

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

REPORT ON AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION

YEAR ENDED JUNE 30, 2012



FITCHBURG STATE UNIVERSITY FOUNDATION, INC.
REPORT ON AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION
YEAR ENDED JUNE 30, 2012

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated statement of financial position of Fitchburg State University Foundation, Inc. (Foundation) (a not-for-profit organization) as of June 30, 2012, and the related consolidated statements of activities, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the management of the Foundation. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2011 consolidated financial statements and, in our report dated October 18, 2011, we expressed an unqualified opinion on those consolidated financial statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fitchburg State University Foundation, Inc. as of June 30, 2012, and changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated October 16, 2012 on our consideration of Fitchburg State University Foundation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters for the year ended June 30, 2012. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our 2012 audit.

Ercolini & Company LLP

Boston, Massachusetts
October 16, 2012

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

JUNE 30, 2012

(with comparative totals as of June 30, 2011)

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Cash and equivalents	\$ 2,415,022	\$ 2,270,542
Investments	11,563,560	10,118,447
Accrued investment income receivable	33,668	5,518
Accounts receivable	3,783	5,393
Contributions receivable, net	343,800	1,500,865
Prepaid expenses and other current assets	75,728	33,665
Property and equipment, net of accumulated depreciation	4,771,627	4,815,752
Deferred financing costs, net of accumulated amortization of \$17,586 and \$14,116, respectively	41,148	44,618
Other assets	<u>113,956</u>	<u>109,119</u>
Total assets	<u>\$ 19,362,292</u>	<u>\$ 18,903,919</u>
<u>LIABILITIES AND NET ASSETS</u>		
Accounts payable, trade	\$ 62,939	\$ 68,661
Accrued interest payable	9,094	12,320
Deferred revenue	65,224	22,405
Notes payable - bank	644,051	681,816
First mortgage notes payable	<u>3,008,325</u>	<u>3,121,795</u>
Total liabilities	<u>3,789,633</u>	<u>3,906,997</u>
Net assets:		
Unrestricted	3,917,459	3,603,607
Temporarily restricted	3,145,829	3,077,888
Permanently restricted	<u>8,509,371</u>	<u>8,315,427</u>
Total net assets	<u>15,572,659</u>	<u>14,996,922</u>
Total liabilities and net assets	<u>\$ 19,362,292</u>	<u>\$ 18,903,919</u>

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2012

(with comparative totals for the year ended June 30, 2011)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2012 Total</u>	<u>2011 Total</u>
Revenue and support:					
Program revenues:					
Gifts and donations	\$ 375,070	\$ 3,076,652	\$ 69,196	\$ 3,520,918	\$ 3,463,852
Grants and contracts	-	47,836	-	47,836	44,036
Sales and services	129,360	143,585	-	272,945	312,121
Rental income	165,000	-	-	165,000	165,000
Residence hall income	198,537	-	-	198,537	200,120
License fee income	178,336	-	-	178,336	177,455
Other revenue:					
Interest and dividends	87,967	229,104	-	317,071	190,311
Gain (loss) on investments	50,098	132,982	-	183,080	1,389,405
Increase in cash surrender value of life insurance	-	-	4,836	4,836	6,909
Net assets released from restrictions	3,442,306	(3,442,306)	-	-	-
Reclassification of net assets	-	(119,912)	119,912	-	-
Total revenue and support	<u>4,626,674</u>	<u>67,941</u>	<u>193,944</u>	<u>4,888,559</u>	<u>5,949,209</u>
Expenses:					
Program services	3,959,309	-	-	3,959,309	4,014,171
Management and general	256,663	-	-	256,663	167,630
Fundraising	96,850	-	-	96,850	125,226
Total expenses	<u>4,312,822</u>	<u>-</u>	<u>-</u>	<u>4,312,822</u>	<u>4,307,027</u>
Increase (decrease) in net assets	313,852	67,941	193,944	575,737	1,642,182
Net assets at beginning of year	<u>3,603,607</u>	<u>3,077,888</u>	<u>8,315,427</u>	<u>14,996,922</u>	<u>13,354,740</u>
Net assets at end of year	<u>\$ 3,917,459</u>	<u>\$ 3,145,829</u>	<u>\$ 8,509,371</u>	<u>\$ 15,572,659</u>	<u>\$ 14,996,922</u>

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2012

(with comparative totals for the year ended June 30, 2011)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 575,737	\$ 1,642,182
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
(Gain) loss on investments	(183,080)	(1,389,405)
(Gain) loss on sale of land	-	4,400
Depreciation	101,440	98,260
Discount on pledges	(4,400)	(10,350)
Bad debt expense	12,500	-
Amortization of deferred financing costs	3,470	3,470
Contribution of equipment	-	(20,738)
Contributions restricted for long term purposes	(69,196)	(150,716)
Increase in cash surrender value of life insurance	(2,963)	(5,035)
(Increase) decrease in accounts receivable	1,610	(3,084)
(Increase) decrease in accrued investment income receivable	(28,150)	50,999
(Increase) decrease in contributions receivable	44,816	121,742
(Increase) decrease in prepaid expenses and other current assets	(42,063)	(15,220)
Increase (decrease) in accounts payable, trade	(5,722)	3,027
Increase (decrease) in accrued interest payable	(3,226)	1,667
Increase (decrease) in deferred revenue	<u>42,819</u>	<u>(19,600)</u>
Net cash provided by (used in) operating activities	<u>443,592</u>	<u>311,599</u>
Cash flows from investing activities:		
Payments for property and equipment	(57,315)	(28,956)
Proceeds from sale of investments	1,620,877	11,337,424
Proceeds from sale of land	-	118,870
Purchase of investments	(2,882,910)	(10,940,567)
Release of cash held in escrow	-	75,053
Life insurance premiums	<u>(1,874)</u>	<u>(1,874)</u>
Net cash provided by (used in) investing activities	<u>(1,321,222)</u>	<u>559,950</u>

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS - CONTINUED

YEAR ENDED JUNE 30, 2012

(with comparative totals for the year ended June 30, 2011)

	<u>2012</u>	<u>2011</u>
Cash flows from financing activities:		
Payments on first mortgage notes payable	(\$ 113,470)	(\$ 103,046)
Net proceeds of (payments on) bank line of credit	-	(125,000)
Payments on notes payable - bank	(37,765)	(35,240)
Collections of contributions restricted for long term purposes	<u>1,173,345</u>	<u>49,313</u>
 Net cash provided by (used in) financing activities	 <u>1,022,110</u>	 <u>(213,973)</u>
 Net increase (decrease) in cash and equivalents	 144,480	 657,576
 Cash and equivalents, beginning of year	 <u>2,270,542</u>	 <u>1,612,966</u>
 Cash and equivalents, end of year	 <u>\$ 2,415,022</u>	 <u>\$ 2,270,542</u>
 Supplemental disclosure of cash flow information:		
Cash paid for interest during the year	<u>\$ 200,595</u>	<u>\$ 226,913</u>
 Supplemental schedule of noncash investing and financing activities:		
Donation of equipment at estimated fair value	<u>\$ -</u>	<u>\$ 20,738</u>
Costs incurred for purchase of property and equipment	\$ 57,315	\$ 14,339
Accounts payable, trade, beginning of year	-	14,617
Accounts payable, trade, end of year	<u>-</u>	<u>-</u>
Payments for property and equipment	<u>\$ 57,315</u>	<u>\$ 28,956</u>

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

1. Organization and summary of significant accounting policies

Organization

Fitchburg State University Foundation, Inc. (the Foundation) was organized on June 6, 1978, exclusively for the benefit of Fitchburg State University (the University), to establish scholarships and make awards to educationally talented and needy students; to establish a Distinguished Professor award within the faculty of the University; to subsidize inter-collegiate athletic programs; to subsidize budgets of departments of the University as needed for particular purposes; to encourage public use and support of functions and activities which further the mission of the University; and to encourage other activities necessary for, or incidental to, any or all of the foregoing. The following programs are supported under the auspices of the Foundation: Center Stage, Alumni Association, Women in Today's Society, Amelia V. Gallucci-Cirio endowment and the University's Booster Clubs.

On November 24, 2010, the Commonwealth of Massachusetts approved a name change from Fitchburg State College Foundation, Inc. to Fitchburg State University Foundation, Inc.

FSU Foundation Supporting Organization, Inc. (the Supporting Organization) was organized on October 29, 1999 to be a supporting organization operated, supervised and controlled for the exclusive benefit of the Foundation and all of its educational and charitable activities. On November 26, 2010, the Commonwealth of Massachusetts approved a name change from FSC Foundation Supporting Organization, Inc. to FSU Foundation Supporting Organization, Inc. As of June 30, 2012, the Supporting Organization's sole program activity has been to acquire, hold, operate and lease real estate and related improvements for the benefit of the Foundation and Fitchburg State University.

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

Summary of significant accounting policies

Principles of consolidation

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

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

Use of estimates

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

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

1. Organization and summary of significant accounting policies - continued

Method of accounting

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

Basis of presentation

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

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

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

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

Risks and uncertainties

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

Revenue recognition

Contributions and bequests

Contributions are recognized when the donor makes a promise to give, that is, in substance, unconditional. Unconditional promises to give are reported at net realizable value if at the time the promise is made collection is expected to be received in one year or less. Unconditional promises to give that are expected to be collected in more than one year are reported at fair value using present value techniques and a

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

1. Organization and summary of significant accounting policies - continued

Revenue recognition - continued

Contributions and bequests - continued

discount rate determined by management of the Organization. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Conditional promises to give are recognized only when the conditions on which they depend are substantially met. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fund-raising activity. Contributions in the form of property and equipment and other assets are recorded at fair value on the date the donation is received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. It is the Organization's policy to imply a time restriction, based on the assets' estimated useful lives, on donations of property and equipment that are not restricted as to their use by the donor. Accordingly, those donations are recorded as increases in temporarily restricted net assets. The Organization reclassifies temporarily restricted net assets to unrestricted net assets each year for the amount of depreciation expense relating to the donated property and equipment. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Sales and services

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

Rental and license fee income

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

Residence hall income

Residence hall fees are recognized when earned.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

1. Organization and summary of significant accounting policies - continued

Cash and investments

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

Accounts receivable

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

Investments

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

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

Endowments

The Organization's endowments consist of approximately 90 individual funds that are restricted by donors to function as endowments primarily for the granting of scholarships and to fund other academic and cultural programs. No funds have been designated by the Board of Directors to function as endowments as of June 30, 2012. In accordance with accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

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

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

1. Organization and summary of significant accounting policies - continued

Endowments - continued

Interpretation of Relevant Law - continued

permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

Investment and Spending Policies

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

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

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

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

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

1. Organization and summary of significant accounting policies - continued

Endowments - continued

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Massachusetts General Laws requires the Organization to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. As of June 30, 2012 and 2011, there were no deficiencies of this nature.

Property and equipment

Property and equipment are recorded at cost, if purchased or constructed and, if donated, at fair value at the time of the donation. Property and equipment are depreciated on the straight-line method over their estimated useful lives of 40 years for buildings, 20 years for building and land improvements, 7 years for furniture and fixtures, 5 years for equipment and 3 years for computer software and equipment.

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

Impairment of long-lived assets

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

Deferred financing costs

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

Statement of cash flows

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

Income taxes

The Foundation and the Supporting Organization are classified by the Internal Revenue Service as "publicly supported organizations" exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code. However, income from certain activities not directly related to the Foundation or Supporting Organization's tax-exempt purposes are subject to taxation as unrelated business income. The Foundation has unrelated business income for the year ended June 30, 2012. The income and related income taxes thereon, which are not material, are included in the accompanying financial statements. The Supporting Organization had no unrelated business income for the year ended June 30, 2012.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

1. Organization and summary of significant accounting policies - continued

Income taxes - continued

Management has evaluated significant tax positions against the criteria established by professional standards and believes there are no such tax positions requiring accounting recognition in the consolidated financial statements. Management does not believe its evaluation of tax positions will significantly change within twelve months of June 30, 2012. Any changes in tax positions will be recorded when the ultimate outcome becomes known. The Foundation and Supporting Organization's income tax returns are subject to examination by taxing authorities generally for the years ended June 30, 2009, 2010 and 2011.

Functional allocation of expenses

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

Summarized comparative financial information

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2011, from which the summarized information was derived.

Reclassifications

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

Subsequent events

The Organization has evaluated subsequent events through October 16, 2012, which is the date these consolidated financial statements were issued.

Recent accounting pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on significant transfers of assets and liabilities in and out of Level 1 (quoted prices in active markets for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and timing of the transfers. Additionally, the guidance requires separate disclosure in the reconciliation of Level 3 fair value measurements (significant unobservable inputs) of information on purchases, sales, issuances, and settlements of the assets and liabilities measured using Level 3 inputs. The guidance also clarifies certain existing disclosures. The new disclosures and clarifications of existing disclosures are effective for fiscal years and interim periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the reconciliation of Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Adoption by the Organization of the applicable required disclosures in fiscal 2012 had no material impact on the Organization's consolidated financial statements.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

1. Organization and summary of significant accounting policies - continued

Recent accounting pronouncements - continued

In May, 2011, the FASB issued guidance which further amends the measurement and disclosure requirements related to recurring and nonrecurring fair value measurements. The standard clarifies the fair value measurement guidance applicable to highest-and-best-use and valuation premise, measuring fair value of an instrument classified in equity and financial instruments managed within a portfolio, and the application of premiums and discounts in a fair value measurement. Additionally, the guidance requires expanded disclosure of fair value measurements categorized in Level 3, use of an asset in a way that differs from the asset's highest-and-best-use, and items not measured at fair value but for which fair value is required to be disclosed. These disclosures are effective for fiscal years and interim periods beginning after December 15, 2011. The Organization does not believe that its adoption of this guidance in fiscal year 2013 will have a material impact on the Organization's consolidated financial statements.

2. Cash and equivalents

Cash and equivalents consist of the following at June 30:

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

Money market funds include the SSgA US Government Money Market Fund in the aggregate amount of \$176,183 and \$154,884 at June 30, 2012 and June 30, 2011, respectively. The SSgA US Government Money Market Fund invests in obligations of the U.S. Government, or its instrumentalities with remaining maturities of one year or less. The fund seeks to maximize current income to the extent consistent with the preservation of capital and liquidity, and the maintenance of a stable \$1.00 per share net asset value. At June 30, 2012 and 2011, the fund's investment securities had a weighted average maturity of 33 days and 26 days, respectively. The fund had an average credit quality rating of AAAM at June 30, 2012 and June 30, 2011, respectively.

Money market funds include the Schwab Advisor Cash Reserves Fund in the aggregate amount of \$18,726 and \$31,140 at June 30, 2012 and June 30, 2011, respectively. The Schwab Advisor Cash Reserves Fund invests in high-quality short-term money market investments issued by U.S. and foreign issuers. The fund's goal is to seek the highest current income consistent with stability of capital and liquidity, and the maintenance of a stable \$1.00 per share net asset value. At June 30, 2012 and June 30, 2011, the fund's investment securities had a weighted average maturity of 46 days and 40 days respectively. The fund was not rated for average credit quality at June 30, 2012 and June 30, 2011, respectively.

Money market funds include the Dreyfus Cash Management Institutional - Shares Fund in the aggregate amount of \$229,444 and \$198,030 at June 30, 2012 and June 30, 2011, respectively. The Dreyfus Cash Management Institutional - Shares Fund invests in a diversified portfolio of high-quality, short-term debt securities, including securities issued or guaranteed by the U.S. government or its agencies or instrumentalities. The fund's goal is to seek as high a level of income as is consistent with the preservation of capital and the maintenance of liquidity. The fund seeks to preserve the value of the fund at \$1.00 per share net asset value. At June 30, 2012 and June 30, 2011, the fund's investment securities had a weighted

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

2. Cash and equivalents - continued

average maturity of 34 days and 38 days respectively. The fund had an average credit quality rating of AAAM at June 30, 2012 and June 30, 2012, respectively.

Money market funds also include the Fidelity Bank LifeDesign Business Cash Management money market account with a balance of \$1,002,708 at June 30, 2012.

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

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

3. Investments

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

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

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

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

3. Investments - continued

At June 30, 2012 and 2011, net unrealized gains in the Organization's investment portfolio amounted to \$605,310 and \$417,404, respectively.

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

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

Investments with an equivalent fair value of \$1,907,000 at June 30, 2012 collateralize certain debt agreements (see Notes 8 and 10).

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

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

	Maturity				
	<u>Within 1 year</u>	<u>1 - 5 Years</u>	<u>5-10 Years</u>	<u>More Than 10 Years</u>	<u>Total</u>
Corporate bonds	\$ 31,123	\$ 1,023,533	\$ 298,420	\$ -	\$ 1,353,076
U.S. government securities	<u>275,981</u>	<u>1,139,751</u>	<u>105,976</u>	<u>-</u>	<u>1,521,708</u>
	<u>\$ 307,104</u>	<u>\$ 2,163,284</u>	<u>\$ 404,396</u>	<u>\$ -</u>	<u>\$ 2,874,784</u>

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

3. Investments - continued

Realized and unrealized gains (losses) on investments are shown net in the consolidated statement of activities. The components (representing the year to year activity) for the years ended June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Net realized gains (losses)	(\$ <u>8,598</u>)	\$ <u>1,836,818</u>
Unrealized gains	<u>250,915</u>	-
Unrealized losses	<u>(59,237)</u>	<u>(447,413)</u>
	<u>191,678</u>	<u>(447,413)</u>
Net gain(loss) on investments	\$ <u>183,080</u>	\$ <u>1,389,405</u>

The Organization incurred investment management fees of \$78,095 in 2012 and \$42,923 in 2011 which are included in management and general expenses in the consolidated statement of activities.

The following table presents the gross unrealized losses and fair values of the Organization's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that the investments have been in a continuous unrealized loss position at June 30, 2012.

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

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

3. Investments - continued

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

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

Equities and preferred stocks

The Organization has ninety-seven investments in equities of which thirty-three were in an unrealized loss position at June 30, 2012. The Organization also has nineteen investments in preferred stocks of which three were in an unrealized loss position at June 30, 2012. The fluctuation in the equity securities and preferred stocks reflects general economic conditions and current changes in the industries of the companies in which the securities are held. The Organization has evaluated the severity and duration of the impairments. Based on that evaluation and the Organization's ability and intent to hold these investments for a reasonable period of time sufficient for a recovery of fair value, the Organization does not consider these investments to be other-than-temporarily impaired at June 30, 2012.

Mutual funds

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

Corporate bonds

At June 30, 2012, the Organization's investments in corporate debt securities were in the form of interest bearing securities of top-rated corporate issuers. The Organization has forty-four corporate debt security investments of which fourteen are in an unrealized loss position at June 30, 2012. The securities in an unrealized loss position are comprised of fixed-rate debt securities of varying maturities. The value of fixed income securities is sensitive to interest rate fluctuations and the credit rating of the issuer.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

3. Investments - continued

Corporate bonds - continued

There have been no indications of default on interest or principal payments by the issuers. The Organization does not intend to sell nor does it believe it would be required to sell the corporate bonds before their anticipated market value recovery. Accordingly, the Organization does not consider these investments to be other-than-temporarily impaired at June 30, 2012.

U.S. government obligations

The Organization has twenty U.S. government investment securities at June 30, 2012, of which eleven were in an unrealized loss position as a result of interest rate fluctuations. The contractual terms of the investments do not allow the issuer to settle the securities at a price less than the amortized cost of the investment. The Organization does not intend to sell nor does it believe it would be required to sell these investment securities before their anticipated market value recovery. Accordingly, the Organization does not consider the investments to be other-than-temporarily impaired at June 30, 2012.

The endowment net asset composition by type of fund at June 30, 2012 is as follows:

<u>Fund Type</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowments	\$ <u>563,502</u>	\$ <u>2,338,127</u>	\$ <u>8,509,371</u>	\$ <u>11,411,000</u>

Changes in the endowment net assets for the year ended June 30, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 530,960	\$ 2,186,886	\$ 8,315,427	\$ 11,033,273
Investment return:				
Investment income	83,305	223,449	-	306,754
Appreciation (depreciation), realized and unrealized	<u>32,542</u>	<u>130,305</u>	<u>-</u>	<u>162,847</u>
Total investment return	115,847	353,754	-	469,601
Contributions	-	5,320	69,196	74,516
Other income	-	4,170	4,836	9,006
Appropriation of endowment assets for expenditure	(70,637)	(130,211)	-	(200,848)
Investment management fees	(12,668)	(55,386)	-	(68,054)
Reclassification of net assets	-	-	119,912	119,912
Transfer upon removal of donor restrictions	<u>-</u>	<u>(26,406)</u>	<u>-</u>	<u>(26,406)</u>
Endowment net assets, end of year	\$ <u>563,502</u>	\$ <u>2,338,127</u>	\$ <u>8,509,371</u>	\$ <u>11,411,000</u>

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

3. Investments - continued

U.S. government obligations - continued

The endowment net asset composition by type of fund at June 30, 2011 is as follows:

<u>Fund Type</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowments	\$ 530,960	\$ 2,186,886	\$ 8,315,427	\$ 11,033,273

Changes in the endowment net assets for the year ended June 30, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 338,182	\$ 1,259,117	\$ 8,157,802	\$ 9,755,101
Investment return:				
Investment income	10,938	128,877	-	139,815
Appreciation (depreciation), realized and unrealized	192,777	975,801	-	1,168,578
Total investment return	203,715	1,104,678	-	1,308,393
Contributions	-	5,380	150,716	156,096
Other income	-	6,630	6,909	13,539
Appropriation of endowment assets for expenditure	(8,683)	(125,744)	-	(134,427)
Investment management fees	(2,254)	(29,904)	-	(32,158)
Transfer upon removal of donor restrictions	-	(33,271)	-	(33,271)
Endowment net assets, end of year	<u>\$ 530,960</u>	<u>\$ 2,186,886</u>	<u>\$ 8,315,427</u>	<u>\$ 11,033,273</u>

4. Contributions receivable, net

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

Due to the passing, in June, 2010, of an alumnus of Fitchburg State University, the Foundation received the remainder interest in a trust established by the individual. Based upon information received from the trustee, management estimated and recorded contribution revenue and a receivable in the amount of \$970,000 at June 30, 2010. Based upon updated information received from the trustee as of June 30, 2011, management recorded additional contribution revenue and an additional receivable in 2011 in the amount of \$114,966. At June 30, 2011, the total receivable due from the trust amounted to \$1,084,966. On July 12, 2011, the Foundation received \$1,092,583 from the trust and deposited it with one of its professional investment managers to be invested.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

4. Contributions receivable, net - continued

Contributions receivable consist of the following at June 30:

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

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

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

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

5. Fair value measurements

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

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

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

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

5. Fair value measurements - continued

The fair value hierarchy under the guidance is as follows:

- Level 1 - Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 - Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly; and
- Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

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

When available, the Organization uses unadjusted quoted market prices to measure the fair value and classifies such items within Level 1. Level 1 securities primarily include publicly-traded equity securities and mutual funds.

When quoted market prices are unobservable, the Organization uses quotes from independent pricing vendors based on recent trading activity and other relevant information including market interest rate curves, referenced credit spreads and estimated prepayment rates where applicable. At June 30, 2012 and 2011, Level 2 securities consist primarily of corporate fixed income securities, U.S. government securities and preferred stocks.

At June 30, 2012 and 2011, the Organization's assets included in Level 3 of the fair value measurement hierarchy consisted of its investment in Commonfund Realty Investors, LLC and promises to give that are due in more than one year. As discussed in Note 3, the Organization wrote down its investment in Commonfund Realty Investors, LLC to zero at June 30, 2010 representing its estimate of the fair value of the investment at that date. As of June 30, 2012, management's estimate of the fair value of this investment remains unchanged. The fair value of promises to give that are due in more than one year is estimated by discounting expected future cash flows using a rate of return determined by management of the Organization.

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

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

5. Fair value measurements - continued

The fair value of assets measured on a recurring basis at June 30, 2012 is as follows:

<u>Investments</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Equities	\$ 5,718,022	\$ 5,718,022	\$ -	\$ -
Preferred stocks	252,630	-	252,630	-
Mutual funds	2,718,124	2,718,124	-	-
Corporate bonds	1,353,076	-	1,353,076	-
U.S. government securities	1,521,708	-	1,521,708	-
Commonfund Realty Investors, LLC	-	-	-	-
Contributions receivable	<u>338,415</u>	<u>-</u>	<u>-</u>	<u>338,415</u>
Total	<u>\$ 11,901,975</u>	<u>\$ 8,436,146</u>	<u>\$ 3,127,414</u>	<u>\$ 338,415</u>

The fair value of assets measured on a recurring basis at June 30, 2011 is as follows:

<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Equities	\$ 4,833,905	\$ 4,833,905	\$ -
Preferred stocks	203,862	-	203,862
Mutual funds	2,775,217	2,775,217	-
Corporate bonds	900,809	-	900,809
U.S. government securities	1,404,654	-	1,404,654
Commonfund Realty Investors, LLC	-	-	-
Contributions receivable	<u>382,835</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 10,501,282</u>	<u>\$ 7,609,122</u>	<u>\$ 2,509,325</u>

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

5. Fair value measurements - continued

The changes in assets measured at fair value for which the Organization has used Level 3 inputs are as follows for the year ended June 30, 2012:

	Commonfund Realty Investors, LLC	Contributions receivable, net
Balances, July 1, 2011	\$ <u> -</u>	\$ <u> 382,835</u>
Realized gains (losses)	-	
Unrealized gains (losses)	-	
New promises received	-	188,050
Collections	-	(224,370)
Contribution revenue	-	4,400
Management and general (write-offs)	<u> -</u>	<u>(12,500)</u>
	<u> -</u>	<u>(44,420)</u>
Balances, June 30, 2012	\$ <u> -</u>	\$ <u> 338,415</u>

The changes in assets measured at fair value for which the Organization has used Level 3 inputs are as follows for the year ended June 30, 2011:

	Commonfund Realty Investors, LLC	Contributions receivable, net
Balances, July 1, 2010	\$ <u> -</u>	\$ <u> 530,970</u>
Realized gains (losses)	-	-
Unrealized gains (losses)	-	-
New promises received	-	38,000
Collections	-	(192,683)
Contribution revenue	<u> -</u>	<u> 6,548</u>
	<u> -</u>	<u>(148,135)</u>
Balances, June 30, 2011	\$ <u> -</u>	\$ <u> 382,835</u>

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

6. Property and equipment

Property and equipment at June 30, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Real estate under lease:		
Land	\$ 402,663	\$ 402,663
Building	1,557,724	1,557,724
Building improvements	<u>100,452</u>	<u>100,452</u>
	<u>2,060,839</u>	<u>2,060,839</u>
Real estate used for student housing:		
Land	253,555	253,555
Building	434,225	434,225
Building improvements	<u>28,600</u>	<u>28,600</u>
	<u>716,380</u>	<u>716,380</u>
Other:		
Land	1,667,357	1,610,042
Land improvements	61,899	61,899
Buildings	556,478	556,478
Building improvements	39,569	39,569
Equipment	82,684	82,684
Computer software	355,845	355,845
Furniture and fixtures	22,287	22,287
Library materials	<u>6,570</u>	<u>6,570</u>
	<u>2,792,689</u>	<u>2,735,374</u>
	5,569,908	5,512,593
Less accumulated depreciation	<u>798,281</u>	<u>696,841</u>
	<u>\$ 4,771,627</u>	<u>\$ 4,815,752</u>

Accumulated depreciation on real estate under lease amounted to \$253,118 and \$209,152 at June 30, 2012 and 2011, respectively. Accumulated depreciation on real estate used for student housing amounted to \$59,234 and \$46,949 at June 30, 2012 and 2011, respectively.

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

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

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

6. Property and equipment - continued

At both June 30, 2012 and 2011, property and equipment with a cost of approximately \$331,000 were fully depreciated and still in service.

7. Other assets

Other assets at June 30, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Cash surrender value of life insurance	\$ 74,931	\$ 70,094
Art collection	<u>39,025</u>	<u>39,025</u>
	<u>\$ 113,956</u>	<u>\$ 109,119</u>

8. Line of credit

In March, 2011, the Foundation renewed, under substantially the same terms, its existing revolving working capital line of credit agreement with Workers' Credit Union which permits the Foundation to borrow up to \$250,000. At June 30, 2012 and 2011, there were no borrowings outstanding under the line of credit. The line of credit provides for interest at the Wall Street Journal Prime Rate, but in no event less than 6% per annum. At June 30, 2012 and 2011, the effective interest rate was 6% per annum. There were no borrowings or interest expense on the line of credit during the year ended June 30, 2012. For the year ended June 30, 2011, interest expense incurred on borrowings under this line of credit amounted to \$3,639. Borrowings are secured by investments with equivalent fair value of \$315,000. The line of credit agreement expires on March 17, 2013. The Foundation may prepay outstanding revolving loans under the agreement in whole or in part at any time without premium or penalty.

9. First mortgage notes payable

Foundation

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

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

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

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

9. First mortgage notes payable - continued

Foundation - continued

For the years ended June 30, 2012 and 2011, interest expense on this mortgage note payable amounted to \$28,750 and \$29,342, respectively.

Aggregate principal maturities on the loan for each of the next five years, using the interest rate in effect at June 30, 2012, are estimated to be as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 18,681
2014	19,800
2015	20,986
2016	21,176
2017	23,570

Supporting Organization

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

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

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

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

9. First mortgage notes payable - continued

Supporting Organization - continued

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

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

At June 30, 2012 and 2011, the outstanding principal balance of this mortgage note payable amounted to \$1,538,180 and \$1,612,542, respectively.

For the years ended June 30, 2012 and 2011, interest expense on this mortgage note payable amounted to \$73,268 and \$93,329, respectively.

Aggregate principal maturities on the loan for each of the next five years, using the interest rate in effect at June 30, 2012, are estimated to be as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 79,093
2014	82,778
2015	86,635
2016	90,516
2017	94,888

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

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

At June 30, 2012 and 2011, the outstanding principal balance of this mortgage note payable amounted to \$700,292 and \$716,105, respectively.

For the years ended June 30, 2012 and 2011, interest expense on this mortgage note payable amounted to \$40,711 and \$43,353, respectively.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

9. First mortgage notes payable - continued

Supporting Organization - continued

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

<u>Year</u>	<u>Amount</u>
2013	\$ 16,810
2014	17,801
2015	18,850
2016	19,961
2017	21,137

Workers' Credit Union provided financing to the Supporting Organization in the form of a note, dated February 19, 2010, in the amount of \$300,000. The proceeds of the loan were used to finance the acquisition of a real estate property. The note is secured by a first mortgage interest in the property located at 161-181 Main Street in Fitchburg, Massachusetts and an assignment of leases and rents on this property. In addition, the note is secured by a second mortgage interest in the real estate and related personal property located at 167 Klondike Avenue in Fitchburg, Massachusetts. The first mortgage on that property secures the Supporting Organization's obligations under the MDFA Revenue Bonds Issue. The Supporting Organization also provided WCU with a second assignment of leases and rents related to that property. The note is also collateralized by all funds held by the lender. At June 30, 2012, the Supporting Organization has total cash balances of \$81,665 held at WCU which serve as additional collateral for both WCU loans to the Supporting Organization.

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

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

For the years ended June 30, 2012 and 2011, interest expense on this mortgage note payable amounted to \$17,500 and \$18,528, respectively.

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

<u>Year</u>	<u>Amount</u>
2013	\$ 6,124
2014	6,503
2015	6,906
2016	7,290
2017	7,786

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

10. Notes payable - bank

Foundation

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

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

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

For the years ended June 30, 2012 and 2011, interest expense on this note payable amounted to \$1,463 and \$2,984, respectively.

Aggregate principal maturities over the remaining term of the loan are \$16,081.

Supporting Organization

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

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

The promissory note has a term of thirty years, expiring on May 5, 2037, and provides for a fixed rate of interest of 6% per annum for the first five years of the loan term. Thereafter, the interest rate will be adjusted at five-year intervals to the Federal Home Loan Bank Boston Classic Advance Five Year Rate plus 1.15% per annum. The rate was adjusted to 2.62% per annum on April 26, 2012 pursuant to the provisions of the loan agreement. The loan required monthly installments of principal and interest of \$4,122 through May 7, 2012. Commencing thereafter, the monthly installments of principal and interest are \$2,875 until the next five-year interval adjustment date. The note may be prepaid any time, in whole or in part, without premium or penalty.

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

For the years ended June 30, 2012 and 2011, interest expense on this note payable amounted to \$35,677 and \$37,405, respectively.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

10. Notes payable - bank - continued

Supporting Organization - continued

Aggregate principal maturities on the loan for each of the next five years, using the interest rate in effect at June 30, 2012, are estimated to be as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 18,027
2014	18,512
2015	19,009
2016	19,480
2017	20,044

11. Lease and license agreements

As disclosed in Note 9, the Supporting Organization entered into a long-term operating lease agreement with DCAM on behalf of the University. The lease commenced on August 16, 2006. The lease is for a term of ten years and provides for base rent of \$165,000 per year, payable in monthly installments of \$13,750, for the entire lease term. The University is also responsible for the payment of normal operating, maintenance and repair costs associated with its use of the property. At the expiration of the lease term, the Supporting Organization expects the lease will be renewed with DCAM on behalf of the University. For the years ended June 30, 2012 and 2011, rental income amounted to \$165,000 in each year.

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

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

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

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

11. Lease and license agreements - continued

termination charge. The Supporting Organization is also responsible for the payment of normal operating, maintenance and repair costs associated with the use of the property. For the years ended June 30, 2012 and 2011, rent expense amounted to \$18,506 and \$17,625, respectively.

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

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

The Supporting Organization and the University are parties to License Agreements whereby the Supporting Organization granted to the University irrevocable and exclusive licenses to occupy, manage, maintain and operate certain property owned by the Supporting Organization. The License Agreements provide for initial terms of one year and automatic annual renewals thereafter. The License Agreements provide for aggregate annual license fees totaling \$178,336 payable, in arrears, in twelve equal monthly installments. All costs to operate and maintain the property, including any capital improvements made thereto, shall be borne by the University. The License Agreements may be terminated by either party upon the expiration of the initial term of the agreements and any subsequent renewal term with the giving of proper notice. In addition, the University may terminate the agreements at any time with the giving of proper notice. For the years ended June 30, 2012 and 2011, license fee income amounted to \$178,336 and \$177,455, respectively.

12. Restricted net assets

Temporarily restricted net assets in the amount of \$3,145,829, as of June 30, 2012, are available as follows: equipment which use is restricted, in the amount of \$22,590; and scholarships to qualified students and to promote cultural programs within Fitchburg State University in the amount of \$3,123,239. Temporarily restricted net assets in the amount of \$3,077,888, as of June 30, 2011, were available as follows: equipment which use is restricted, in the amount of \$30,111; and scholarships to qualified students and to promote cultural programs within Fitchburg State University in the amount of \$3,047,777.

Temporarily restricted net assets released from restrictions during 2012 represent the satisfaction of program restrictions in the amount of \$3,239,731; the satisfaction of scholarship-related restrictions in the amount of \$195,865, and the satisfaction of equipment donation restrictions in the amount of \$6,710.

Permanently restricted net assets in the amounts of \$8,509,371 and \$8,315,427 as of June 30, 2012 and 2011, respectively, are invested in perpetuity. Income from the investments is expendable for the program services of the Organization, including the granting of scholarships and to fund other academic and cultural programs.

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

12. Restricted net assets - continued

During 2012, \$119,912 was reclassified from temporarily restricted net assets to permanently restricted net assets. In accordance with the donor's restrictions, this amount together with current year donations met the Organization's minimum requirement to establish permanent endowments. Accordingly, the \$119,912 was reclassified to permanently restricted net assets.

13. Transactions with a related party

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

For the years ended June 30, 2012 and 2011, the Supporting Organization incurred expenses totaling \$33,775 and \$29,904, respectively, to Fitchburg State University for maintenance services provided to the Supporting Organization for the real estate used for student housing.

At June 30, 2012 and 2011, the Organization has miscellaneous payables to Fitchburg State University in the amounts of \$48,150 and \$60,478, respectively.

14. Major donors

During fiscal 2012 and 2011, the Foundation received temporarily restricted donations of one year licenses to use certain computer software with an annual commercial value of \$2,822,400. The donations represent approximately 80% and 81% of total gifts and donations revenue during 2012 and 2011, respectively. The computer software is being used in academic courses by the Industrial Technology Department of Fitchburg State University. The license expired on June 30, 2012. The Foundation is uncertain if the software will be utilized going forward. The software will be evaluated in Fall 2012. No new agreement is expected until after this evaluation is completed.

15. Donated equipment, materials and services

The value of donated equipment, materials and services included in temporarily restricted donations for the year ended June 30, 2012 totaled \$2,844,900 and has been reflected in program expenses as follows:

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

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

15. Donated equipment, materials and services - continued

The value of donated equipment, materials and services included in temporarily restricted donations for the year ended June 30, 2011 totaled \$2,862,391. Of this amount \$20,738 represents equipment that has been capitalized to property and equipment and the remainder of \$2,841,653 has been reflected in program expenses as follows:

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

16. Subsequent event

On October 12, 2012, the Supporting Organization purchased, from an unrelated third party, a real estate property located in Fitchburg, Massachusetts for a purchase price of \$215,000 plus closing costs. The University intends to raze the building that is currently located on the property and create additional parking.

ADDITIONAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

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

We have audited the consolidated financial statements of Fitchburg State University Foundation, Inc. as of and for the year ended June 30, 2012, and our report thereon dated October 16, 2012, which appears on page 1, expressed an unqualified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information for the year ended June 30, 2012 contained on page 35 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole. The prior year summarized comparative information has been derived from the additional information accompanying the Foundation's 2011 consolidated financial statements and, in our report on additional information dated October 18, 2011, we expressed our opinion that such information was fairly stated in all material respects in relation to the 2011 consolidated financial statements as a whole. Such information should be read in conjunction with the Foundation's consolidated financial statements and accompanying additional information for the year ended June 30, 2011, from which the summarized information was derived.

Ercolini & Company LLP

Boston, Massachusetts
October 16, 2012

FITCHBURG STATE UNIVERSITY FOUNDATION, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2012

(with comparative totals for the year ended June 30, 2011)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>2012 Consolidated Total</u>	<u>2011 Consolidated Total</u>
Scholarships	\$ 195,865	\$ -	\$ -	\$ 195,865	\$ 212,905
Speakers and cultural programs	168,513	-	-	168,513	195,408
Outside services	87,818	21,805	5,810	115,433	99,396
Accounting and audit	-	19,360	-	19,360	18,281
Insurance	18,874	6,882	-	25,756	28,440
Supplies	60,527	1,334	-	61,861	68,169
Postage	4,836	1,909	13,477	20,222	33,566
Equipment and maintenance	2,849,081	26,145	3,870	2,879,096	2,853,275
Printing and publications	86,457	2,205	30,371	119,033	158,192
Travel	69,245	2,898	1,918	74,061	71,445
Meetings and conferences	44,470	11,068	38,506	94,044	84,327
Professional and consulting services	2,200	-	2,650	4,850	2,075
Awards and grants	32,644	-	-	32,644	15,790
Real estate and other taxes	3,306	-	-	3,306	154
Repairs and maintenance	33,775	-	-	33,775	29,904
Rent	18,506	-	-	18,506	17,625
Utilities	23,266	-	-	23,266	16,495
Interest	167,156	30,213	-	197,369	228,580
Miscellaneous	15,479	23,095	248	38,822	18,212
Investment management fees	-	78,095	-	78,095	42,923
Other financial fees	-	<u>4,035</u>	-	<u>4,035</u>	<u>5,735</u>
	3,882,018	229,044	96,850	4,207,912	4,200,897
Loss on sale of land	-	-	-	-	4,400
Depreciation and amortization	<u>77,291</u>	<u>27,619</u>	-	<u>104,910</u>	<u>101,730</u>
	<u>\$ 3,959,309</u>	<u>\$ 256,663</u>	<u>\$ 96,850</u>	<u>\$ 4,312,822</u>	<u>\$ 4,307,027</u>

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

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

We have audited the consolidated financial statements of Fitchburg State University Foundation, Inc. (a not-for-profit Organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 16, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Ercolini & Company LLP

Boston, Massachusetts
October 16, 2012