>162,687</u>	<u>364,532</u>
Total depreciable assets	<u>65,451,634</u>	<u>15,537,319</u>	<u>608,417</u>	<u>80,380,536</u>
Total capital assets	<u>76,726,843</u>	<u>19,136,113</u>	<u>8,654,020</u>	<u>87,208,936</u>
 Less: accumulated depreciation				
Buildings	30,517,410	928,672	-	31,446,082
Building improvements	2,961,190	1,012,902	122,300	3,851,792
Equipment	7,146,033	1,008,343	323,430	7,830,946
Library materials	<u>-</u>	<u>162,687</u>	<u>162,687</u>	<u>-</u>
Total accumulated depreciation	<u>40,624,633</u>	<u>3,112,604</u>	<u>608,417</u>	<u>43,128,820</u>
 Capital assets, net	<u>\$ 36,102,210</u>	<u>\$16,023,509</u>	<u>\$ 8,045,603</u>	<u>\$ 44,080,116</u>

As of June 30, 2007, capital assets with a cost of approximately \$11,792,000 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, 2007.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

5. Capital assets - continued:

Capital assets activity for the year ended June 30, 2006 is as follows:

Capital assets:	Totals		Reclassifications*	Totals
	<u>June 30, 2005</u>	<u>Additions</u>	<u>and</u>	<u>June 30, 2006</u>
			<u>Reductions</u>	
<u>Non-depreciable capital assets</u>				
Land	\$ 3,047,167	\$ -	\$ 56,335	\$ 2,990,832
Construction in progress	<u>1,867,337</u>	<u>6,761,870</u>	<u>344,830</u>	<u>8,284,377</u>
Total non-depreciable assets	<u>4,914,504</u>	<u>6,761,870</u>	<u>401,165</u>	<u>11,275,209</u>
 <u>Depreciable capital assets</u>				
Buildings	44,724,990	-	233,665	44,491,325
Building improvements	7,662,566	1,728,794	-	9,391,360
Equipment	10,971,603	121,755	-	11,093,358
Library materials	<u>721,834</u>	<u>34,138</u>	<u>280,381</u>	<u>475,591</u>
Total depreciable assets	<u>64,080,993</u>	<u>1,884,687</u>	<u>514,046</u>	<u>65,451,634</u>
 Total capital assets	<u>68,995,497</u>	<u>8,646,557</u>	<u>915,211</u>	<u>76,726,843</u>
 Less: accumulated depreciation				
Buildings	29,629,630	930,132	42,352	30,517,410
Building improvements	2,554,871	406,319	-	2,961,190
Equipment	6,114,575	1,031,458	-	7,146,033
Library materials	<u>-</u>	<u>280,381</u>	<u>280,381</u>	<u>-</u>
Total accumulated depreciation	<u>38,299,076</u>	<u>2,648,290</u>	<u>322,733</u>	<u>40,624,633</u>
 Capital assets, net	<u>\$ 30,696,421</u>	<u>\$ 5,998,267</u>	<u>\$ 592,478</u>	<u>\$ 36,102,210</u>

As of June 30, 2006, capital assets with a cost of approximately \$9,973,000 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, 2006.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

5. Capital assets - continued:

FSC Foundation's property and equipment consist of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Real estate under lease to the College:		
Land	\$ 402,663	\$ -
Building	1,557,724	-
Building improvements	<u>100,452</u>	<u>-</u>
	<u>2,060,839</u>	<u>-</u>
 Land	 862,922	 149,566
Land improvements	61,899	61,899
Building	434,225	-
Equipment	54,729	54,729
Computer software	<u>276,000</u>	<u>276,000</u>
	3,750,614	542,194
Less accumulated depreciation	<u>390,654</u>	<u>326,562</u>
	<u>\$ 3,359,960</u>	<u>\$ 215,632</u>

Accumulated depreciation on real estate under lease amounted to \$33,290 at June 30, 2007.

At June 30, 2007, land and building not under lease include \$253,555 and \$434,225, respectively, that will be used by the College as additional student housing commencing with the Fall 2007 semester (see Note 13).

FSC Foundation's property and equipment with a cost of approximately \$321,000 were fully depreciated and still in service at both June 30, 2007 and 2006.

6. Accounts payable and accrued liabilities:

Accounts payable and accrued liabilities include the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Accounts payable - trade	\$ 1,386,941	\$ 1,543,467
Salaries and fringe benefits payable	600,282	583,466
Accrued interest payable	77,526	98,345
Tuition due State	<u>60,376</u>	<u>68,402</u>
	<u>\$ 2,125,125</u>	<u>\$ 2,293,680</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, 2007 and 2006. Based upon the Commonwealth's analyses, \$510,598 and \$583,586 of accrued workers' compensation has been recorded as a liability at June 30, 2007 and 2006, respectively.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

8. Accrued compensated absences:

Accrued compensated absences are comprised of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Vacation time payable	\$ 1,849,332	\$ 1,830,442
Sick time payable	<u>1,860,725</u>	<u>1,740,023</u>
Total	<u>\$ 3,710,057</u>	<u>\$ 3,570,465</u>
<hr/>		
Amount representing obligations due to employees funded through sources other than State appropriations	\$ 224,754	\$ 197,208
Amount representing obligations for employees compensated through State appropriations	<u>3,485,303</u>	<u>3,373,257</u>
Total	<u>\$ 3,710,057</u>	<u>\$ 3,570,465</u>

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 College, the College's unrestricted net asset balances would be \$17,575,575 and \$17,627,173 at June 30, 2007 and 2006, 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 College 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, 2007 of \$2,234,005 will be paid from the College's fiscal 2008 State appropriations. The total amount due at June 30, 2006 of \$2,084,259 was paid from the College's fiscal 2007 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 also consists of contributions made to the College as part of a management agreement with Compass Group, Inc. (Compass) to manage and operate the College's food services operation. This management agreement may be terminated by either party at any time, without cause, by giving no less than sixty days prior written notice.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

10. Deferred revenue - continued:

As part of the management agreement with Compass executed in 1999, as amended thereafter, Compass has agreed to provide a total of \$2,258,076 for improvements to the College's dining facilities and other improvement projects as mutually agreed. As of June 30, 2007, Compass has contributed a total of \$2,238,347 for improvements, of which \$50,000 was designated for a specific use, and the remainder has been used for improvements to the College's dining facilities. Of the total of \$2,238,347, Compass contributed cash in the amount of \$382,838 and \$1,200,000 in fiscal 2007 and 2006, respectively, and made improvements to the College's dining facilities and other improvements totaling \$655,509 in the years prior to fiscal 2006. As of June 30, 2007, Compass has a remaining obligation for improvements at the College in the amount of \$19,729. Management expects to receive these funds over the course of the remaining agreement. The management agreement contains provisions, whereby, in the event of termination of the agreement, the College would be required to repay a portion of the amounts contributed. The portion required to be repaid is determined by amortization schedules prepared by Compass. The schedules amortize the various contributed amounts over various periods through June 30, 2019 assuming that all funding will be received from Compass.

Deferred revenue includes the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Tuition, fees and professional development	\$ 1,202,844	\$ 1,041,200
Capital grants received in advance	1,462,654	1,198,548
Grants	118,349	5,220
Other	<u>12,950</u>	<u>25,840</u>
	<u>\$ 2,796,797</u>	<u>\$ 2,270,808</u>

11. Capital lease obligations:

During fiscal year 2001, the College acquired, through a capital lease arrangement, computer software and hardware for a student records system. Payments under the lease agreement are due each year on March 27 and September 27 for a ten year period. Lease payments commenced 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 March 27, 2005, semi-annual lease payments are approximately \$308,000 for the remainder of the lease term. The College is utilizing an interest rate of 5.85% per year which was determined to be applicable at the inception of the lease.

During fiscal 1997, the College acquired, through a capital lease arrangement, a voice, data and video cable system for the faculty, dormitory, and administrative buildings. Payments were due on March 1 and September 1 through September 1, 2006. The semi-annual payments were approximately \$183,400 and the final payment was made on this lease as scheduled. The College utilized an interest rate of 5.66% per year which was determined to be applicable at the inception of the lease. Payments under this lease were made principally from student fees, the College's operating budget, and certain usage rebates. The lease was satisfied in full during fiscal 2007. The cost and accumulated depreciation of this capital asset, both in the amount of \$1,697,234, are no longer included in equipment held under capital lease as of June 30, 2007.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

11. Capital lease obligations - continued:

In June, 2005, the College entered into a noncancellable capital lease for printing equipment. The lease has a term of five years and requires monthly payments of \$913. The asset and capital lease obligation have been 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.

During fiscal 2006, the College entered into two noncancellable capital leases for upgrades to the voice, data and video cable system. The leases have terms of four years and require aggregate monthly payments of \$2,819. The assets and capital lease obligations have been 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.

During fiscal 2007, the College entered into a noncancellable capital lease for an upgrade to its network system hardware and software. The lease has a term of five years and requires quarterly payments of \$106,607 commencing September 30, 2007 and continuing through June 30, 2012. The asset and capital lease obligation have been 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 College entered into a maintenance and ongoing support agreement with a term of five years commencing on July 1, 2007. In order to obtain favorable pricing terms, the College agreed to prepay the entire cost of the contract totaling \$1,059,020. The College paid \$500,000 prior to June 30, 2007 and the balance of \$559,020 in July, 2007. Of the total payment made prior to June 30, 2007, \$211,800 is included in other current assets and \$288,200 is included in other noncurrent assets in the accompanying 2007 statement of net assets.

During fiscal 2007, the College entered into a noncancellable capital lease for a telephone messaging system. The lease has a term of four years and requires monthly payments of \$1,806 which commenced in August, 2006. The asset and capital lease obligation have been 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.

Capital lease obligations are secured by the related assets.

The College's equipment held under capital leases at June 30, 2007 and 2006 consists of the following:

	<u>2007</u>	<u>2006</u>
Printing equipment	\$ 55,375	\$ 55,375
Voice, data and video cable system	1,380,869	3,001,640
Network system hardware and software upgrade	1,870,144	-
Student records system	<u>5,563,723</u>	<u>5,563,723</u>
	<u>\$ 8,870,111</u>	<u>\$ 8,620,738</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

11. Capital lease obligations - continued:

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 \$3,559,867 and \$4,342,980 at June 30, 2007 and 2006, respectively. Depreciation expense totaled \$914,121 and \$883,410 for 2007 and 2006, respectively.

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

Year ending June 30,	<u>Total Payments</u>
2008	\$ 1,109,225
2009	1,109,225
2010	1,100,768
2011	736,399
2012	<u>426,427</u>
Total minimum lease payments	4,482,044
Less amount representing interest	(509,177)
 Present value of future minimum lease payments	 <u>\$ 3,972,867</u>

12. Interagency payables:

MHEFA

On November 22, 1996, the College signed a financing agreement to receive \$6,000,000 from a Massachusetts Health and Educational Facilities Authority (MHEFA) bond issuance, to be used for the construction of the College's athletic facility. This obligation will be repaid solely by the College through an increase in student fees. Construction of the athletic facility was completed in August, 2000. MHEFA 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 College for its share of the cost of the athletic facility. These funds were being held and controlled by the Division of Capital Asset Management (DCAM), a State Agency, and were released as costs were incurred.

The net proceeds of the borrowing deposited by MHEFA on behalf of the College were as follows:

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

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

12. Interagency payables - continued:

The College is required to make annual funding payments of principal on this debt each July 1. The principal payment due July 1, 2007 of \$154,530 was made as scheduled. These payments are made to a restricted cash account held in escrow in the College's name and recorded on the books of the College. 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 College 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 College to offset the administrative costs associated with this debt. In a prior year, the College 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 2007, \$95,048 was released from the debt service reserve and used to redeem portions of the outstanding debt obligation. The outstanding principal balance of this Interagency payable at June 30, 2007 and 2006 was \$4,767,596 and \$5,008,427, 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 MHEFA conducting a true auction of their debt issuance every thirty-five days, in which the College's obligation is pooled with other higher education institutions within the Commonwealth who have debt funded through MHEFA. The most recent auctioned interest rate in effect at June 30, 2007 and 2006 was 3.76% and 3.50%, respectively. The College is also responsible to pay for program expenses at an annual rate of 0.780% (2007) and 0.778% (2006) 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 2007 and 2006 amounted to 4.17% and 3.07%, 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>
2008	\$ 154,530	\$ 173,451
2009	163,802	167,292
2010	173,630	160,764
2011	184,048	153,844
2012	195,091	146,508
2013-2017	1,159,731	607,275
2018-2022	1,560,010	345,369
2023-2024	<u>768,901</u>	<u>45,656</u>
	4,359,743	1,800,159
Balance of restricted cash held for debt principal	<u>407,853</u>	<u>-</u>
Total	<u>\$ 4,767,596</u>	<u>\$ 1,800,159</u>

- (1) The interest rate in effect at June 30, 2007 of 3.76% was used to calculate the estimated interest on the debt obligation of \$4,767,596. The estimated interest also reflects the reduction of the outstanding debt obligation each year by the annual funding payments.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

12. Interagency payables - continued:

The Massachusetts Health and Educational Facilities Authority (MHEFA) 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 College signed a financing agreement to receive \$5,110,000 from a Massachusetts State College Building Authority (MSCBA) bond issuance. These funds are being used for renovations of the athletic fields and dining hall (the Projects) at the College. This obligation will be repaid solely by the College through dedicated student fees. The College is also providing equity contributions totaling \$5,000,000 to fund their portion of the total renovation costs of the Projects. Of this amount, \$1,200,000 was provided by the College's food service vendor for the dining facilities Project. The College also executed a management agreement with MSCBA whereby MSCBA will provide management services to the College for the Projects.

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

Debt issue	\$ 5,110,000
Reoffering premium	72,903
Amount held by MSCBA for debt service reserve fund (included in restricted cash and cash equivalents - noncurrent)	(388,335)
Debt issuance costs	(94,568)
Net proceeds	<u>\$ 4,700,000</u>

As of June 30, 2007 and 2006, unexpended net proceeds amounted to \$46,037 and \$572,187, respectively. In addition, as of June 30, 2007, the College has fully funded its \$5,000,000 equity contribution commitment to MSCBA, including the \$1,200,000 it received from its food service vendor. Furthermore, the College advanced an additional \$582,838 to MSCBA in fiscal 2007, including \$382,838 it received from its food service vendor. Of the total amount advanced by the College, \$394,036 and \$443,358, respectively, had not yet been expended by MSCBA as of June 30, 2007 and 2006.

As of June 30, 2007 and 2006, amounts held by MSCBA related to the debt issue and the Projects are as follows:

	<u>2007</u>	<u>2006</u>
Unexpended debt proceeds	\$ 46,037	\$ 572,187
Unexpended College contribution	394,036	443,358
Debt service reserve fund	<u>388,335</u>	<u>388,335</u>
	<u>\$ 828,408</u>	<u>\$ 1,403,880</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

12. Interagency payables - continued:

The amounts held by MSCBA are included in the accompanying statements of net assets at June 30, 2007 and 2006 as follows:

	<u>2007</u>	<u>2006</u>
Restricted cash and cash equivalents:		
Current	\$ 95,625	\$ 139,340
Noncurrent	<u>732,783</u>	<u>1,264,540</u>
	<u>\$ 828,408</u>	<u>\$ 1,403,880</u>

The College is required to make annual principal payments on this debt each May 1, which commenced on May 1, 2006. 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, 2007 and 2006, the effective interest rate on this debt was 3.50% and 5.00%, respectively. The outstanding balance of this Interagency payable was \$4,755,000 and \$4,940,000 at June 30, 2007 and 2006, respectively.

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

For the year ending June 30,	<u>Principal</u>	<u>Interest</u>
2008	\$ 190,000	\$ 196,938
2009	195,000	190,288
2010	205,000	184,438
2011	210,000	177,263
2012	215,000	169,913
2013 - 2017	1,210,000	719,138
2018 - 2022	1,480,000	453,369
2023 - 2025	<u>1,050,000</u>	<u>107,000</u>
Total	<u>\$ 4,755,000</u>	<u>\$ 2,198,347</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

12. Interagency payables - continued:

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

Debt issue	\$ 2,060,000
Reoffering premium	113,663
Amount held by MSCBA for debt service reserve fund (included in restricted cash and cash equivalents - noncurrent)	(144,841)
Debt issuance costs	(28,822)
Net proceeds	<u>\$ 2,000,000</u>

As of June 30, 2007 and 2006, unexpended net proceeds amounted to \$6,291 and \$1,484,813, respectively.

As of June 30, 2007 and 2006, amounts held by MSCBA related to the debt issue and the Project is as follows:

	<u>2007</u>	<u>2006</u>
Unexpended debt proceeds	\$ 6,291	\$ 1,484,813
Debt service reserve fund	<u>144,841</u>	<u>144,841</u>
	<u>\$ 151,132</u>	<u>\$ 1,629,654</u>

The amounts held by MSCBA are included in the accompanying statements of net assets at June 30, 2007 and 2006 as follows:

	<u>2007</u>	<u>2006</u>
Restricted cash and cash equivalents:		
Current	\$ 6,291	\$ 677,331
Noncurrent	<u>144,841</u>	<u>952,323</u>
	<u>\$ 151,132</u>	<u>\$ 1,629,654</u>

As of June 30, 2007, the Projects have been placed in service and are being depreciated. As of June 30, 2006, construction in progress incurred on the Projects amounted to approximately \$7,816,000. As of June 30, 2007 and 2006, costs remaining unpaid related to the Projects amounted to \$101,916 and \$816,671, respectively, and have been included in accounts payable - construction in the accompanying 2007 and 2006 statements of net assets. The unpaid costs at June 30, 2007 represent retainage payable.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

12. Interagency payables - continued:

The College is required to make annual principal payments on this debt each May 1, which commenced on May 1, 2007. 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 each of the years ended June 30, 2007 and 2006, the effective interest rate on this debt was 3.5%. The outstanding balance of this Interagency payable was \$2,101,085 and \$2,171,768 at June 30, 2007 and 2006, 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>
2008	\$ 70,000	\$ 93,613
2009	70,000	90,813
2010	75,000	88,013
2011	80,000	85,013
2012	80,000	81,813
2013 - 2017	465,000	347,488
2018 - 2022	575,000	232,700
2023 - 2026	<u>580,000</u>	<u>74,250</u>
	1,995,000	<u>\$ 1,093,703</u>
Plus: Unamortized premiums	<u>106,085</u>	
	<u>\$ 2,101,085</u>	

In December 2005, the College advanced \$300,000 to MSCBA to be used for renovations to the Hammond Campus Center. In 2007, the College advanced an additional \$842,000 to MSCBA to be used for renovations to the Hammond Campus Center. As of June 30, 2007 and 2006, the unexpended portion of the College's contribution held by MSCBA amounted to \$812,574 and \$133,191, respectively. As of June 30, 2007 and 2006, construction in progress incurred on this project amounted to approximately \$490,500 and \$166,800, respectively, of which \$161,113 remained unpaid as of June 30, 2007 and has been included in accounts payable - construction in the accompanying 2007 statement of net assets.

The amounts held by MSCBA related to the Hammond Campus Center Project are included in the accompanying statements of net assets at June 30, 2007 and 2006 as follows:

	<u>2007</u>	<u>2006</u>
Restricted cash and cash equivalents:		
Current	\$ 161,113	\$ -
Noncurrent	<u>651,461</u>	<u>133,191</u>
	<u>\$ 812,574</u>	<u>\$ 133,191</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

13. FSC Foundation long term debt:

FSC Foundation's long-term debt consists of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
First mortgage note payable	\$ 1,855,227	\$ -
Note payable - bank	<u>675,596</u>	<u>-</u>
	2,530,823	-
Less current portion	<u>63,990</u>	<u>-</u>
	<u>\$ 2,466,833</u>	<u>\$ -</u>

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 Fitchburg State College campus. The appraised value of the property was \$1,950,000. The purchase price was \$1,750,000 with the difference of \$200,000 being accounted for as a contribution from the seller of the property. The entire property has been leased to the Commonwealth of Massachusetts acting by and through its Division of Capital Asset Management and Maintenance (DCAM) on behalf of the College (see Note 22). The College is currently using the property for its print services, maintenance, and shipping and receiving departments.

The acquisition and related costs were funded with the proceeds of an offering of tax-exempt revenue bonds, Massachusetts Development Finance Agency Revenue Bonds, FSC Foundation Supporting Organization Issue, Series 2006 (the bonds), dated August 1, 2006, in the amount of \$1,900,000, issued by the Massachusetts Development Finance Agency (MDFA), pursuant to a Loan and Trust Agreement. Chittenden Trust Company (Chittenden) is the bond Trustee. MDFA assigned all of its rights, title, and interest in and to the loan and related loan documents to the bond Trustee as security for repayment of the bonds. The loan is secured by a first mortgage interest in the real estate and related personal property located thereon, and an assignment of leases and rents. Payment and performance of the Foundation Supporting Organization's obligations under the loan agreement have been guaranteed by the Foundation. In addition, the Foundation was required to deposit \$280,000 cash collateral with Fitchburg Savings Bank, FSB as additional security until such time as the outstanding loan balance has been reduced to \$1,520,000 (see Note 2).

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. Commencing September, 2006, the loan requires monthly installments of principal and interest of \$13,154. The note matures on August 16, 2026. The loan agreement requires the Foundation Supporting Organization to maintain a Debt Service Coverage Ratio, as defined, of not less than 1.10 to 1 to be measured annually at the end of its fiscal year.

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

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

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

13. FSC Foundation long term debt - continued:

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 Supporting Organization also acquired an adjacent parcel of land at a cost of \$183,301. The properties are located in the area surrounding the Fitchburg State College campus. Commencing with the Fall 2007 semester, the apartments will be used by the College as additional student housing for which the Foundation Supporting Organization will receive the residence hall fees from the College.

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

The promissory note has a term of thirty years 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. Commencing June, 2007, 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.

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>
2008	\$ 63,990	\$ 143,325
2009	68,086	139,229
2010	72,031	135,285
2011	76,203	131,112
2012	80,275	127,041
2013-2017	478,396	558,180
2018-2022	634,107	402,470
2023-2027	706,271	198,764
2028-2032	163,507	83,826
2033-2037	<u>187,957</u>	<u>25,805</u>
Total	<u>\$ 2,530,823</u>	<u>\$ 1,945,037</u>

- (1) The interest rates in effect at June 30, 2007 of 5.5% on the first mortgage note payable and 6% on the note payable - bank were used to calculate the estimated interest on these debt obligations.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

14. FSC Foundation line of credit:

During fiscal 2007, the Foundation entered into a revolving working capital line of credit agreement with Workers' Credit Union which permits the Foundation to borrow up to \$250,000. At June 30, 2007, there were no borrowings outstanding under the line of credit. The line of credit provides for interest at the Wall Street Journal Prime Rate, but in no event less than 6% per annum. At June 30, 2007, the effective interest rate was 8.25%. Borrowings are secured by investment units with an equivalent dollar value of \$315,000 in the Commonfund Multi-Strategy Equity Fund. The line of credit agreement expires on February 7, 2009. The Foundation may prepay outstanding revolving loans under the agreement in whole or in part at any time without premium or penalty.

15. Long term liabilities:

Long-term liability activity of the College for the year ended June 30, 2007 included the following:

	<u>Totals</u>			<u>Totals June 30, 2007</u>	
	<u>June 30, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u>	<u>Current</u>
				<u>Balance</u>	<u>Portion</u>
Interagency payables and capital leases:					
Interagency payables	\$ 12,120,195	\$ -	\$ 496,514	\$ 11,623,681	\$ 420,213
Capital leases	<u>2,740,894</u>	<u>1,946,606</u>	<u>714,633</u>	<u>3,972,867</u>	<u>905,801</u>
Total	<u>14,861,089</u>	<u>1,946,606</u>	<u>1,211,147</u>	<u>15,596,548</u>	<u>1,326,014</u>
Other liabilities:					
Workers' compensation	583,586	-	72,988	510,598	100,588
Compensated absences	<u>3,570,465</u>	<u>139,592</u>	<u>-</u>	<u>3,710,057</u>	<u>2,047,183</u>
Total other liabilities	<u>4,154,051</u>	<u>139,592</u>	<u>72,988</u>	<u>4,220,655</u>	<u>2,147,771</u>
Long term obligations	<u>\$ 19,015,140</u>	<u>\$ 2,086,198</u>	<u>\$ 1,284,135</u>	<u>\$ 19,817,203</u>	<u>\$ 3,473,785</u>

Long-term liability activity of the College for the year ended June 30, 2006 included the following:

	<u>Totals</u>			<u>Totals June 30, 2006</u>	
	<u>June 30, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u>	<u>Current</u>
				<u>Balance</u>	<u>Portion</u>
Interagency payables and capital leases:					
Interagency payables	\$ 10,255,958	\$ 2,173,663	\$ 309,426	\$ 12,120,195	\$ 401,466
Capital leases	<u>3,430,134</u>	<u>121,755</u>	<u>810,995</u>	<u>2,740,894</u>	<u>698,200</u>
Total	<u>13,686,092</u>	<u>2,295,418</u>	<u>1,120,421</u>	<u>14,861,089</u>	<u>1,099,666</u>
Other liabilities:					
Workers' compensation	492,747	90,839	-	583,586	114,966
Compensated absences	<u>3,375,573</u>	<u>194,892</u>	<u>-</u>	<u>3,570,465</u>	<u>2,005,559</u>
Total other liabilities	<u>3,868,320</u>	<u>285,731</u>	<u>-</u>	<u>4,154,051</u>	<u>2,120,525</u>
Long term obligations	<u>\$ 17,554,412</u>	<u>\$ 2,581,149</u>	<u>\$ 1,120,421</u>	<u>\$ 19,015,140</u>	<u>\$ 3,220,191</u>

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

15. Long term liabilities - continued:

Long-term liability activity of FSC Foundation for the year ended June 30, 2007 included the following:

	<u>Totals</u>			<u>Totals June 30, 2007</u>	
	<u>June 30, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u>	<u>Current</u>
				<u>Balance</u>	<u>Portion</u>
First mortgage note payable	\$ -	\$ 1,900,000	\$ 44,773	\$ 1,855,227	\$ 55,505
Note payable - bank	-	680,000	4,404	675,596	8,485
Long-term obligations	<u>\$ -</u>	<u>\$ 2,580,000</u>	<u>\$ 49,177</u>	<u>\$ 2,530,823</u>	<u>\$ 63,990</u>

16. Unrestricted net assets:

Unrestricted net assets, 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 \$4,580,252 and \$5,736,869 at June 30, 2007 and 2006, respectively. Undesignated unrestricted net assets were \$9,510,020 and \$8,517,047 at June 30, 2007 and 2006, respectively.

17. Net assets restricted by enabling legislation:

Fitchburg State College Foundation, Inc.'s consolidated statements of net assets as of June 30, 2007 and 2006 reflect restricted net assets of \$8,672,354 and \$7,923,379, respectively. Of these amounts, \$2,000,272 and \$1,659,969 at June 30, 2007 and 2006, respectively, are restricted by enabling legislation for the State Matching Funds Program.

18. Operating expenses:

The College's operating expenses for the years ended June 30, 2007 and 2006, on a natural classification basis, are comprised of the following:

	<u>2007</u>	<u>2006</u>
Salaries:		
Faculty	\$ 15,014,316	\$ 14,483,442
Exempt wages	3,526,178	3,574,500
Non-exempt wages	14,388,276	13,571,518
Benefits	8,959,164	7,608,720
Scholarships (endowed)	2,300	2,250
Utilities	4,030,353	3,567,017
Supplies and other services	13,016,224	11,783,204
Depreciation	<u>3,112,604</u>	<u>2,648,290</u>
Total operating expenses	<u>\$ 62,049,415</u>	<u>\$ 57,238,941</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

19. State controlled accounts:

Certain significant costs and benefits associated with the operations of the College are appropriated, expended, controlled, and reported by the Commonwealth through non-College line items in the Commonwealth's budget. Under generally accepted accounting principles, such transactions must be recorded in the financial statements of the College. 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, 2007 and 2006 were as follows (See State appropriations under Note 23):

	<u>2007</u>	<u>2006</u>
Commonwealth's retirement system contributions	\$ 2,241,428	\$ 2,009,502
Employers share of health care premium	\$ 5,505,740	\$ 4,299,400

20. Retirement plan:

Substantially all of the College'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 Commonwealth and covers substantially all non-student employees. The College is not required to contribute from its appropriation allocation or other college funds to SERS for employees compensated from State appropriations. For College employees covered by SERS but compensated from a trust fund or other source, the College 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 College's employees was \$2,241,428 and \$2,009,502 for June 30, 2007 and 2006, respectively. Annual covered payroll was approximately 77% and 76% of total payroll for the College for the years ended June 30, 2007 and 2006, respectively.

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 College 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.

21. Post-employment benefits other than pension benefits:

In addition to the pension benefits described in Note 20, the College provides post-employment health care and life insurance benefits through the State, in accordance with State statutes. All full-time employees and their dependents who retire from the College on or after attaining age 55 with 10 years of credited service or at any age with 20 years of credited service are eligible. Costs for such benefits are appropriated in non-College line items of the State budget. The costs for these benefits are not material to the College's financial statements.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

21. Post-employment benefits other than pension benefits - continued:

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the State provides health care benefits to eligible former College employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premiums are paid in full by the insured. This program is offered in accordance with federal requirements. There is no associated cost to the College under this program.

22. Lease agreement:

As disclosed in Note 13, the Foundation Supporting Organization entered into a long-term operating lease agreement with the Commonwealth of Massachusetts acting by and through the Division of Capital Asset Management and Maintenance (DCAM) on behalf of the College. The lease commenced on August 16, 2006. The lease is for a term of ten years and provides for base rent of \$165,000 per year, payable in monthly installments of \$13,750, for the entire lease term. The College is also responsible for the payment of normal operating, maintenance and repair costs associated with its use of the property. At the expiration of the lease term, the Foundation Supporting Organization expects the lease will be renewed with DCAM on behalf of the College. For the year ended June 30, 2007, rental income for the Foundation Supporting Organization amounted to \$165,000 and is reflected in revenue from sales and services of educational departments in the accompanying 2007 statement of revenues, expenses and changes in net assets. The corresponding rent expense of the College is reflected in operations and maintenance of plant. Of the total rent, \$20,625 represents the payment of additional rent by the College to reimburse the Foundation Supporting Organization for real estate taxes and other operating expenses incurred during the year.

At June 30, 2007, the College has made a prepayment of rent under the lease in the amount of \$90,000. This amount is reflected in other current assets of the College and deferred revenue of FSC Foundation in the accompanying 2007 statements of net assets.

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

Year ending <u>June 30,</u>	<u>Amount</u>
2008	\$ 165,000
2009	165,000
2010	165,000
2011	165,000
2012	165,000
Later years	<u>680,625</u>
	<u>\$ 1,505,625</u>

23. 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

23. Management Accounting and Reporting System - continued:

State appropriations:

The College's State appropriations are comprised of the following for the years ended June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Gross State appropriations	\$ 28,723,639	\$ 27,239,262
Add: Fringe benefits for benefited employees on the Commonwealth payroll	7,747,168	6,308,902
Less: Day school tuition remitted to the Commonwealth and included in tuition and fee revenue	(2,968,660)	(2,708,077)
Net State appropriations	<u>\$ 33,502,147</u>	<u>\$ 30,840,087</u>

\$31,702,393 and \$29,645,087 represent appropriations for maintenance and payroll during 2007 and 2006, respectively, and \$1,799,754 and \$1,195,000 represents appropriations for capital improvements for 2007 and 2006, respectively. These amounts are presented separately in the accompanying statements of revenues, expenses and changes in net assets.

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, 2007 and 2006.

24. Risk management, commitments and contingencies:

The College 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.

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

The College 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 College. In the opinion of management, such liabilities, if any, are not expected to materially affect the financial condition of the College.

The College 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 College 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 College. The effect of this program cannot be determined as it is contingent on future tuition increases and the bond purchasers who attend the College.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

24. Risk management, commitments and contingencies - continued:

The College 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.

During 2006, an agreement was signed between the Board of Higher Education and an Employee Union in which certain employees would be given various increases in salary, retroactive to July 3, 2005 and October 2, 2005. The increases were subject to approval by the Massachusetts Legislature and ratification by the Governor of the Commonwealth of Massachusetts. The increases were approved by the Massachusetts Legislature and ratified by the Governor. The retroactive increases totaling \$207,351 were paid from the College's fiscal 2007 State appropriation and are reflected as a charge in the fiscal 2007 financial statements.

During 2002, agreements were signed between the Board of Higher Education and the Employee Unions in which certain employees would be given various increases in salary, retroactive to July 1, 2001. The retroactive increase was subject to approval by the Massachusetts Legislature and ratification by the Governor of the Commonwealth of Massachusetts. The agreements were not ratified by the Governor. As a result, during 2003, this appropriation was carried forward to 2004 for consideration by the Legislature. During 2004, the cumulative salary increase percentages pursuant to the agreements were appropriated for payroll payments commencing effective January 1, 2004. The salary increases pursuant to the agreements for the periods prior to January 1, 2004 and retroactive to July 1, 2001 were not approved. During 2005, the salary increases pursuant to the agreements were appropriated for payroll payments for the period from July 1, 2003 to December 31, 2003. The salary increases pursuant to the agreements for the periods prior to July 1, 2003 and retroactive to July 1, 2001 were approved in fiscal 2006. During fiscal 2006, the salary increases pursuant to the agreements were appropriated for payroll payments for the period from July 1, 2002 to June 30, 2003. During fiscal 2007, the retroactive payroll increase and bonus pursuant to the agreements were appropriated for payroll payments for the period from July 1, 2001 to June 30, 2002 and were paid in August 2006. Accordingly, these payments totaling approximately \$289,000 have been reflected as charges in the fiscal 2007 financial statements.

During fiscal 2005, agreements were signed between the Board of Higher Education and the Employee Unions in which certain employees would be given various increases in salary, retroactive to January 1, 2005 and March 1, 2005. The agreements required approval by the Massachusetts Legislature and ratification by the Governor of the Commonwealth of Massachusetts. The agreements were approved by the Massachusetts Legislature as a part of the 2006 State appropriation and the amounts have been reflected as charges in the fiscal 2006 financial statements.

During 2003, the Commonwealth of Massachusetts enacted early retirement legislation effective for employees retiring on December 31, 2003. Consequently, the College was required to pay retiring employees for compensated absences (unused vacation and sick time). The liability for retiring employees was included in the compensated absences liability and was being paid over four years at approximately \$53,400 per year through fiscal 2007. This liability has been fully paid as of June 30, 2007.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEARS ENDED JUNE 30, 2007 AND 2006

25. McKay Agreement:

The College 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 College receives quarterly payments from the City to reimburse the College for its share of payroll and related operating expenses (the "McKay School expenditures"). Reimbursements received for each the years ended June 30, 2007 and 2006 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 assets.

26. Proposed transaction:

In August 2006, the College and the City of Fitchburg entered into a Memorandum of Understanding in which the College 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 Legislature appropriated an aggregate amount of \$2,500,000 for repairs and upgrades to the Civic Center. The Commonwealth of Massachusetts acting by and through its Division of Capital Asset Management and Maintenance (DCAM) on behalf of the College is currently negotiating the terms of a lease agreement for the Civic Center with the City of Fitchburg and the Board of Trustees of the Civic Center. The proposed lease would be for a term of 99 years and require an initial nominal rent payment. Pursuant to the terms of the proposed lease, the College would have 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 proposed lease agreement. The lease would be a net lease. The College would be 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 proposed lease agreement. DCAM, at the instruction of the College and with 60 days prior written notice, may terminate the lease in the event that the College, in its sole discretion, determines that continuation of the lease is not in the interest of the College.

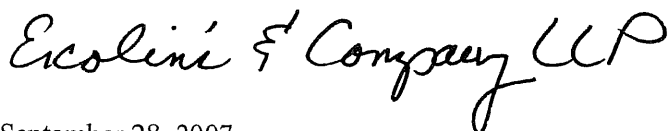
During fiscal 2007, the College commenced initial management, maintenance and operations activities at the Civic Center in anticipation of the proposed lease agreement being executed. The College, officials of the City of Fitchburg, and the Board of Trustees of the Civic Center believe finalization of this transaction will lead to a return of 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

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

To the Board of Trustees
Fitchburg State College
Fitchburg, Massachusetts

Our report on our audits of the financial statements that collectively comprise Fitchburg State College's basic financial statements for the years ended June 30, 2007 and 2006 appears on page 1. Those audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The residence hall fund and residence hall damage fund activity, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic 2007 financial statements. The residence hall fund and residence hall damage fund activity have been subjected to the auditing procedures applied in the audit of the basic 2007 financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic 2007 financial statements taken as a whole. The statistical section has not been subjected to the auditing procedures applied in the audit of the basic 2007 financial statements and accordingly, we express no opinion on it.



September 28, 2007

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

RESIDENCE HALL FUND AND RESIDENCE HALL DAMAGE FUND ACTIVITY

JUNE 30, 2007

The College's Residence Hall Fund and Residence Hall Damage Fund non-classified Statements of Net Assets at June 30, 2007 are as follows:

Statements of Net Assets

	<u>Residence Hall Fund</u>	<u>Residence Hall Damage Fund</u>
Assets:		
Cash	\$ 565,204	\$ 72,246
Cash held by State Treasurer	603,491	-
Accounts receivable, net	<u>27,129</u>	<u>23,632</u>
Total assets	<u>\$ 1,195,824</u>	<u>\$ 95,878</u>
Liabilities:		
Accounts payable	\$ 46,604	\$ -
Deposits	247,285	-
Salaries payable	48,628	-
Compensated absences	97,489	-
Deferred revenue	<u>12,600</u>	<u>-</u>
Total liabilities	<u>452,606</u>	<u>-</u>
Net assets	<u>743,218</u>	<u>95,878</u>
Total liabilities and net assets	<u>\$ 1,195,824</u>	<u>\$ 95,878</u>

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

RESIDENCE HALL FUND AND RESIDENCE HALL DAMAGE FUND ACTIVITY - CONTINUED

YEAR ENDED JUNE 30, 2007

The College's Residence Hall Fund and Residence Hall Damage Fund Statements of Revenues, Expenses and Changes in Net Assets (presented in accordance with the Commonwealth of Massachusetts' Expenditure Classification plan) for the year ended June 30, 2007 are as follows:

	<u>Residence Hall Fund</u>	<u>Residence Hall Damage Fund</u>
Revenues:		
Student fees	\$ 5,602,195	\$ -
Interest	171,116	3,423
Commissions	29,004	-
Rentals	29,724	-
Room damage assessments	-	40,943
Total revenues	<u>5,832,039</u>	<u>44,366</u>
Expenses:		
Regular employee compensation	1,055,828	-
Regular employee related expenses	5,394	-
Special employee/contract services	112,092	-
Pension and insurance	344,005	-
Facility operating supplies and related expenses	25,180	-
Administrative expenses	19,343	-
Energy and space rental	781,550	-
Consultant services	2,477	-
Operational services	11,073	-
Equipment purchases	19,188	1,334
Equipment lease - purchase, lease, rent, repair	6,023	-
Purchased client service and programs	75	-
Land acquisition	339,438	12,122
Loans and special payments	2,902,937	-
Other - bad debt expense (recovery)	(1,207)	2,121
Information technology expenses	<u>35,929</u>	<u>5,000</u>
Total expenses	<u>5,659,325</u>	<u>20,577</u>
Transfers (in)/out:		
Interdepartmental rental income	(9,885)	-
Administrative overhead	56,607	929
Printing	<u>9,094</u>	<u>-</u>
Total transfers	<u>55,816</u>	<u>929</u>
Total expenses and transfers	<u>5,715,141</u>	<u>21,506</u>
Increase (decrease) in net assets	116,898	22,860
Net assets - beginning of year	<u>626,320</u>	<u>73,018</u>
Net assets - end of year	<u>\$ 743,218</u>	<u>\$ 95,878</u>

The above Statements of Revenues, Expenses and Changes in Net Assets 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 COLLEGE
(a department of the Commonwealth of Massachusetts)

Supplemental Statistical Information - Unaudited

	Fiscal Year					
Schedule of Net Assets by Category	2002	2003	2004	2005	2006	2007
Invested in capital assets, net of related debt	\$ 19,972,257	\$ 20,793,469	\$ 21,045,366	\$ 20,186,185	\$ 20,360,103	\$ 24,862,027
Restricted-expendable	4,483,491	4,076,361	3,816,427	7,138,933	9,083,307	10,500,418
Restricted-nonexpendable	529,685	521,361	576,826	588,587	597,461	600,377
Unrestricted	4,493,708	6,881,233	9,583,813	11,085,627	14,253,916	14,090,272
Total net assets	\$ 29,479,141	\$ 32,272,424	\$ 35,022,432	\$ 38,999,332	\$ 44,294,787	\$ 50,053,094

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

Sources and Uses of Funds	2002	2003	2004	2005	2006	2007
Source of Revenue						
Student charges (net of scholarships)	\$ 10,888,041	\$ 13,191,212	\$ 15,126,171	\$ 17,150,618	\$ 19,928,219	\$ 21,777,710
Grants & contracts	2,930,694	3,081,004	3,962,244	3,831,266	3,486,257	3,656,979
Auxiliary enterprises	3,477,126	3,877,418	4,317,584	5,018,722	5,466,027	5,914,763
Other operating revenue	1,702,415	1,806,843	1,796,923	1,889,756	1,927,868	1,987,191
Total operating revenue	18,998,276	21,956,477	25,202,922	27,890,362	30,808,371	33,336,643
State support	30,295,195	28,151,837	25,199,981	27,782,999	30,840,087	33,502,147
Other non-operating revenue	407,303	245,729	384,263	631,906	1,202,429	1,517,197
Total non-operating revenue	30,702,498	28,397,566	25,584,244	28,414,905	32,042,516	35,019,344
Total revenue	\$ 49,700,774	\$ 50,354,043	\$ 50,787,166	\$ 56,305,267	\$ 62,850,887	\$ 68,355,987
Functional Expense						
Instruction	\$ 20,092,140	\$ 19,366,094	\$ 18,019,813	\$ 18,847,979	\$ 22,856,426	\$ 24,193,071
Research	1,323	2,499	130,803	164,787	165,550	61,077
Public service	640,666	810,173	785,084	636,765	598,273	486,633
Academic support	5,038,238	4,553,718	4,301,883	4,607,796	4,631,842	5,108,978
Student services	5,284,418	5,772,833	5,426,794	5,980,391	6,560,972	7,022,806
Institutional support	6,414,461	5,998,902	6,764,298	7,179,198	6,169,474	6,648,295
Operations and maintenance of plant	6,233,864	5,911,344	5,944,096	7,246,710	8,185,991	9,699,216
Scholarships	20,117	8,625	16,836	6,845	2,250	2,300
Sub-total	43,725,227	42,424,188	41,389,607	44,670,471	49,170,778	53,222,376
Auxiliary enterprises	2,908,940	3,576,732	4,032,223	4,762,364	5,419,873	5,714,435
Total operating expense	46,634,167	46,000,920	45,421,830	49,432,835	54,590,651	58,936,811
Other non-operating expense	177,366	146,440	198,855	307,292	316,491	548,265
Total non-operating expense	177,366	146,440	198,855	307,292	316,491	548,265
Total expense	\$ 46,811,533	\$ 46,147,360	\$ 45,620,685	\$ 49,740,127	\$ 54,907,142	\$ 59,485,076

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

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

Supplemental Statistical Information - Unaudited

Schedule of Capital Asset Information

	Academic Year
	2007
Land (acreage)	<u>222</u>
Buildings (square feet)	
100 Instruction /classroom	88,817
200 Labs	88,336
300 Administrative	106,783
400 Study facilities	60,415
52x Athletic	58,113
5xx Other Special Use	0
600 General Use	125,353
700 Support facilities	36,022
800 Health Care	1,550
000 Unclassified	1,964
Unassigned/ unassignable	<u>295,463</u>
Total Sq Ft	<u>862,816</u>
Residence Halls	<u>377,077</u>
Rental space	<u>-</u>

	2002	2003	2004	2005	2006	2007
Dormitories - # of residents	1,215	1,305	1,355	1,434	1,443	1,466

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 COLLEGE
(a department of the Commonwealth of Massachusetts)

Supplemental Statistical Information - Unaudited

Schedule of Tuition and Mandatory Fees

	Academic Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<i>Resident Undergraduate</i>										
Tuition	\$ 1,270	\$ 1,210	\$ 1,090	\$ 1,030	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970	\$ 970
Mandatory Fees	2,076	1,988	1,928	1,988	2,018	2,718	3,216	3,618	4,032	4,572
Total	\$ 3,346	\$ 3,198	\$ 3,018	\$ 3,018	\$ 2,988	\$ 3,688	\$ 4,186	\$ 4,588	\$ 5,002	\$ 5,542
<i>Non Resident Undergraduate</i>										
Tuition	\$ 5,950	\$ 6,450	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050	\$ 7,050
Mandatory Fees	2,076	1,988	1,928	1,988	2,018	2,718	3,216	3,618	4,032	4,572
Total	\$ 8,026	\$ 8,438	\$ 8,978	\$ 9,038	\$ 9,068	\$ 9,768	\$ 10,266	\$ 10,668	\$ 11,082	\$ 11,622
<i>Resident Graduate</i>										
Tuition	\$ 840	\$ 840	\$ 840	\$ 900	\$ 900	\$ 900	\$ 900	\$ 900	\$ 900	\$ 900
Mandatory Fees	97	97	97	107	107	117	432	432	510	540
Total	\$ 937	\$ 937	\$ 937	\$ 1,007	\$ 1,007	\$ 1,017	\$ 1,332	\$ 1,332	\$ 1,410	\$ 1,440

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

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

Supplemental Statistical Information - Unaudited

	Fall Term						
Admissions-Freshman (1)	2000	2001	2002	2003	2004	2005	2006
Applications	2,672	2,681	3,289	3,861	3,514	3,859	3,880
Applications accepted	1,875	1,804	2,163	2,498	2,468	2,777	2,795
Accepted as a percentage of applications	70%	67%	66%	65%	70%	72%	72%
Students enrolled (2)	724	763	887	988	1,016	1,007	1,086
Enrolled as a percentage of accepted	39%	42%	41%	40%	41%	36%	39%

(1) Includes all undergraduate admissions including transfer students.

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

	Annual						
Enrollment	FY 01	FY02	FY03	FY04	FY05	FY06	FY07
Full-time equivalent	4,552	4,448	4,648	4,360	4,670	5,029	5,018
Unduplicated credit headcount	13,341	13,649	13,107	11,302	11,272	12,578	11,906
Percent undergraduate (3)	57%	64%	67%	70%	68%	68%	68%
Percent graduate	43%	36%	33%	30%	32%	32%	32%

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

	Fall Term						
Student Population Demographics (4)	2000	2001	2002	2003	2004	2005	2006
Percentage of men	33%	36%	37%	39%	38%	38%	38%
Percentage of women	67%	64%	63%	61%	62%	62%	62%
Percentage of African-American	3%	3%	3%	3%	3%	3%	3%
Percentage of White	92%	92%	92%	92%	92%	92%	92%
Percentage of Latino	3%	3%	3%	3%	3%	3%	3%
Percentage of Other (5)	2%	2%	2%	2%	2%	2%	2%
< 20	15%	17%	18%	21%	22%	21%	21%
20 to 24	33%	36%	37%	38%	36%	38%	38%
25 to 44	37%	33%	32%	30%	30%	29%	29%
44 & Over	15%	14%	13%	11%	12%	12%	12%

(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	FY 01	FY02	FY03	FY04	FY05	FY06
Bachelor's	477	468	516	579	489	553
Master's	277	463	379	465	368	484

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

Supplemental Statistical Information - Unaudited

Schedule of Employment

	2001	2003	2005	2006
Faculty - Primary Instruction (1)	474	283	252	269
Part-time	273	115	86	95
Full-time	201	168	166	174
Staff and Administrators	346	329	439	385
Part-time	9	13	143	81
Full-time	337	316	296	304
Total Employees	820	612	691	654
Part-time	282	128	229	176
Full-time	538	484	462	478

(1) Includes Instruction, Research & Public Service

Note: This schedule reflects personnel as of November 1.

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

To the Board of Trustees
Fitchburg State College
Fitchburg, Massachusetts

We have audited the financial statements of the business-type activities and discretely presented component unit of Fitchburg State College (a department of the Commonwealth of Massachusetts) (the College) as of and for the year ended June 30, 2007, which collectively comprise Fitchburg State College's basic financial statements and have issued our report thereon, dated September 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fitchburg State College'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 College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fitchburg State College'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. However, we noted certain matters that we have reported to the management of Fitchburg State College in a separate letter dated September 28, 2007.

This report is intended solely for the information and use of the Board of Trustees, management, others within Fitchburg State College, 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.

A handwritten signature in black ink that reads "Escolini & Company LLP". The signature is written in a cursive, flowing style. The "E" is large and loops around the "s". The "L" at the end is also large and loops back.

September 28, 2007