

FITCHBURG STATE COLLEGE FOUNDATION, INC.

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

YEAR ENDED JUNE 30, 2008

FITCHBURG STATE COLLEGE FOUNDATION, INC.
REPORT ON AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION
YEAR ENDED JUNE 30, 2008

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated statement of financial position of Fitchburg State College Foundation, Inc. (a not-for-profit organization) as of June 30, 2008, 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 2007 consolidated financial statements and, in our report dated September 24, 2007, we expressed an unqualified opinion on those consolidated financial statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fitchburg State College Foundation, Inc. as of June 30, 2008, 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 September 30, 2008 on our consideration of Fitchburg State College Foundation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters for the year ended June 30, 2008. 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 2008 audit.

Ercolini & Company LLP

September 30, 2008

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

JUNE 30, 2008

(with comparative totals as of June 30, 2007)

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
Cash and equivalents	\$ 863,496	\$ 617,188
Investments	10,668,196	10,878,877
Accrued investment income receivable	66,646	73,483
Accounts receivable	2,655	20,052
Contributions receivable, net	812,212	233,090
Prepaid expenses	16,352	13,262
Bond funds - held in trust	-	3,184
Collateral escrow deposit	-	292,639
Property and equipment, net of accumulated depreciation	4,038,675	3,359,960
Deferred financing costs, net of accumulated amortization of \$4,417 and \$2,013, respectively	43,658	46,062
Other assets	<u>97,672</u>	<u>68,078</u>
Total assets	<u>\$ 16,609,562</u>	<u>\$ 15,605,875</u>
<u>LIABILITIES AND NET ASSETS</u>		
Accounts payable, trade	\$ 21,878	\$ 21,230
Accrued interest payable	4,877	3,766
Rents received in advance	-	90,000
Deferred revenue	3,026	6,366
Note payable - bank	667,134	675,596
First mortgage notes payable	<u>2,347,351</u>	<u>1,855,227</u>
Total liabilities	<u>3,044,266</u>	<u>2,652,185</u>
Net assets:		
Unrestricted	4,401,134	4,281,336
Temporarily restricted	2,208,036	2,228,692
Permanently restricted	<u>6,956,126</u>	<u>6,443,662</u>
Total net assets	<u>13,565,296</u>	<u>12,953,690</u>
Total liabilities and net assets	<u>\$ 16,609,562</u>	<u>\$ 15,605,875</u>

FITCHBURG STATE COLLEGE FOUNDATION, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2008

(with comparative totals for the year ended June 30, 2007)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2008 Total</u>	<u>2007 Total</u>
Revenue and support:					
Program revenues:					
Gifts and donations	\$ 841,849	\$ 240,496	\$ 507,871	\$ 1,590,216	\$ 1,630,547
Grants and contracts	-	14,041	-	14,041	56,230
Sales and services	132,676	131,586	-	264,262	251,734
Rental income	165,000	-	-	165,000	165,000
Residence hall income	192,939	-	-	192,939	-
Other revenue:					
Interest	19,065	158,629	-	177,694	192,418
Dividends	87,395	17,785	-	105,180	102,026
Gain (loss) on investments	(462,947)	(90,901)	-	(553,848)	1,326,728
Loss on sale of property and equipment	(2,187)	-	-	(2,187)	-
Increase in cash surrender value of life insurance	-	-	4,593	4,593	4,515
Net assets released from restrictions	<u>492,292</u>	<u>(492,292)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>1,466,082</u>	<u>(20,656)</u>	<u>512,464</u>	<u>1,957,890</u>	<u>3,729,198</u>
Expenses:					
Program services	1,083,780	-	-	1,083,780	930,749
Management and general	163,070	-	-	163,070	107,070
Fund raising	<u>99,434</u>	<u>-</u>	<u>-</u>	<u>99,434</u>	<u>183,754</u>
Total expenses	<u>1,346,284</u>	<u>-</u>	<u>-</u>	<u>1,346,284</u>	<u>1,221,573</u>
Increase (decrease) in net assets	119,798	(20,656)	512,464	611,606	2,507,625
Net assets at beginning of year	<u>4,281,336</u>	<u>2,228,692</u>	<u>6,443,662</u>	<u>12,953,690</u>	<u>10,446,065</u>
Net assets at end of year	<u>\$ 4,401,134</u>	<u>\$ 2,208,036</u>	<u>\$ 6,956,126</u>	<u>\$ 13,565,296</u>	<u>\$ 12,953,690</u>

FITCHBURG STATE COLLEGE FOUNDATION, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2008

(with comparative totals for the year ended June 30, 2007)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Increase in net assets	\$ 611,606	\$ 2,507,625
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Gain (loss) on investments	553,848	(1,326,728)
Depreciation	60,610	64,092
Discount on pledges	53,532	1,850
Amortization of deferred financing costs	2,403	2,013
Loss on sale of property and equipment	2,187	-
Contributions of investment securities	(34,503)	(13,470)
Contribution of other asset	(20,000)	(459,765)
Increase in cash surrender value of life insurance	(2,719)	(2,641)
(Increase) decrease in accounts receivable	17,397	(20,052)
(Increase) decrease in accrued investment income receivable	6,837	(15,767)
Increase in contributions receivable	(549,408)	(231,418)
(Increase) decrease in prepaid expenses	(3,090)	52,173
(Increase) decrease in other assets	-	685
Increase in accounts payable, trade	648	9,506
Increase in accrued interest payable	1,111	3,766
Decrease in deferred revenue	(3,340)	(14,122)
Increase (decrease) in rents received in advance	(90,000)	90,000
Contributions restricted for long term purposes	(507,871)	(390,632)
Net cash provided by (used in) operating activities	<u>99,248</u>	<u>257,115</u>
Cash flows from investing activities:		
Purchase of property and equipment	(939,362)	(2,748,656)
Proceeds from sale of property and equipment	197,850	-
Proceeds from sale of investments	175,713	319,827
Purchase of investments	(484,377)	(246,623)
Collateral escrow deposit funded, including interest earned	(7,414)	(292,639)
Release of collateral escrow deposit	300,053	-
Deposit paid	(5,000)	-
Bond accounts funded, including interest earned	-	(1,903,432)
Withdrawals from bond accounts	3,184	1,900,248
Life insurance premiums	(1,874)	(1,874)
Net cash provided by (used in) investing activities	<u>(761,227)</u>	<u>(2,973,149)</u>

FITCHBURG STATE COLLEGE FOUNDATION, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS - CONTINUED
YEAR ENDED JUNE 30, 2008
(with comparative totals for the year ended June 30, 2007)

	<u>2008</u>	<u>2007</u>
Cash flows from financing activities:		
Proceeds of first mortgage notes payable	\$ 550,000	\$ 1,900,000
Proceeds of note payable - bank	-	680,000
Payments on first mortgage notes payable	(57,876)	(44,773)
Payments on note payable - bank	(8,462)	(4,404)
Payments of deferred financing costs	-	(48,075)
Collections of contributions restricted for long term purposes	<u>424,625</u>	<u>390,632</u>
Net cash provided by (used in) financing activities	<u>908,287</u>	<u>2,873,380</u>
Net increase in cash and equivalents	246,308	157,346
Cash and equivalents, beginning of year	<u>617,188</u>	<u>459,842</u>
Cash and equivalents, end of year	<u><u>\$ 863,496</u></u>	<u><u>\$ 617,188</u></u>
 Supplemental disclosure of cash flow information:		
Cash paid for interest during the year	<u><u>\$ 148,701</u></u>	<u><u>\$ 90,608</u></u>
 Supplemental schedule of noncash investing and financing activities:		
Donations of property and equipment	<u><u>\$ -</u></u>	<u><u>\$ 459,765</u></u>
Donation of other asset	<u><u>\$ 20,000</u></u>	<u><u>\$ -</u></u>
Donations of publicly traded common stock at their readily determinable fair values	<u><u>\$ 34,503</u></u>	<u><u>\$ 13,470</u></u>

FITCHBURG STATE COLLEGE FOUNDATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

1. Organization and summary of significant accounting policies:

Organization:

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

FSC Foundation Supporting Organization, Inc. (the Supporting Organization) was organized on October 29, 1999 to be a supporting organization operated, supervised and controlled for the exclusive benefit of the Foundation and all of its educational and charitable activities. As of June 30, 2008, the Supporting Organization's sole program activity has been to acquire, hold, operate and lease real estate and related improvements for the benefit of the Foundation and Fitchburg State College.

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

Summary of significant accounting policies:

Principles of consolidation:

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

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

Use of estimates:

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

Method of accounting:

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

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2008

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

Basis of presentation:

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

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

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

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

Risks and uncertainties:

The Organization maintains an investment portfolio consisting of mutual funds that are invested in equity securities, bonds, money market and other investment securities. 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 which are to be received in more than one year are reflected net of a discount as 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 and the promises become unconditional. Contributions in the form of property and equipment and other assets are recorded at the fair market value on the date 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

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2008

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

Revenue recognition - continued:

Contributions and bequests - continued -

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 income -

Renting and leasing operations currently consist of leasing commercial space under a long-term lease agreement with the Commonwealth of Massachusetts acting by and through its Division of Capital Asset Management and Maintenance (DCAM) on behalf of Fitchburg State College. Rental income is recognized under the operating method as the rentals become due. Rental payments received in advance are deferred until earned.

Residence hall income -

Residence hall fees are recognized when earned.

Cash and investments:

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

Accounts and contributions receivable:

Accounts and contributions 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 and contributions receivable.

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2008

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

Investments:

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

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

Property and equipment:

Property and equipment are recorded at cost, if purchased or constructed and, if donated, at fair market 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 and 3 years for computer software and equipment.

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

Deferred financing costs:

Deferred financing costs consist of costs incurred to obtain the Supporting Organization's first mortgage note payable. These costs are being amortized on a straight-line basis over the term 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.

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.

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2008

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

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, 2007, from which the summarized information was derived.

Reclassifications:

Certain reclassifications have been made to the 2007 consolidated financial statements to conform to the 2008 presentation.

Recent accounting pronouncements:

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. In February 2008, the FASB issued Staff Position No. 157-2, *Effective Date of FASB Statement No. 157* (FSP SFAS 157-2). FSP SFAS 157-2 amends SFAS 157 to delay the effective date of the standard, as it relates to nonfinancial assets and nonfinancial liabilities, to fiscal years beginning after November 15, 2008. SFAS 157 for financial assets and financial liabilities is effective for fiscal years beginning after November 15, 2007. The Organization does not believe that its adoption of this standard in fiscal 2009 will have a material impact on the Organization's financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS 159 provides organizations with an option to report selected financial assets and liabilities at fair value that are not currently required to be measured at fair value. The objective of SFAS 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Organization is currently assessing the impact of SFAS 159 on the Organization's financial statements.

On August 6, 2008, the FASB issued Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP SFAS 117-1). FSP SFAS 117-1 provides guidance on the net asset classification associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. The Commonwealth of Massachusetts has not yet enacted a version of UPMIFA. FSP SFAS 117-1 also requires additional disclosures about endowments (both donor-restricted funds and board-designated funds) for all organizations, including those that are not yet subject to an enacted version of UPMIFA. FSP SFAS 117-1 is effective for fiscal years ending after December 15, 2008. The Organization is currently assessing the impact of this FSP on the Organization's financial statements.

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2008

2. Cash and equivalents:

Cash and equivalents consist of the following at June 30:

	<u>2008</u>	<u>2007</u>
Cash, checking	\$ 132,307	\$ 83,707
Money Market Funds	<u>731,189</u>	<u>533,481</u>
	<u>\$ 863,496</u>	<u>\$ 617,188</u>

Money market funds include the Commonfund Short Term Fund in the aggregate amounts of \$281,892 at June 30, 2008 and \$357,664 at June 30, 2007. The Short Term Fund invests in U.S. Treasury and government agency securities, high quality corporate securities, asset-backed and commercial and bank paper. The fund's objective is to match or exceed the performance of the bond-equivalent yield of 3-month U.S. Treasury securities issued for that month. At June 30, 2008 and 2007, the fund's investment securities had an average maturity of 3.1 months and 3.3 months, respectively, and an effective duration of 3.10 months and 3.30 months, respectively. The fund had an average credit quality rating of AAA as of June 30, 2008 and 2007 (see Note 17).

The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At June 30, 2008 and 2007, the Organization's uninsured cash and equivalent balances, including the Commonfund Short Term Fund, amounted to \$556,008 and \$460,684, respectively.

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

3. Investments:

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

	<u>2008</u>		<u>2007</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Commonfund (pooled investment funds):				
Short Term Fund	\$ 212,000	\$ 212,000	\$ -	\$ -
Intermediate Term Fund	91,842	85,895	142,813	139,821
Multi-Strategy Equity Fund	5,092,148	6,757,037	5,123,348	7,428,941
Multi-Strategy Bond Fund	2,935,115	3,118,880	2,915,115	3,050,312
Commonfund Realty Investors, LLC	<u>485,000</u>	<u>494,384</u>	<u>246,623</u>	<u>259,803</u>
	<u>\$ 8,816,105</u>	<u>\$ 10,668,196</u>	<u>\$ 8,427,899</u>	<u>\$ 10,878,877</u>

At June 30, 2008 and 2007, net unrealized gains in the Organization's investment portfolio amounted to \$1,852,091 and \$2,450,978, respectively.

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2008

3. Investments - continued:

The Intermediate Term Fund invests in high-quality fixed income securities with maturities generally ranging from 1-3 years. The fund may, however, invest in high-quality fixed income securities with maturities ranging from one day to 30 years. The fund's objective is to exceed the performance of the Merrill Lynch 1-3 Year Treasury Index. At June 30, 2008 and 2007, the fund's investment securities had a weighted average life of 2.9 and 2.2 years, respectively, and an effective duration of 1.9 and 1.5 years, respectively. The fund had an average credit quality rating of AA+ as of both June 30, 2008 and 2007 (see Note 17).

The Multi-Strategy Equity Fund invests in equity securities across strategies in proportions that are considered to be optimal for a fully diversified equity portfolio. The fund's objective is to add value over long time periods, above the return of the U.S. equity market as measured by the Standard & Poor's 500 Index. Investment units in this fund with an aggregate equivalent dollar value of \$1,287,000 collateralize certain debt agreements (see Notes 9 and 11).

The Multi-Strategy Bond Fund invests in debt securities across strategies in proportions that are considered to be optimal for a fully diversified fixed income portfolio. The majority of the fund's assets are invested in traditional core strategies focused on domestic investment grade securities. The fund's objective is to exceed the return of the broad U.S. bond market as measured by the Lehman Aggregate Bond Index. At June 30, 2008 and 2007, the fund's investment securities had a weighted average life of 7.8 and 6.6 years, respectively, and an effective duration of 4.8 and 4.0 years, respectively. The fund had an average credit quality rating of AA as of both June 30, 2008 and 2007.

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

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

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2008

3. Investments - continued:

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

	<u>2008</u>	<u>2007</u>
Consumer Discretionary	12%	16%
Consumer Staples	8	7
Energy	15	9
Financials	13	18
Healthcare	8	10
Industrials	11	12
Information Technology	19	16
Materials	7	4
Telecom Services	4	6
Utilities	<u>3</u>	<u>2</u>
	<u>100%</u>	<u>100%</u>

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

	<u>2008</u>	<u>2007</u>
Government and Agencies	1%	11%
Mortgages	46	41
Asset-backed	11	11
Corporates	31	13
Non-U.S.	5	7
Municipals	1	-
Emerging Market Debt	3	5
Other	<u>2</u>	<u>12</u>
	<u>100%</u>	<u>100%</u>

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

	<u>2008</u>	<u>2007</u>
Industrial	10%	12%
Land	12	5
Mixed use office with retail	11	7
Office	23	29
Retail	9	20
Residential	4	5
Multi-property assemblage	<u>31</u>	<u>22</u>
	<u>100%</u>	<u>100%</u>

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2008

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, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Net realized gains (losses)	\$ <u>45,039</u>	\$ <u>5,917</u>
Unrealized gains	<u>48,568</u>	1,320,811
Unrealized losses	(<u>647,455</u>)	<u>-</u>
	(<u>598,887</u>)	<u>1,320,811</u>
Net gain(loss) on investments	(<u>\$ 553,848</u>)	<u>\$1,326,728</u>

The Organization incurred investment management fees of \$36,666 in 2008 and \$35,414 in 2007 which are included in management and general expenses in the consolidated statement of activities.

4. Contributions receivable:

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

During fiscal 2007, the Foundation was notified that it is a beneficiary of a trust. Based upon information received from the trustee, management has estimated and recorded the contribution revenue and receivable at \$200,000. In fiscal, 2008, the Foundation received \$100,000 representing the first partial distribution from the trust. Management estimates that the remainder of this contribution receivable will be received in fiscal 2009.

Contributions receivable consist of the following at June 30:

	<u>2008</u>	<u>2007</u>
Receivable in less than one year	\$ <u>330,860</u>	\$ 219,940
Receivable in one to five years	<u>536,734</u>	<u>15,000</u>
	<u>867,594</u>	234,940
Discount on pledges at 3.5% in 2008 and 4% in 2007	<u>55,382</u>	<u>1,850</u>
	<u>\$ 812,212</u>	<u>\$ 233,090</u>

There is no allowance for doubtful accounts at both June 30, 2008 and 2007.

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2008

5. Bond funds - held in trust:

In accordance with the first mortgage Loan and Trust Agreement, the Supporting Organization is required to establish and maintain certain restricted bond funds. The bond funds are held by Chittenden Trust Company (Chittenden), as bond Trustee, in connection with an offering of tax-exempt revenue bonds, the proceeds of which were used to fund the Supporting Organization's first mortgage note payable (see Note 10). Chittenden maintains the bond funds in the Dreyfus Treasury Cash Management Fund which is invested primarily in U.S. Government securities and repurchase agreements.

The nature and purpose of each of these bond funds are described below:

Project Fund -

Bond proceeds of \$1,862,000 were deposited to the Project Fund for the payment of costs associated with the acquisition of and improvements to land and a building located in Fitchburg, Massachusetts (the Project), and any other incidental and necessary costs and expenses related thereto (collectively, the Project Costs). Upon completion of the Project, as defined in the Loan and Trust Agreement, all monies then remaining in the Project Fund, if any, in excess of amounts needed to pay Project Costs, will generally be transferred to the Bond Fund for application to the redemption of the bonds or payment of principal and interest on the bonds when due pursuant to provisions of the Loan and Trust Agreement.

Expense Fund -

Bond proceeds of \$38,000 were deposited to the Expense Fund for the payment of costs incurred in connection with the issuance of the bonds. Earnings on monies in the Expense Fund shall be transferred to the Bond Fund. Monies remaining in the Expense Fund, if any, after all costs of issuing the bonds have been paid, will be transferred to the Project Fund.

Bond Fund -

The Supporting Organization is required to make deposits to the Bond Fund in amounts necessary to make monthly debt service payments in accordance with the first mortgage note (see Note 10). The Trustee will make principal and interest payments to the bondholder from monies in the Bond Fund.

As of June 30, 2008 and 2007, the balances in the bond funds are as follows:

	<u>2008</u>	<u>2007</u>
Project Fund	\$ -	\$ 3,172
Expense Fund	-	-
Bond Fund	<u>-</u>	<u>12</u>
	<u>\$ -</u>	<u>\$ 3,184</u>

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2008

6. Collateral escrow deposit:

In connection with the Supporting Organization's first mortgage note payable (see Note 10), the Foundation was required to deposit \$280,000 cash collateral with Rollstone Bank & Trust (formerly Fitchburg Savings Bank, FSB) as additional security on the loan until such time as the outstanding loan balance has been reduced to \$1,520,000. All interest earnings on this account also serve as additional collateral on the loan. During fiscal 2008, the bank released this collateral requirement. At June 30, 2007, the account was invested in a bank certificate of deposit, with a term of eleven-months, maturing on June 14, 2008, yielding an annual interest rate of 5.03%. The balance in the account at June 30, 2007 amounted to \$292,639, which included accumulated interest earned of \$12,639. The balance in this account was insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Of the total account balance, \$192,639 was uninsured at June 30, 2007. Upon maturity, the proceeds from the certificate of deposit totaling \$307,466 were deposited into a money market account with the bank which is included in cash and equivalents in the accompanying 2008 consolidated statement of financial position.

7. Property and equipment:

Property and equipment at June 30, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</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	-
Building	<u>434,225</u>	<u>-</u>
	<u>687,780</u>	<u>-</u>
Land	912,352	862,922
Land improvements	61,899	61,899
Buildings	427,374	434,225
Building improvements	8,966	-
Equipment	54,729	54,729
Computer software	<u>276,000</u>	<u>276,000</u>
	<u>4,489,939</u>	3,750,614
Less accumulated depreciation	<u>451,264</u>	<u>390,654</u>
	<u>\$ 4,038,675</u>	<u>\$ 3,359,960</u>

Accumulated depreciation on real estate under lease amounted to \$77,255 and \$33,290 at June 30, 2008 and 2007, respectively. Accumulated depreciation on real estate used for student housing amounted to \$11,760 and \$905 at June 30, 2008 and 2007, respectively.

At June 30, 2007, land and building not under lease included \$253,555 and \$434,225, respectively, that is now being used by Fitchburg State College as additional student housing commencing with the Fall 2007 semester.

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2008

7. Property and equipment - continued:

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

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

In June, 2008, the Supporting Organization paid a deposit of \$5,000 on the purchase of another property in Fitchburg (see Note 17.)

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

At June 30, 2008 and 2007, property and equipment with a cost of approximately \$331,000 and \$321,000, respectively, were fully depreciated and still in service.

8. Other assets:

Other assets at June 30, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Cash surrender value of life insurance	\$ 53,647	\$ 49,053
Art collection	39,025	19,025
Deposit on property and equipment	<u>5,000</u>	<u>-</u>
	<u>\$ 97,672</u>	<u>\$ 68,078</u>

9. Line of credit:

During fiscal 2007, the Foundation entered into a revolving working capital line of credit agreement with Workers' Credit Union which permits the Foundation to borrow up to \$250,000. At June 30, 2008 and 2007, there were no borrowings outstanding under the line of credit. The line of credit provides for interest at the Wall Street Journal Prime Rate, but in no event less than 6% per annum. At June 30, 2008 and 2007, the effective interest rates were 6% and 8.25%, respectively. Borrowings are secured by investment units with an equivalent dollar value of \$315,000 in the Commonfund Multi-Strategy Equity Fund. The line of credit agreement expires on February 7, 2009. The Foundation may prepay outstanding revolving loans under the agreement in whole or in part at any time without premium or penalty.

10. First mortgage notes payable:

Foundation -

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

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2008

10. First mortgage notes payable - continued:

Foundation - continued -

The acquisitions were funded with the proceeds of a note payable in the amount of \$550,000, dated April 16, 2008, with Fidelity Co-operative Bank. The note is secured by a first mortgage interest in the real estate and related personal property located thereon, and an assignment of leases and rents. Furthermore, any and all deposits held by the lender serve as additional collateral for the loan.

The loan agreement has a term of twenty years and provides for a fixed rate of interest of 5.75% per annum for the first ten years of the loan term. Thereafter, the interest rate will be fixed at the Federal Home Loan Bank Ten Year Cost of Funds Rate in effect as of the first day of the final ten years of the term of the loan plus 118 basis points. Commencing May, 2008, 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, 2008, the outstanding principal balance of this first mortgage note payable amounted to \$547,629.

For the year ended June 30, 2008, interest expense on this note payable amounted to \$6,577.

Aggregate principal maturities on the loan for each of the next five years, using the interest rate in effect at June 30, 2008, are estimated to be as follows:

<u>Year</u>	<u>Amount</u>
2009	\$ 14,807
2010	15,984
2011	16,634
2012	17,551
2013	18,681

Supporting Organization -

In August, 2006, the Supporting Organization acquired land and a building consisting of 4,179 square feet of office space and 53,429 square feet of warehouse space located in Fitchburg, Massachusetts near the Fitchburg State College (the College) campus. The appraised value of the property was \$1,950,000. The purchase price was \$1,750,000 with the difference of \$200,000 being accounted for as a contribution from the seller of the property (see Note 15). The entire property has been leased to the Commonwealth of Massachusetts acting by and through its Division of Capital Asset Management and Maintenance (DCAM) on behalf of the College (see Note 12). The College is currently using the property for its print services, maintenance, and shipping and receiving and accounting departments.

The acquisition and related costs were funded with the proceeds of an offering of tax-exempt revenue bonds, Massachusetts Development Finance Agency Revenue Bonds, FSC Foundation Supporting Organization Issue, Series 2006 (the bonds), dated August 1, 2006, in the amount of \$1,900,000, issued by the Massachusetts Development Finance Agency (MDFA), pursuant to a Loan and Trust Agreement. Chittenden Trust Company (Chittenden) is the bond Trustee. MDFA assigned all of its rights, title, and interest in and to the loan and

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2008

10. First mortgage notes payable - continued:

Supporting Organization - continued -

related loan documents to the bond Trustee as security for repayment of the bonds. The loan is secured by a first mortgage interest in the real estate and related personal property located thereon, and an assignment of leases and rents. Payment and performance of the Supporting Organization's obligations under the loan agreement have been guaranteed by the Foundation. In addition, the Foundation was required to deposit \$280,000 cash collateral with Rollstone Bank & Trust (formerly Fitchburg Savings Bank, FSB) as additional security until such time as the outstanding loan balance has been reduced to \$1,520,000 (see Note 6).

The loan agreement has a term of twenty years and provides for a fixed rate of interest of 5.5% per annum for the first five years of the loan term. Thereafter, the interest rate will be adjusted at five-year intervals (August 16, 2011, 2016 and 2021) to a fixed rate of interest equal to 80% of the bank's prime rate, but no greater than 1% or less than 1% of the interest rate in effect for the immediately preceding five-year adjustment interval. The loan requires monthly installments of principal and interest of \$13,154, which commenced in September, 2006. The note matures on August 16, 2026. The loan agreement requires the Supporting Organization to maintain a Debt Service Coverage Ratio, as defined, of not less than 1.10 to 1 to be measured annually at the end of its fiscal year.

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

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

At June 30, 2008 and 2007, the outstanding principal balance of this first mortgage note payable amounted to \$1,799,722 and \$1,855,227, respectively.

For the years ended June 30, 2008 and 2007, interest expense on this note payable amounted to \$102,231 and \$90,533, respectively.

Aggregate principal maturities on the loan for each of the next five years, using the interest rate in effect at June 30, 2008, are estimated to be as follows:

<u>Year</u>	<u>Amount</u>
2009	\$ 58,956
2010	62,329
2011	65,895
2012	69,429
2013	73,637

11. Note payable - bank:

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

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2008

11. Note payable - bank - continued:

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

The promissory note has a term of thirty years, expiring on May 5, 2037, and provides for a fixed rate of interest of 6% per annum for the first five years of the loan term. Thereafter, the interest rate will be adjusted at five-year intervals to the Federal Home Loan Bank Boston Classic Advance Five Year Rate plus 1.15% per annum. The loan requires monthly installments of principal and interest of \$4,122 based on a thirty year principal amortization which commenced in June, 2007. The note may be prepaid at any time, in whole or in part, without premium or penalty.

At June 30, 2008 and 2007, the outstanding principal balance of this note payable amounted to \$667,134 and \$675,596, respectively.

For the years ended June 30, 2008 and 2007, interest expense on this note payable amounted to \$41,005 and \$3,841, respectively.

Aggregate principal maturities on the loan for each of the next five years, using the interest rate in effect at June 30, 2008, are estimated to be as follows:

<u>Year</u>	<u>Amount</u>
2009	\$ 9,130
2010	9,702
2011	10,308
2012	10,846
2013	11,633

12. Lease agreement:

As disclosed in Note 10, the Supporting Organization entered into a long-term operating lease agreement with the Commonwealth of Massachusetts acting by and through the Division of Capital Asset Management and Maintenance (DCAM) on behalf of Fitchburg State College (the College). The lease commenced on August 16, 2006. The lease is for a term of ten years and provides for base rent of \$165,000 per year, payable in monthly installments of \$13,750, for the entire lease term. The College is also responsible for the payment of normal operating, maintenance and repair costs associated with its use of the property. At the expiration of the lease term, the Supporting Organization expects the lease will be renewed with DCAM on behalf of the College. For the year ended June 30, 2008, rental income amounted to \$165,000. For the year ended June 30, 2007, rental income amounted to \$165,000. However, of this amount, \$20,625 represented the payment of additional rent by the College to reimburse the Supporting Organization for real estate taxes and other operating expenses incurred during the year.

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2008

12. Lease agreement - continued:

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

	<u>Amount</u>
2009	\$ 165,000
2010	165,000
2011	165,000
2012	165,000
2013	165,000
Later years	<u>515,625</u>
	<u>\$ 1,340,625</u>

13. Restricted net assets:

Temporarily restricted net assets in the amount of \$2,208,036, as of June 30, 2008, are available for scholarships to qualified students and to promote cultural programs within Fitchburg State College. Temporarily restricted net assets in the amount of \$2,228,692, as of June 30, 2007, were available as follows: for equipment which use is restricted, in the amount of \$833; and scholarships to qualified students and to promote cultural programs within Fitchburg State College in the amount of \$2,227,859.

Temporarily restricted net assets released from restrictions during 2008 represent the satisfaction of program restrictions in the amount of \$345,159; the satisfaction of scholarship-related restrictions in the amount of \$146,300; and the satisfaction of equipment donation restrictions in the amount of \$833.

Permanently restricted net assets in the amounts of \$6,956,126 and \$6,443,662 as of June 30, 2008 and 2007, respectively, are invested in perpetuity. Income from the investments is expendable for the program services of the Organization, including the granting of scholarships.

14. Transactions with a related party:

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

During fiscal 2008, the Supporting Organization incurred expenses totaling \$28,915 to Fitchburg State College for maintenance services provided to the Supporting Organization for the real estate used for student housing.

At June 30, 2008 and 2007, accounts receivable include miscellaneous receivables from Fitchburg State College in the amounts of \$1,016 and \$8,000, respectively.

At June 30, 2008, the Organization has miscellaneous payables to Fitchburg State College totaling \$6,964.

During fiscal 2007, Fitchburg State College donated land with a fair market value of \$9,765 to the Organization.

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2008

15. Major donors:

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

During fiscal 2007, the Organization received aggregate donations of \$950,000 from a total of four donors. This amount represents 58% of total gifts and donations revenue during 2007. At June 30, 2007, contributions receivable include \$200,000 from one donor. Of the total \$950,000, \$200,000 is a restricted donation to be used to provide scholarships and the remainder of \$750,000 represents unrestricted donations. Included in the unrestricted donations is \$200,000 associated with the land and building acquisition discussed in Note 10, and \$250,000 represents the fair market value of another land donation.

16. State Matching Funds:

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

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

17. Subsequent events:

On July 22, 2008, the Supporting Organization closed on the acquisition of a real estate property located in Fitchburg at a total cost of \$161,697, including related acquisition costs. The property will be used as additional parking by Fitchburg State College.

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 shall commence on November 1, 2008, and expire on October 31, 2018. The space shall be used by Fitchburg State College as office and classroom space for its Center for Professional Studies. The lease provides for a base annual rent of \$17,625 for each of the first three years of the lease term, payable in monthly installments of \$1,469. Beginning with the fourth year of the lease there will be a 7.5% increase at the commencement of each three year period of the lease term, including the continuous period of any extensions thereof. The Supporting Organization may extend the initial term of the lease, under the same terms and conditions, for successive periods of one year provided it is not then in default of the lease terms and it gives proper notice. The Supporting Organization may cancel the lease at any time after November 1, 2009 with payment of two months' base rent as a termination charge. The Supporting Organization is also responsible for the payment of normal operating, maintenance and repair costs associated with the use of the property.

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2008

17. Subsequent events - continued:

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

<u>Year ending June 30,</u>	<u>Amount</u>
2009	\$ 11,750
2010	17,625
2011	17,625
2012	18,506
2013	18,947
Later years	<u>108,263</u>
	<u>\$ 192,716</u>

The Supporting Organization and Fitchburg State College (the College) entered into a License Agreement whereby the Supporting Organization granted the College an irrevocable and exclusive license to occupy, manage, maintain and operate certain property owned by the Supporting Organization. The License Agreement has an initial term of one year and it commenced on September 3, 2008. The License Agreement provides for an annual license fee of \$108,875 payable, in arrears, in twelve equal monthly installments. All costs to operate and maintain the property, including any capital improvements made thereto, shall be borne by the College. Upon expiration of the initial term, the License Agreement provides for automatic annual renewals thereafter. The License Agreement may be terminated by either party upon the expiration of the initial term of the agreement and any subsequent renewal term with the giving of proper notice. In addition, the College may terminate the agreement at any time with the giving of proper notice. In July, 2008, the College prepaid \$91,250 of the annual license fee for the initial term of the agreement.

On September 29, 2008, the Commonfund notified its investors that due to recent developments in the credit markets, Wachovia Bank, N.A., as trustee of the Commonfund Short Term Fund, is commencing the formal termination of the fund, resigning as trustee, and is no longer accepting new deposits. In connection therewith, the trustee has imposed a liquidity restriction currently equal to 90% of investor fund balances and has established two tranches to implement the restriction and plan for an orderly liquidation of the fund's holdings. The trustee is limiting liquidity and, accordingly, investor access to funds to cash generated from maturing securities and deposits. Each investor's balance in the fund has been allocated in two tranches, 10% to an immediate tranche and 90% to an intermediate/longer term tranche. Balances in the immediate tranche will have intraday availability much like the normal operations of the Short Term Fund while balances in the intermediate/longer term tranche shall not be available for withdrawals until they are transferred to the immediate tranche. As securities mature in the intermediate/longer term tranche, proceeds will be transferred on a pro-rata basis to the immediate tranche. The trustee has indicated that it will liquidate the fund's investments in the best interests of all of the fund's investors and not as a forced seller in the market. The trustee has estimated that the schedule of the fund's investment maturities will reach 57% by December 31, 2008. As of September 29, 2008, management of the Commonfund has reported that there have been no losses incurred in this fund.

On September 30, 2008, the Commonfund notified its investors that, effective September 29, 2008, the Commonfund has imposed a redemption restriction on its Intermediate Term Fund whereby investors shall only be permitted to withdraw up to 30% of their unit values as of the close of business on September 26, 2008.

FITCHBURG STATE COLLEGE FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED JUNE 30, 2008

17. Subsequent events - continued:

This redemption restriction is in response to current market conditions for the sale of shorter-term fixed income securities and it will remain in effect until further notice from the Commonfund. The Commonfund will divide the fund into two accounts, one consisting of liquid holdings available for daily redemption as in the normal circumstances, and the other consisting of the remaining assets of the fund for which redemption will be deferred. Each investor's holdings in the fund will be apportioned between the two accounts. Securities in the deferred account in the fund will be transferred to the daily redemption account when and as market conditions make it practicable to dispose of them at a price that fairly reflects their reasonably anticipated cash return.

Organization management believes it has sufficient liquidity to support its operations and, accordingly, the Organization does not believe the recent actions taken with respect to these Commonfund investments will have a material adverse affect on its consolidated financial condition or results of operations.

ADDITIONAL INFORMATION



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INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

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

Our report on our audit of the basic consolidated financial statements of Fitchburg State College Foundation, Inc. for the year ended June 30, 2008, appears on page 1. That audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The information for the year ended June 30, 2008 contained on page 26 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole. The prior year summarized comparative information has been derived from the additional information accompanying the Foundation's 2007 consolidated financial statements and, in our report on additional information dated September 24, 2007, we expressed our opinion that such information was fairly stated in all material respects in relation to the basic 2007 consolidated financial statements taken as a whole. Such information should be read in conjunction with the Foundation's consolidated financial statements and accompanying additional information for the year ended June 30, 2007, from which the summarized information was derived.

Ercolini & Company LLP

September 30, 2008

FITCHBURG STATE COLLEGE FOUNDATION, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2008

(with comparative totals for the year ended June 30, 2007)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>2008 Consolidated Total</u>	<u>2007 Consolidated Total</u>
Scholarships	\$ 146,300	\$ -	\$ -	\$ 146,300	\$ 137,576
Speakers and cultural programs	213,962	-	-	213,962	170,975
Outside services	57,700	-	51,950	109,650	155,271
Accounting and audit	-	19,929	-	19,929	14,273
Insurance	5,844	10,796	-	16,640	12,965
Supplies	68,030	3,095	950	72,075	73,374
Postage	16,995	2,296	8,341	27,632	47,696
Equipment and maintenance	33,537	173	1,086	34,796	50,386
Printing and publications	91,014	1,827	23,041	115,882	64,671
Travel	75,079	46	4,671	79,796	140,254
Meetings and conferences	47,898	5,390	609	53,897	56,056
Professional and consulting services	-	60,929	8,786	69,715	22,366
Awards and grants	59,455	-	-	59,455	45,508
Real estate taxes	11,017	-	-	11,017	17,764
Repairs and maintenance	32,150	-	-	32,150	-
Utilities	16,573	-	-	16,573	-
Interest	143,236	6,577	-	149,813	94,374
Miscellaneous	3,838	7,978	-	11,816	10,280
Investment management fees	-	36,666	-	36,666	35,414
Other financial fees	-	5,507	-	5,507	6,265
	<u>1,022,628</u>	<u>161,209</u>	<u>99,434</u>	<u>1,283,271</u>	<u>1,155,468</u>
Depreciation and amortization	<u>61,152</u>	<u>1,861</u>	<u>-</u>	<u>63,013</u>	<u>66,105</u>
	<u>\$1,083,780</u>	<u>\$ 163,070</u>	<u>\$ 99,434</u>	<u>\$ 1,346,284</u>	<u>\$ 1,221,573</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
Fitchburg State College Foundation, Inc.
Fitchburg, Massachusetts

We have audited the consolidated financial statements of Fitchburg State College Foundation, Inc. (a not-for-profit organization) as of and for the year ended June 30, 2008, and have issued our report thereon, dated September 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

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

Ercolini & Company LLP

September 30, 2008