JAMES MADISON UNIVERSITY®

AUDITED FINANCIAL REPORT

FOR THE YEAR ENDED

JUNE 30, 2011

JAMES MADISON UNIVERSITY

FINANCIAL REPORT 2010 - 2011

TABLE OF CONTENTS

	PAGES
MANAGEMENT'S DISCUSSION AND ANALYSIS	1-8
FINANCIAL STATEMENTS:	
STATEMENT OF NET ASSETS	10-11
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS	13
STATEMENT OF CASH FLOWS	14-15
NOTES TO FINANCIAL STATEMENTS	18-36
INDEPENDENT AUDITOR'S REPORT	37-38
UNIVERSITY OFFICIALS	39

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Overview

This Management's Discussion and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective, easily read analysis of James Madison University's (University) financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the University's financial condition and results of operations for the fiscal year ended June 30, 2011. Comparative numbers, where presented, are for the fiscal year ending June 30, 2010. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying financial statements, and notes to financial statements. University management is responsible for all of the financial information presented, including this discussion and analysis.

The financial statements referred to above were prepared in accordance with GASB Statement Number 34, *Basic Financial Statements–and Management's Discussion and Analysis–for State and Local Governments*, and GASB Statement Number 35, *Basic Financial Statements–and Management's Discussion and Analysis–for Public Colleges and Universities*, as amended by subsequent GASB Statement Numbers 37, 38, and 39. GASB Statement Number 39, *Determining Whether Certain Organizations are Component Units* addresses which fund-raising, research, or other foundations should be included as component units and how these component units should be displayed in the financial statements. Under previous accounting standards, the University had no component units. Under Statement Number 39's standards, the James Madison University Foundation, Inc. (Foundation) meets the criteria and is included as a component unit. The Foundation is presented in a separate column on the University's financial statements; however, inter-company transactions between the University and the Foundation have not been eliminated. The remainder of this discussion and analysis excludes the Foundation's financial condition and activities.

The three basic financial statements are the Statement of Net Assets (balance sheet), the Statement of Revenues, Expenses, and Changes in Net Assets (operating statement), and the Statement of Cash Flows. The following analysis discusses elements from each of these statements, as well as an overview of the University's activities.

Statement of Net Assets

The Statement of Net Assets (SNA) presents the University's assets, liabilities, and net assets as of the end of the fiscal year. The purpose of this statement is to present to the financial statement readers a snapshot of the University's financial position at June 30, 2011. The data presented in the SNA aids in determining the assets available to continue the University's operations. It also allows readers to determine how much the University owes to vendors and creditors. Finally, the SNA provides a picture of net assets and their availability for expenditure by the University. Sustained increases in net assets are one indicator of an organization's financial health.

Net assets are divided into three major categories. The first category, "Invested in capital assets, net of related debt," represents the University's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. Debt incurred, but not yet expended for capital assets, is not included as a component of invested in capital assets, net of related debt. The next category is "restricted net assets," which is divided into two categories, expendable and non-expendable. Expendable restricted assets include resources the University is legally or contractually obligated to expend in

accordance with restrictions imposed by external third parties. Non-expendable restricted net assets consist of endowments and similar type funds where donors or other outside sources have stipulated that, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or added to the principal. Unrestricted net assets represent resources used for the University's general operations. They may be used at the discretion of the University's Board of Visitors to meet current expenses for any lawful purpose in support of educational, general, and auxiliary activities.

Statement of Net Assets
(In thousands)

	2011	2010	Increase (Decrease) Amount	Increase (Decrease) Percent
Current assets	**$ 143,219**	**$ 156,294**	**$ (13,075)**	**(8.4%)**
Noncurrent assets				
Capital assets, net	751,407	663,883	87,524	13.2%
Other noncurrent assets	25,495	51,142	(25,647)	(50.1%)
Total assets	**920,121**	**871,319**	**48,802**	**5.6%**
Current liabilities	**83,788**	**110,333**	**(26,545)**	**(24.1%)**
Noncurrent liabilities	**225,982**	**198,654**	**27,328**	**13.8%**
Total liabilities	**309,770**	**308,987**	**783**	**0.3%**
Net assets				
Invested in capital assets, net of related debt	528,703	494,182	34,521	7.0%
Restricted - expendable	6,255	3,292	2,963	90.0%
Restricted - nonexpendable	321	285	36	12.6%
Unrestricted	75,072	64,573	10,499	16.3%
Total net assets	**$ 610,351**	**$ 562,332**	**$ 48,019**	**8.5%**

In 2011, the University's total assets increased by $48.8 million, mostly attributable to the $87.5 million net increase in capital assets. Significant additions included continued project costs related to projects completed and capitalized during the year, including Wayland Hall ($11.6 million). Further, increases in construction-in-progress include the Bridgeforth Stadium Renovation/Expansion ($27.4 million), University Park ($23.3 million), and CISAT A3B Biotech building ($15.8 million). Non-construction related increases include the partial purchase of the Farm Bureau located on Grace Street ($12.0 million). The increase in capital assets is further discussed in the next section of this analysis.

The $13.1 million decrease in current assets includes a decrease of $20.6 million in cash equivalents and short-term investments for the Commonwealth's securities lending program. The balances are allocated by the Commonwealth and are offset by a like amount reported as a liability. Changes in the balances from one year to the next have no impact on the University's net assets. This decrease is offset by the current amounts due from the Commonwealth, which increased $5.5 million, mostly due to the construction of the CISAT A3B building and various maintenance reserve projects, which were funded via the 21st Century Bond Program. Other non-current assets decreased by $25.6 million, largely due to a $28.9 million decrease in unspent bond proceeds held as restricted cash equivalents, which are being used primarily for the Bridgeforth Stadium Renovation/Expansion and University Park projects. Current liabilities decreased $26.5 million, including decreases of $5.4 million in the current portion of long-term debt, $3.7 million for accounts payable and accrued expenses, and a $20.6 million in the obligations under securities lending; offset by a $2.5 million increase in deferred revenue. The increase in deferred revenue is largely attributable to increases in summer

tuition rates (12 percent for in-state students and 5 percent for out-of-state students) and the expansion of Bridgeforth Stadium leading to increased football season ticket sales.

Capital Asset and Debt Administration

A critical factor in ensuring quality University academic, research, and residential life functions is the development and renewal of its capital assets. The University continues to maintain and upgrade current facilities as well as pursue funding opportunities for construction and purchase of additional facilities. Investment in new and upgrading current structures serves to enrich high-quality instructional programs, research activities, and residential lifestyles.

Note 5 of the Notes to Financial Statements describes the University's significant investment in capital assets with total depreciable capital asset additions of $63.7 million (excludes land, artwork and construction-in-progress) in 2011, as compared to $173.8 million in 2010. Additions in fiscal year 2011 included completion of the first phase of the Bridgeforth Stadium Renovation/Expansion ($33.4 million), Wayland hall renovation ($13.4 million), Grace Street Acquisition ($2.6 million), and various building improvement projects ($2.5 million). Additions in fiscal year 2010 included completion of the Center for Performing Arts ($57.1 million), the Music Recital Hall ($34.5 million), the East Campus Residence Hall ($27.1 million), and the East Campus Dining Facility ($22.4 million). All the above listed projects were primarily funded with debt proceeds, while the Center for Performing Arts and Music Recital Hall also includes state general and 21st Century program funding, gift, and auxiliary reserve funding. The Bridgeforth Stadium Renovation/Expansion also includes gift and auxiliary reserve funding. Non-depreciable additions for 2011 include $9.4 million for the Grace Street Acquisition and $2.8 million for various land purchases adjacent to the University. Non-depreciable additions for 2010 included $1.1 million for the purchase of 722 South Main Street. Depreciation expense was $27.7 million and $24.8 million in 2011 and 2010, with net retirements of $3.1 million and $1.5 million resulting in a net increase of depreciable capital assets of $32.9 million and $147.5 million for 2011 and 2010, respectively.

Major projects still under construction at June 30, 2011 include University Park ($31.0 million), phase two of the Bridgeforth Stadium Renovation/Expansion ($27.4 million), CISAT A3B BioTech building ($18.0 million), and phase one of the Steam Plant Expansion project ($5.5 million). The Bridgeforth Stadium Renovation/Expansion and University Park projects are primarily funded by debt proceeds, whereas, the CISAT A3B BioTech building and Steam Plant Expansion projects are funded with state 21st Century program funds. Major projects still under construction at June 30, 2010 included the Bridgeforth Stadium Renovation/Expansion ($33,439,000), and University Park ($7,696,000).

The University's total long-term debt increased to $232.5 million in 2011 from $209.3 million in fiscal year 2010. The increase is the result of new debt in 2011 of $14.9 million for the renovation of Wayland Hall, $9.6 million for the construction of University Park, $8.7 million for the Grace Street Acquisition, and $7.7 million for the Rockingham Memorial Hospital Acquisition; offset by debt principal payments.

The University's Board of Visitors approved "Debt Management Guidelines and Procedures" established that the maximum annual debt service costs as a percentage of total operating revenues shall not exceed ten percent for non-revenue producing capital projects. The University's 2011 ratio was 5.3 percent, as compared to 4.1 percent for 2010.

Overall, unpaid construction and other related contractual commitments decreased from $100.1 million in 2010 to $65.3 million in 2011. Unpaid commitments at June 30, 2011 primarily reflect construction contracts on CISAT A3B, University Park, the Bridgeforth Stadium Renovation/Expansion, and

the Steam Plant Expansion. Unpaid commitments at June 30, 2010 primarily reflected the Bridgeforth Stadium Renovation/Expansion, the construction of University Park, and the renovation of Wayland Hall. Further information relating to capital assets, construction, and capital debt is included in the Notes to Financial Statements in Notes 5 and 8.

Statement of Revenues, Expenses, and Changes in Net Assets

The operating and non-operating activities creating the changes in the University's total net assets are presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present all revenues received and accrued, all expenses paid and accrued, and gains or losses from investment and capital asset activities.

Generally, operating revenues are received for providing goods and services to students and other constituencies of the University. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the University's mission. Salaries and wages, and fringe benefits for faculty and staff are the largest type of operating expense.

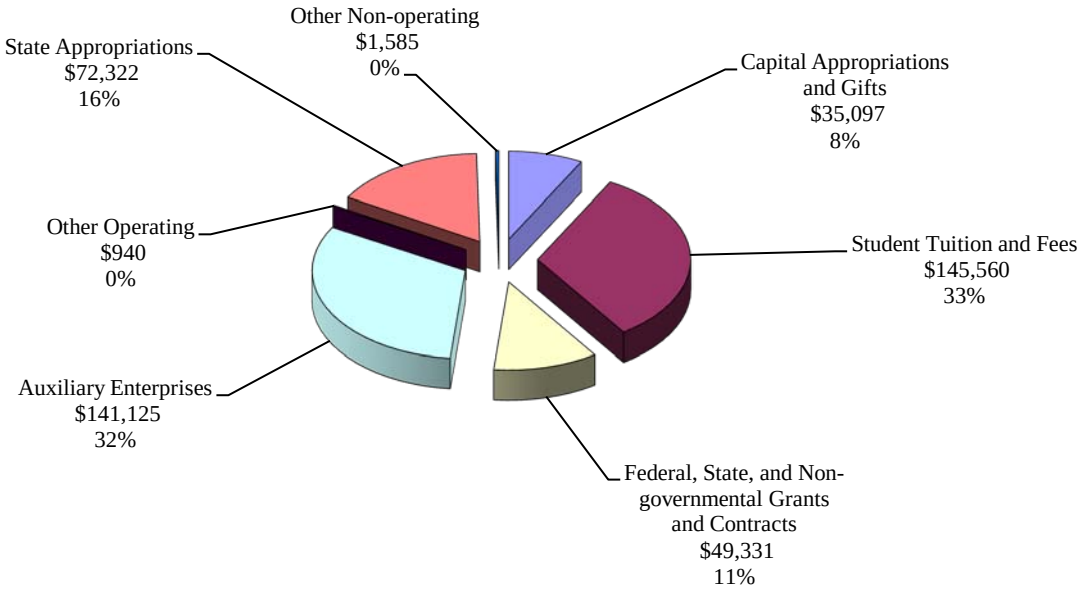
Non-operating revenues are revenues received for which goods and services are not directly provided. State appropriations and gifts are included in this category, but provide substantial support for paying the University's operating expenses. Therefore, the University, like most public institutions, will expect to show an operating loss.

Statement of Revenues, Expenses, and Changes in Net Assets
(In thousands)

			Increase (Decrease)	
	2011	**2010**	**Amount**	**Percent**
Operating revenues	**$ 315,811**	**$ 296,678**	**$ 19,133**	**6.4%**
Operating expenses	**386,044**	**359,937**	**26,107**	**7.3%**
Operating loss	**(70,233)**	**(63,259)**	**6,974**	**11.0%**
Nonoperating revenues (expenses)				
State appropriations	72,322	69,186	3,136	4.5%
Pell grants	9,754	8,271	1,483	17.9%
State fiscal stabilization funds (ARRA)	11,391	4,649	6,742	145.0%
Gifts	806	1,025	(219)	(21.4%)
Investment income	779	1,247	(468)	(37.5%)
Interest on capital asset related debt	(6,599)	(5,908)	(691)	11.7%
Loss on disposal of plant assets	(2,056)	(1,273)	(783)	61.5%
Payments to the Commonwealth	(3,241)	(3,739)	498	(13.3%)
Net nonoperating revenue (expenses)	**83,156**	**73,458**	**9,698**	**13.2%**
Income before other revenues, expenses, gains, or losses	**12,923**	**10,199**	**2,724**	**26.7%**
Capital appropriations and contributions	29,849	28,533	1,316	4.6%
Capital gifts	5,247	485	4,762	981.9%
Additions to permanent endowments	-	40	(40)	(100.0%)
Total other	**35,096**	**29,058**	**6,038**	**20.8%**
Increase in net assets	**48,019**	**39,257**	**8,762**	**22.3%**
Net assets - beginning of year	562,332	523,075	39,257	7.5%
Net assets - end of year	**$ 610,351**	**$ 562,332**	**$ 48,019**	**8.5%**

Following is a graphic illustration of revenues by source (both operating and non-operating) used to fund the University's activities for the years ended June 30, 2011. As noted above, critical recurring revenue sources such as state and capital appropriations are considered non-operating.

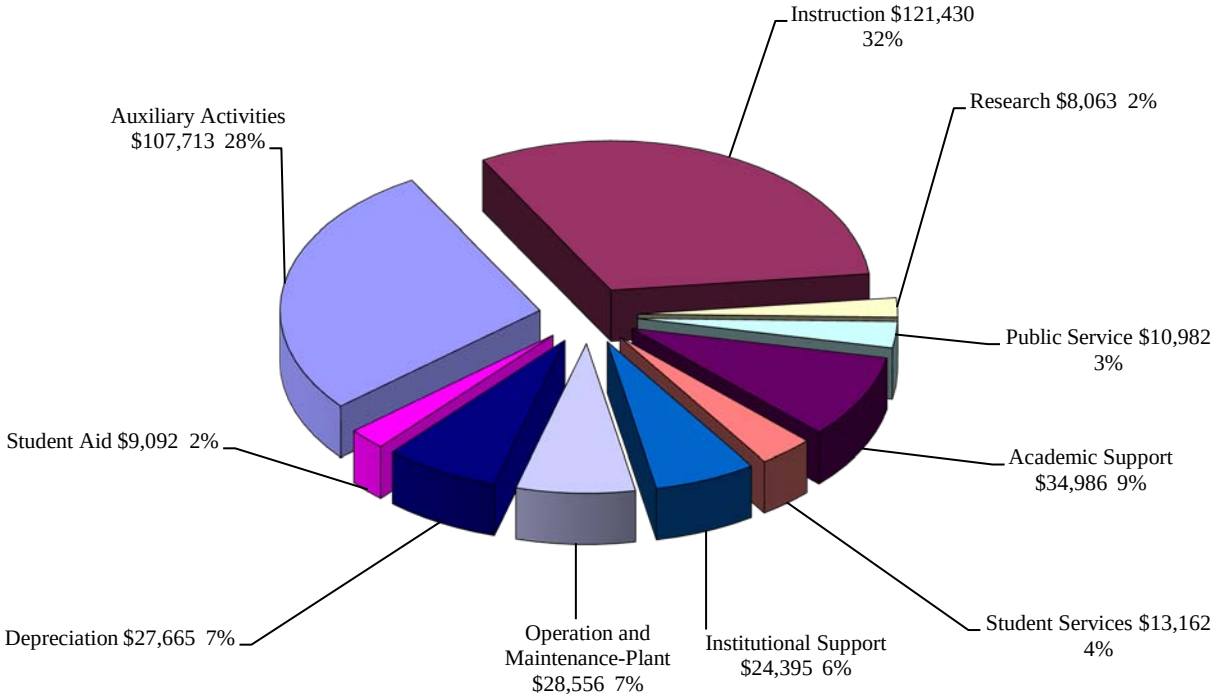
2011
Revenues by Source
(in thousands)



Operating revenues, consisting mostly of tuition and fees and auxiliary enterprises, increased $19.1 million or six percent from the prior fiscal year. Student tuition and fees, net of scholarship allowances, increased by $11.2 million or eight percent in fiscal year 2011. The 2011 tuition increase was due to a combination of average rate increases of seven percent and an approximate two percent increase in undergraduate headcount. Auxiliary revenues increased by $7.8 million or six percent. The increase reflects an approximate four percent rate increase in room, board, and comprehensive fees year over year.

The following graphical illustration presents total operating expenses for fiscal years 2011 by function.

2011
Operating Expenses by Function
(in thousands)



Total 2011 operating expenses increased $26.1 million or seven percent. Compensation expenses, consisting of the natural expense classifications salaries, wages, and fringe benefits, comprise the largest University expense. Compensation expenses comprised 54 and 56 percent of the University's total operating expenses in 2011 and 2010, respectively. Compensation expense increased by four percent, primarily due to a three percent bonus received by all state employees in November 2010. Other factors driving the increase in operating expenses were sales and services expenses ($10.3 million increase), depreciation expense ($2.9 million increase), and utility expenses ($2.2 million increase).

Net non-operating revenue and expenses totaled $83.2 million, an increase of $9.7 million from the prior year. The increase in this category results primarily from the increase in State Fiscal Stabilization Funds provided through the American Recovery and Reinvestment Act of 2009 ($6.7 million) and an increase in state appropriations ($3.1 million). Other revenues and gains include capital gifts, which increased by $4.8 million 2011. The increase is the result of fundraising performed by the foundation and transferred to the University for the construction of the Center for Performing Arts and Music Recital Hall ($4.3 million) and the Bridgeforth Stadium Renovation ($.7 million).

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the University's cash activity during the year. Operating cash flows will always be different from the operating loss on the Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA). This difference occurs because the SRECNA is prepared on the accrual basis of accounting and includes non-cash items such as depreciation expense, and the Statement of Cash Flows presents cash inflows and outflows without regard to accrual items. The Statement of Cash Flows assists readers in assessing the ability of an institution to generate future cash flows necessary to meet obligations and evaluate its potential for additional financing.

The statement is divided into five sections. The first section shows the net cash used by the University's operating activities. The next section reflects the cash flows from non-capital financing activities and includes state appropriations for the University's educational and general programs and financial aid. This section reflects the cash received and spent for items other than operating, investing, and capital financing purposes. Cash flows from capital financing activities present cash used for the acquisition and construction of capital and related items. The next section shows cash flows related to purchases, proceeds, and interest received from investing activities. The last section reconciles the net cash used by operating activities to the operating loss reflected on the SRECNA.

Statement of Cash Flows
(in thousands)

			Increase (Decrease)	
	2011	**2010**	**Amount**	**Percent**
Cash provided/(used) by:				
Operating activities	($ 41,251)	($ 38,901)	(2,350)	6%
Non-capital financing activities	91,594	81,529	10,065	12%
Capital financing activities	(75,925)	10,135	(86,060)	(849%)
Investing activities	1,190	1,391	(201)	(14%)
Net increase/(decrease) in cash	**(24,392)**	**54,154**	**(78,546)**	**(145%)**
Cash – beginning of the year	159,911	105,757	54,154	(51%)
Cash – end of year	**135,519**	**159,911**	**(24,392)**	**(15%)**

Major sources of cash from operating activities include student tuition and fees ($147.0 million in 2011 and $134.9 million in 2010), auxiliary enterprises receipts ($142.0 million in 2011 and $133.6 million in 2010), and grants and contracts ($29.3 million in 2011 and $26.9 million in 2010). Major uses of cash include payments for salaries, wages, and fringe benefits ($210.8 million in 2011 and $201.0 million in 2010), payments for supplies and services ($104.8 million in 2011 and $93.6 million in 2010), and payments for non-capitalized plant improvements and equipment ($19.2 million in 2011 and $18.6 million in 2010).

Cash flows from non-capital financing activities include state appropriations for the University's educational and general programs and financial aid of $72.3 million and $69.2 million in 2011 and 2010, respectively. The cash flows from capital financing activities section deals with cash used for the acquisition and construction of capital and related items. Primary sources of cash from capital financing activities in 2011 and 2010 include capital appropriations and contributions ($35.7 million in 2011 and $33.1 million in 2010) and proceeds from issuance of capital related debt ($42.2 million in 2011 and $76.8 million in 2010). Significant cash outflows include purchases and construction of capital assets ($131.7 million in 2011 and $84.7 in 2010) and repayment of principal and interest on capital related debt ($27.5 million in 2011 and $15.1 million in 2010).

Economic Outlook

The University, as a public institution, is subject to many of the economic conditions impacting the Commonwealth of Virginia. Economic factors related to the Commonwealth can be found in the Commonwealth's Comprehensive Annual Financial Report (CAFR). As a public institution, the University receives significant Commonwealth support from operating and capital appropriations. State operating appropriations currently cover 29 percent of operating expenses, excluding auxiliary activities and depreciation. The 2011 legislative session did not assign any new reductions in general fund support for fiscal year 2012 beyond those reductions assigned for the 2010-2012 biennium during the 2010 session. Instead, the 2011 session began to reinvest in higher education for fiscal year 2012, but the pace of the new state support is well below the rate of reductions assigned over the past several years. With federal economic stimulus funds exhausted, the University anticipates that there will be continued pressure on general fund support given the demands on the state budget and constrained revenues. Since there is a direct correlation between the amount of state appropriations and establishment of tuition and fee rates, the University will continue to employ cost containment strategies in order to limit tuition increases. The University is closely monitoring the Governor's Commission on Higher Education Reform, Innovation and Investment to determine the potential impact of commission recommendations on public institution's operations.

The Higher Education Restructuring Act (Act) provides a framework for the University to potentially gain additional decentralized authority from the Commonwealth in financial and administrative operations. In exchange for meeting 11 state goals listed in the Act, the University will be eligible for the immediate benefits of level one autonomy. Benefits include additional flexibility and authority with regard to disposing of property, entering into capital lease agreements, continuing existing memorandums of understanding for decentralized activities, and procurement flexibility. As required by the Act, the University's Board of Visitors passed a resolution committing to these goals in June 2005. In September 2008, the University's Board of Visitors approved management's request to move to level two autonomy under the Higher Education Restructuring Act in the areas of Procurement and Information Technology. The University received this delegated restructuring authority during 2009.

The University's overall financial position remains strong. As in fiscal year 2010, the University generated an overall increase in net assets during 2011. These increases are indicators of the University's sound and prudent uses of financial resources. Management continues to maintain a close watch over resources and the U.S. economy as a whole to react to unknown internal and external issues and sustain the University's current sound financial position.

FINANCIAL STATEMENTS

JAMES MADISON UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2011 (with comparative information as of June 30, 2010)

	2011		2010	
	James Madison University	Component Unit	James Madison University	Component Unit
ASSETS				
Current assets:				
Cash and cash equivalents (Note 2)	$ 113,487,070	$ 2,712,877	$ 111,613,999	$ 1,233,323
Securities lending - Cash and cash equivalents (Note 2)	1,639,450	-	14,788,465	-
Short-term investments (Note 2)	502,722	-	7,970,365	-
Accounts receivable (Net of allowance for doubtful accounts of $602,043 and $486,043 for 2011 and 2010, respectively) (Note 3)	6,712,839	43,825	7,201,746	42,795
Contributions receivable (Net of allowance for doubtful contributions of $94,566 and $49,528 for 2011 and 2010, respectively) (Note 3)	-	4,633,753	-	2,426,869
Due from the Commonwealth (Note 4)	12,284,061	-	6,797,365	-
Prepaid expenses	7,229,407	44,442	6,764,361	18,235
Inventory	985,630	-	743,795	-
Notes receivable (Net of allowance for doubtful accounts of $52,112 and $48,069 for 2011 and 2010, respectively)	377,486	-	413,624	-
Total current assets	143,218,665	7,434,897	156,293,720	3,721,222
Non-current assets:				
Restricted cash and cash equivalents (Note 2)	22,031,885	-	48,296,607	-
Endowment investments (Note 2)	243,171	42,709,038	205,605	40,282,987
Other long-term investments (Note 2)	1,008,411	29,298,343	363,026	25,513,505
Land held for future use		2,485,348		2,485,348
Contributions receivable (Net of allowance for doubtful contributions of $76,181 and $114,085 for 2011 and 2010, respectively) (Note 3)	-	3,732,846	-	5,590,148
Due from the Commonwealth (Note 4)	-	-	-	-
Prepaid expenses	300,730	-	372,971	-
Notes receivable (Net of allowance for doubtful accounts of $226,218 and $202,292 for 2011 and 2010, respectively)	1,910,917	-	1,904,569	-
Capital assets, net: (Note 5)				
Non-depreciable	161,092,550	4,594,991	106,487,583	563,991
Depreciable	590,314,390	2,706,087	557,395,339	1,003,755
Other assets	-	2,145	-	6,282
Total non-current assets	776,902,054	85,528,798	715,025,700	75,446,016
Total assets	920,120,719	92,963,695	871,319,420	79,167,238
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses (Note 6)	44,667,478	183,661	48,345,247	156,656
Deferred revenue	14,969,452	-	12,508,996	-
Obligations under securities lending	2,142,172	-	22,758,830	-
Deposits held in custody for others	4,455,603	-	3,800,847	-
Long-term liabilities - current portion (Note 7)	17,503,790	279,722	22,868,867	143,564
Advance from the Treasurer of Virginia	50,000	-	50,000	-
Total current liabilities	83,788,495	463,383	110,332,787	300,220
Non-current liabilities (Note 7)	225,980,822	6,039,372	198,654,679	840,684
Total liabilities	309,769,317	6,502,755	308,987,466	1,140,904

JAMES MADISON UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2011 (with comparative information as of June 30, 2010)

	2011		2010	
	James Madison University	Component Unit	James Madison University	Component Unit
NET ASSETS				
Invested in capital assets, Net of related debt	528,703,304	1,670,081	494,182,057	1,567,746
Restricted for:				
Non-expendable:				
Scholarships and fellowships	320,956	30,276,751	285,436	28,771,314
Research and public service	-	2,044,978	-	2,003,679
Other	-	12,120,351	-	11,524,582
Expendable:				
Scholarships and fellowships	45,438	7,302,881	45,839	3,160,812
Research and public service	1,816,045	1,439,076	2,117,335	1,133,918
Debt service	179,634	-	3,668	358,123
Capital projects	3,887,805	6,710,660	789,772	10,776,451
Loans	326,635	-	335,156	-
Other	-	16,042,719	-	12,902,673
Unrestricted	75,071,585	8,853,443	64,572,691	5,827,036
Total net assets	$ 610,351,402	$ 86,460,940	$ 562,331,954	$ 78,026,334

The accompanying Notes to Financial Statements are an integral part of this statement.

Page Left Intentionally Blank

JAMES MADISON UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the year ended June 30, 2011 (with comparative information for the year ended June 30, 2010)

	2011		2010	
	James Madison University	Component Unit	James Madison University*	Component Unit
Operating revenues:				
Student tuition and fees (Net of scholarship allowances of $11,110,513 and $9,654,934 for 2011 and 2010, respectively)	$ 145,560,264	$ -	$ 134,362,802	$ -
Gifts and contributions	-	6,854,901	-	5,354,277
Federal grants and contracts	17,960,405	-	16,444,168	-
State grants and contracts	6,229,495	-	6,216,339	-
Non-governmental grants and contracts	3,996,861	-	5,198,359	-
Auxiliary enterprises (Net of scholarship allowances of $8,530,021 and $7,762,059 for 2011 and 2010, respectively) (Note 10)	141,124,616	-	133,310,463	-
Other operating revenues	939,760	661,340	1,145,673	148,175
Total operating revenues	315,811,401	7,516,241	296,677,804	5,502,452
Operating expenses (Note 11):				
Instruction	121,430,309	367,799	116,242,568	450,450
Research	8,063,261	9,415	7,778,217	9,971
Public service	10,981,532	166,561	10,636,778	147,696
Academic support	34,985,759	664,758	29,831,660	371,020
Student services	13,161,739	86,180	12,644,171	78,426
Institutional support	24,395,341	4,030,069	24,573,083	3,917,449
Operation and maintenance - plant	28,556,265	5,314,958	25,172,333	368,231
Depreciation	27,665,431	76,352	24,755,766	23,461
Student aid	9,091,548	1,946,776	8,942,184	2,098,553
Auxiliary activities (Note 10)	107,713,126	555,876	99,360,569	458,708
Total operating expenses	386,044,311	13,218,744	359,937,329	7,923,965
Operating loss	(70,232,910)	(5,702,503)	(63,259,525)	(2,421,513)
Non-operating revenues/(expenses):				
State appropriations (Note 12)	72,321,820	-	69,185,644	-
Grants and contracts (Note 1 L.)	21,144,336	-	12,920,005	-
Gifts	806,014	-	1,025,172	-
Investment income (Net of investment expense of $15,992 and $38,189 for the University and $353,627 and $338,251 for the Foundation for 2011 and 2010, respectively)	778,922	9,641,547	1,246,947	8,218,054
In-Kind support from James Madison University	-	2,580,583	-	2,506,494
Interest on capital asset - related debt	(6,598,830)	(207,890)	(5,907,522)	(22,746)
Loss on disposal of plant assets	(2,055,532)	-	(1,272,540)	-
Payment to the Commonwealth	(3,241,071)	-	(3,739,118)	-
Net non-operating revenues/(expenses)	83,155,659	12,014,240	73,458,588	10,701,802
Income before other revenues, expenses, gains or losses	12,922,749	6,311,737	10,199,063	8,280,289
Capital appropriations and contributions (Note 13)	29,849,092	-	28,533,586	-
Capital gifts	5,247,607	-	484,700	-
Additions/(reductions) to permanent endowments	-	2,122,869	40,000	1,751,321
Net other revenues	35,096,699	2,122,869	29,058,286	1,751,321
Increase in net assets	48,019,448	8,434,606	39,257,349	10,031,610
Net assets - beginning of year	562,331,954	78,026,334	523,074,605	67,994,724
Net assets - end of year	$ 610,351,402	$ 86,460,940	$ 562,331,954	$ 78,026,334

The accompanying Notes to Financial Statements are an integral part of this statement.
*Certain prior year amounts were restated to agree to current year classifications.

JAMES MADISON UNIVERSITY
STATEMENT OF CASH FLOWS
For the year ended June 30, 2011 (with comparative information for the year ended June 30, 2010)

	2011	2010
Cash flows from operating activities:		
Student tuition and fees	$ 147,042,792	$ 134,902,230
Grants and contracts (Note 1 L.)	29,347,634	26,920,206
Auxiliary enterprises	142,039,227	133,648,505
Other receipts	597,395	1,178,052
Payments to employees	(162,030,018)	(154,141,576)
Payments for fringe benefits	(48,761,647)	(46,888,999)
Payments for services and supplies	(104,777,662)	(93,627,527)
Payments for utilities	(15,205,753)	(13,322,879)
Payments for scholarships and fellowships	(10,308,620)	(8,942,184)
Payments for non-capitalized plant improvements and equipment	(19,184,432)	(18,583,242)
Loans issued to students	(435,536)	(444,420)
Collections of loans from students	425,953	400,772
Net cash used by operating activities	(41,250,667)	(38,901,062)
Cash flows from noncapital financing activities:		
State appropriations	72,324,678	69,184,286
Nonoperating grants and contracts (Note 1 L.)	21,144,336	12,920,005
Payment to the Commonwealth	(3,241,071)	(3,739,118)
Gifts and grants for other than capital purposes	806,014	1,025,171
Loans issued to students and employees	(1,200)	(600)
Collections of loans from students and employees	1,250	4,946
Agency receipts	110,672,837	97,198,980
Agency payments	(110,113,468)	(95,104,411)
Additions to permanent endowment	-	40,000
Net cash provided by noncapital financing activities	91,593,376	81,529,259
Cash flows from capital financing activities:		
Capital appropriations and contributions	35,730,348	33,051,937
Capital gifts	5,228,112	-
Proceeds from capital debt	42,227,429	76,792,509
Proceeds from sale of capital assets	34,780	35,540
Purchase of capital assets	(131,686,312)	(84,669,658)
Principal paid on capital debt, leases, and installments	(17,895,879)	(8,480,132)
Interest paid on capital debt, leases, and installments	(9,563,051)	(6,594,932)
Net cash used by capital financing activities	(75,924,573)	10,135,264
Cash flows from investing activities:		
Interest on investments	416,488	1,010
Interest on cash management pools	773,725	1,389,306
Net cash provided by investing activities	1,190,213	1,390,316
Net increase in cash	(24,391,651)	54,153,777
Cash and cash equivalents - beginning of the year	159,910,606	105,756,829
Cash and cash equivalents - end of the year	$ 135,518,955	$ 159,910,606

JAMES MADISON UNIVERSITY
STATEMENT OF CASH FLOWS
For the year ended June 30, 2011 (with comparative information for the year ended June 30, 2010)

	2011	2010
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (70,232,910)	$ (63,259,525)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	27,665,431	24,755,766
Changes in assets and liabilities:		
Receivables, net	(238,092)	(351,446)
Due from the Commonwealth	(5,382)	(12,889)
Prepaid expenses	(392,805)	(104,417)
Inventory	(241,835)	3,518
Notes receivable, net	26,294	33,783
Accounts payable and accrued expenses	900,119	(1,763,472)
Deferred revenue	2,460,456	1,142,595
Accrued compensated absences	(378,102)	(49,377)
Accrued retirement plan	(785,744)	749,669
Federal loan programs contributions refundable	(28,097)	(45,267)
Net cash used by operating activities	$ (41,250,667)	$ (38,901,062)
NON-CASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS:		
Gift of capital assets	$ 19,495	$ 484,700
Amortization of bond premium/discount and gain/loss on debt refinancing	$ (572,924)	$ (389,103)
Capitalization of interest revenue and expense, net	$ (3,872,579)	$ (1,257,735)
Change in fair value of investments recognized as a component of interest income	$ 128,016	$ 54,997
Loss on disposal of capital assets	$ (2,090,312)	$ (1,308,080)

The accompanying Notes to Financial Statements are an integral part of this statement.

Page Left Intentionally Blank

NOTES TO FINANCIAL STATEMENTS

JAMES MADISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The University is a comprehensive university that is part of the Commonwealth's statewide system of public higher education. The University's Board of Visitors, appointed by the Governor, is responsible for overseeing governance of the University. A separate report is prepared for the Commonwealth, which includes all agencies, higher education institutions, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The University is a component unit of the Commonwealth and is included in the basic financial statements of the Commonwealth.

In accordance with Governmental Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement 14, *The Financial Reporting Entity*, the James Madison University Foundation, Inc. meets the criteria which qualify it as a component unit of the University. The Foundation is a legally separate, tax-exempt organization formed to promote the achievements and further the aims and purposes of the University. The Foundation accomplishes its purposes through fundraising and funds management efforts that benefit the University and its programs. The 20-member board of the Foundation is self-perpetuating and consists of friends and supporters of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is discretely presented in the financial statements.

During the year ended June 30, 2011, the Foundation distributed $9,116,705 to the University for both restricted and unrestricted purposes. Separate financial statements for the Foundation can be obtained by writing the Chief Financial Officer, JMU Foundation, Inc., MSC 8501, Harrisonburg, Virginia 22807.

B. Financial Statement Presentation

The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities*.

GASB Statements 34 and 35 standards are designed to provide financial information that responds to the needs of three groups of primary users of general-purpose external financial reports: the citizenry, legislative and oversight bodies, and investors and creditors. Under this guidance, the University is required to include a management's discussion and analysis (MD&A), basic financial statements, and notes to the financial statements.

The Foundation is a private, non-profit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

C. Basis of Accounting

The University follows GASB Statement 34 requirements for reporting by special-purpose governments engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. All significant intra-agency transactions have been eliminated.

The University's accounting policies conform with generally accepted accounting principles as prescribed by the GASB, including all applicable GASB pronouncements, as well as applicable FASB statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The University has the option to apply all FASB pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected not to apply the FASB pronouncements issued after the applicable date.

D. Cash Equivalents and Investments

In accordance with GASB Statement 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, the University considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, purchased investments, interest-bearing temporary investments classified with cash, and investments received as gifts are recorded at fair value. All investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as non-operating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

E. Capital Assets

Capital assets consisting of land, buildings, infrastructure, computer software and equipment are stated at cost at date of acquisition, or fair market value at date of donation for gifts. Library materials are valued using published average prices for library acquisitions. The University capitalizes construction costs that have a value or cost in excess of $200,000 at the date of acquisition. Renovation costs are capitalized when expenses total more than $200,000, the asset value significantly increases, or the useful life is significantly extended. Routine repairs and maintenance are charged to operating expense.

Equipment is capitalized when the unit acquisition cost is $5,000 or greater and the estimated useful life is more than two years. Computer software is capitalized when the unit acquisition or development costs are $100,000 or greater and the estimated useful life is more than two years. Expenses related to construction are capitalized at actual cost as they are incurred (construction-in-progress).

Construction period interest cost in excess of earning associated with related debt proceeds is capitalized as a component of the final asset. The University incurred and capitalized net interest expense related to the construction of capital assets totaling $3,873,000 for this fiscal year.

Collections of works of art and historical treasures are capitalized at cost or fair market value at the date of donation. These collections are considered inexhaustible and therefore are not depreciated.

Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expense categories. Useful lives by asset categories are listed below:

Buildings	25-50 years
Other improvements and infrastructure	20 years
Equipment	5-20 years
Computer software	5 years
Library material	5 years

GASB Statement 51, *Accounting and Financial Reporting for Intangible Assets*, became effective on July 1, 2009. Prior to implementation of this standard, computer software was reported as equipment in accordance with SOP 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*.

F. Inventories

Inventories are valued at the lower of cost (generally determined on the first-in, first-out method) or market and consist primarily of expendable supplies held for consumption.

G. Non-current Cash and Investments

Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital and other non-current assets are classified as non-current assets in the Statement of Net Assets. Assets that will be used to liquidate current liabilities, including capital project liabilities that are expected to be paid within one year, are classified as current assets.

H. Deferred Revenue

Deferred revenue represents revenues collected but not earned as of June 30. This consists primarily of revenue for student tuition and certain auxiliary activities accrued in advance of the semester, and advance payments on grants and contracts.

I. Accrued Compensated Absences

The amount of leave earned, but not taken by non-faculty salaried employees is recorded as a liability on the Statement of Net Assets. The amount reflects, as of June 30, all unused vacation leave, sabbatical leave, and the amount payable upon termination under the Commonwealth's sick leave payout policy. The applicable share of employer-related taxes payable on the eventual termination payments is also included.

J. Federal Financial Assistance Programs

The University participates in federally funded Pell Grants, Supplemental Educational Opportunity Grants, and federal work-study and Perkins loans programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the Office of Management and Budget Revised Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*, and the *Compliance Supplement*.

K. Net Assets

GASB Statement 34 requires that the Statement of Net Assets report the difference between assets and liabilities as net assets, not fund balances. Net assets are classified as invested in capital assets, net of related debt, restricted, and unrestricted. "Invested in capital assets, net of related debt" consists of capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when constraints on the net asset use are either externally imposed by creditors, grantors, or contributors or imposed by law. Unrestricted net assets consist of net assets that do not meet the definitions above. When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to use restricted resources first, then unrestricted resources as needed.

L. Revenue and Expense Classifications

Operating revenues include activities that have the characteristics of exchange transactions, such as: (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship allowances; and (3) federal, state, and non-governmental grants and contracts.

Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts, and other revenue sources that are defined as non-operating revenues by GASB Statement 9 and GASB Statement 34, such as state appropriations and investment and interest income. Federal Pell grant receipts are reported on the line item "non-operating grants and contracts" on the Statement of Revenues, Expenses, and Changes in Net Assets. Pell grants are considered as non-operating because the University's administrative involvement with the grant requirements have the characteristics of a non-exchange transaction. Non-operating grants and contracts also include federal American Reinvestment and Recovery Act funds passed through the state Department of Education to the University.

Non-operating expenses include interest on debt related to the purchase of capital assets, losses on the disposal of capital assets, and nongeneral fund transfer payments to the Commonwealth. All other expenses are classified as operating expenses.

M. Scholarship Discounts and Allowances

Student tuition and fees revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenue, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the student's behalf. Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). The alternative method proportionately calculates scholarship discounts and allowances on a University-wide basis by allocating cash payments to students, excluding payments for services, on the ratio of total aid to aid not considered to be third party aid.

N. Commonwealth Equipment and Capital Project Reimbursement Programs

The Commonwealth has established several programs to provide state-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment and facilities. During fiscal year 2011, funding has been provided to the University from three programs; general obligation bonds 9(b), and two programs (21st Century and Equipment Trust Fund) managed by the Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the University and other institutions of higher education for expenses incurred in the acquisition of equipment and facilities.

The Statement of Net Assets line item "Due from the Commonwealth" includes pending reimbursements at year-end from these programs, as further described in Note 4. The Statement of Revenue, Expenses, and Changes in Net Assets line item "Capital appropriations and contributions" includes reimbursements during the year for the acquisition of equipment and facilities under these programs, as further described in Note 13.

O. Comparative Data

The University presents its financial information on a comparative basis. The basic financial statements include certain prior year summarized information in total, but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, the prior year information should be read in conjunction with the University's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

GASB Statement 40, *Deposit and Investment Risk Disclosures*, became effective for the fiscal year ending June 30, 2005. It amends GASB Statement 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. GASB Statement 40 eliminates the custodial credit risk disclosures for Category 1 and 2 deposits and investments. However, this statement does not change the disclosure requirements for Category 3 deposits and investments. The University has no Category 3 deposits or investments for 2011. The following risk disclosures are required by GASB Statement 40:

- Credit Risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations. This statement requires the disclosure of the credit quality ratings on any investments subject to credit risk.

- Concentration of Credit Risk – The risk of loss attributed to the magnitude of a government's investment in a single issuer. This statement requires disclosure of investments with any one issuer with more than five percent of total investments. However, investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

- Interest Rate Risk – The risk that interest rate changes will adversely affect the fair value of an investment. This statement requires disclosure of maturities for any investments subject to interest rate risk. The University does not have an interest rate risk policy.

- Foreign Currency Risk – The risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University had foreign deposits of $2,787,786 in 2011.

A. Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of the University are maintained by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Except for cash held in foreign banks, cash deposits held by the University are maintained in accounts that are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia. These amounts are insured in accordance with the banking regulations of the respective countries where the funds are maintained. In accordance with the GASB Statement 9's definition of cash and cash equivalents, cash represents cash with the Treasurer of Virginia, cash on hand, cash deposits, including certificates of deposits and temporary investments with original maturities of 90 days or less, and cash equivalents under the Commonwealth's securities lending and state non-arbitrage programs.

B. Investments

The Board of Visitors established the University's investment policy. Authorized investments are set forth in the Investment of Public Funds Act, Section 2.2-4500 through 2.2-4517, et seq., Code of Virginia. Investments fall into two groups: short-term and long-term. Short-term investments have an original maturity of over 90 days but less than or equal to one year. Long-term investments have an original maturity greater than one year.

Cash and cash equivalents:	
Cash with the Treasurer of Virginia	$ 89,012,222
Cash on hand and deposits with financial institutions (including money market and certificates of deposit)	17,500,444
Collateral held for securities lending	1,639,450
Cash equivalents with the Treasurer of Virginia	3,174
Cash equivalents with the Bank of New York	29,003,115
Total	$137,158,405
Investments:	
Collateral held for securities lending (short-term)	$ 502,722
Investments not with the Treasurer of Virginia	1,251,582
Total	$ 1,754,304

For 2011, investments not with Treasurer of Virginia include $701,307 in unrated mutual funds with maturity less than one year.

C. James Madison University Foundation Cash and Investments

The following information is provided with respect to the Foundation's cash and cash equivalents and investments at June 30, 2011. The Foundation considers cash in demand deposit accounts and short-term certificates of deposit to be cash equivalents. The balances in these accounts are subject to electronic transfer for investment purposes and at times exceed federally insured limits. However, the Foundation does not believe it is subject to any significant credit risk as a result of these deposits.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the change in unrestricted net assets unless the income or loss is restricted by donor or law.

The Investment Committee of the Foundation's Board of Directors establishes the investment policies, objectives, and guidelines. The major portions of the investments are maintained in a portfolio managed by the Foundations' investment advisor, the Northern Trust Corporation. As prescribed by FASB ASC 820, investments are placed into one of three categories based on the inputs used in valuation techniques. As of June 30, 2011 the foundation held invested totaling $10,832,434, $51,108,479, and $10,066,468 in category 1, 2, and 3, respectively. Life insurance policies are not categorized as to credit risk. The Foundation's investments by type of security are as follows:

	Fair Value	Cost
Cash and cash equivalents	$ 4,092,260	$ 4,049,467
Common stock	6,740,174	5,847,815
Mutual funds	49,537,429	42,837,612
Hedge funds	10,066,468	9,540,000
Commodity index funds	1,180,325	1,101,152
Life insurance policies	390,725	-
Total	$72,007,381	$63,376,046

D. Securities Lending Transactions

GASB Statement 28, *Accounting and Financial Reporting for Securities Lending Transactions*, establishes accounting and financial reporting standards for security lending transactions. In these transactions, governmental entities transfer securities to broker-dealers and other entities for collateral and simultaneously agree to return the collateral for the same securities in the future.

The investments under securities lending (reported as either "cash equivalents" or "short-term investments") and the securities lending transactions reported on the financial statements represent the University's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains and losses are realized, the actual gains and losses are recorded by the affected agencies. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide basis in the Commonwealth of Virginia's CAFR.

3. ACCOUNTS AND CONTRIBUTIONS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2011:

Student tuition and fees	$ 1,692,586
Auxiliary enterprises	1,106,851
Federal, state, and non-governmental grants and contracts	2,859,307
Unreimbursed capital expenses	85,000
Other activities	1,571,138
Total	7,314,882
Less: allowance for doubtful accounts	602,043
Net accounts receivable	$6,712,839

The Foundation's contributions receivable at June 30, 2011 is summarized below:

Due in less than one year	$4,728,319
Due between one and five years	3,939,484
Due in more than five years	139,084
Total	8,806,887
Less: present value discount (two percent - six percent)	269,541
Less: allowance for doubtful accounts	170,747
Net contributions receivable	$8,366,599

4. DUE FROM THE COMMONWEALTH

Due from the Commonwealth consisted of the following at June 30, 2011:

Treasury programs reimbursement due:	
Equipment Trust Fund	$1,855,314
21st Century	9,918,927
General Obligation Bonds	1,960
Interest on Educational and General funds and Small Purchase Credit/Travel Cards	507,859
Appropriations available – Capital projects	1
Total	$12,284,061

5. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the years ending June 30, 2011 is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Non-depreciable capital assets:				
Land	$ 51,687,826	$ 12,220,929	$ -	$ 63,908,755
Inexhaustible artwork and historical treasures	1,695,079	12,920	-	1,707,999
Construction-in-progress	53,104,678	95,854,424	53,483,306	95,475,796
Total non-depreciable capital assets	106,487,583	108,088,273	53,483,306	161,092,550
Depreciable capital assets:				
Buildings	649,547,642	54,228,484	2,027,450	701,748,676
Infrastructure	44,972,444	400,551	-	45,372,995
Computer software	7,490,591	1,949,642	1,930,851	7,509,382
Equipment	52,400,026	5,064,609	1,841,901	55,622,734
Other improvements	26,250,134	865,836	1,324,793	25,791,177
Library materials	46,985,372	1,189,081	403,227	47,771,226
Total depreciable capital assets	827,646,209	63,698,203	7,528,222	883,816,190

	Beginning Balance	Additions	Reductions	Ending Balance
Less accumulated depreciation for:				
Buildings	167,409,183	16,509,190	779,300	183,139,073
Infrastructure	21,623,214	2,018,198	-	23,641,412
Computer software	5,366,860	718,028	1,186,232	4,898,656
Equipment	30,533,619	3,841,030	1,649,756	32,724,893
Other improvements	8,488,118	1,238,594	395,985	9,330,727
Library materials	36,829,876	3,340,390	403,227	39,767,039
Total accumulated depreciation	270,250,870	27,665,430	4,414,500	293,501,800
Depreciable capital assets, net	557,395,339	36,032,773	3,113,722	590,314,390
Total capital assets, net	$663,882,922	$144,121,046	$56,597,028	$751,406,940

The Foundation's net capital assets consist of $7,200,487 in property and equipment, and $100,591 in collections of historical artifacts for the year ending June 30, 2011.

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2011:

Employee salaries, wages, and fringe benefits payable	$24,633,016
Vendors and suppliers accounts payable	3,660,633
Capital projects accounts and retainage payable	13,840,734
Accrued interest payable on bond debt	2,533,095
Total accounts payable and accrued expenses	$44,667,478

7. NON-CURRENT LIABILITIES

The University's non-current liabilities consist of long-term debt (further described in Note 8), accrued supplemental retirement plan (further described in Note 9), and other non-current liabilities. A summary of changes in non-current liabilities for the years ending June 30, 2011 is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Non-Current Portion
Long-term debt:						
Revenue bonds	$ 128,825,000	$26,060,000	$6,700,000	$148,185,000	$7,800,000	140,385,000
General obligation bonds	62,330,306	14,890,000	4,465,667	72,754,639	4,920,090	67,834,549
Installment purchases	8,377,777	51,081	7,527,024	901,834	901,834	
Bond premium	10,089,078	1,417,543	631,438	10,875,183	660,267	10,214,916
Deferred amount on refundings	(324,499)	-	(58,514)	(265,985)	(47,144)	(218,841)
Total long-term debt	209,297,662	42,418,624	19,265,615	232,450,671	14,235,047	218,215,624
Accrued retirement plan	4,553,858	1,159,450	1,945,194	3,768,114	26,492	3,741,622
Accrued compensated absences	5,284,502	3,054,455	3,432,557	4,906,400	3,242,251	1,664,149
Federal loan program contributions	2,387,524	-	28,097	2,359,427	-	2,359,427
Total long-term liabilities	$221,523,546	$46,632,529	$24,671,463	$243,484,612	$17,503,790	225,980,822

8. LONG-TERM DEBT

The University has issued two categories of bonds pursuant to Section 9 of Article X of the Constitution of Virginia. Section 9(d) bonds are revenue bonds, which are limited obligations of the University payable exclusively from pledged general revenues and are not debt of the Commonwealth, legally, morally, or otherwise. Pledged General Fund revenues include General Fund appropriations, tuition and fees, auxiliary enterprise revenues, and other revenues not required by law to be used for another purpose. The University issued 9(d) bonds directly through underwriters and participates in the Public Higher Education Financing Program (Pooled Bond Program) created by the Virginia General Assembly in 1996. Through the Pooled Bond Program, the Virginia College Building Authority (VCBA) issues 9(d) bonds and uses the proceeds to purchase debt obligations (notes) of the University and various other institutions of higher education. The University's general revenue also secures these notes.

Section 9(c) bonds are general obligation bonds issued by the Commonwealth on behalf of the University, which are secured by the net revenues of the completed project and the full faith, credit, and taxing power of the Commonwealth.

Description	Interest Rates (%)	Maturity	2011
Revenue bonds:			
Dormitory, Series 1998A	4.0 - 4.80	2012	775,000
Dormitory, Series 2004B	5.00	2014	1,610,000
Dormitory, Series 2007B	4.0 – 4.50	2019	4,880,000

Description	Interest Rates (%)	Maturity	2011
Revenue bonds:			
Parking, Series 2004B	4.00 – 5.00	2020	3,820,000
Parking, Series 2006A	3.50 – 5.00	2027	7,465,000
Student center, Series 2004B	4.00 – 5.00	2020	5,875,000
Recreation, Series 2003A	2.92	2013	2,605,000
Recreation, Series, 2006A	3.50 – 5.00	2027	3,445,000
Property acquisition, Series 2002A	5.00	2013	510,000
Athletics, Series 2003A	5.00	2014	655,000
Property acquisition, Series 2007A	4.5 – 5.0	2028	9,540,000
Grace St. acquisition, Series 2010A	2.00 – 5.50	2031	8,695,000
Multipurpose Recreation Fields, Series 2009A	2.10– 5.0	2029	6,420,000
Softball/Baseball Complex, Series 2009A	2.10– 5.0	2029	6,205,000
Renov/Expand Athletics/Recreation 2009B	2.0 – 5.0	2030	26,610,000
Renov/Expand Athletics/Recreation 2010A	2.00 – 5.50	2031	9,635,000
Renov/Expand Bridgeforth Stadium 2009B	2.00 – 5.00	2030	41,710,000
RMH property acquisitions, Series 2010A	2.00 – 5.50	2031	7,730,000
Total revenue bonds			148,185,000
General obligation revenue bonds:			
Dormitory and dining hall:			
Series 2002R	5.25	2013	782,269
Series 2004B	4.00 – 5.00	2020	11,082,242
Series 2002A	4.00 - 5.00	2013	400,000
Series 2006B	4.0 – 5.0	2026	3,325,000
Series 2007B	4.0 – 5.0	2027	1,935,000
Series 2007B	4.0 – 5.0	2027	17,690,000
Series 2008B	5.00	2028	17,550,000
Series 2009C	3.0 – 4.0	2021	457,624
Series 2009C	3.0 – 4.0	2022	2,137,175
Series 2009D	2.5 – 5.0	2022	1,750,000
Series 2010A	2.00 – 5.00	2030	14,545,000
Student center:			
Series 1998R	5.00	2013	815,538
Series 2008B	3.0	2013	284,791
Total general obligation revenue bonds			72,754,639
Total bonds payable			$220,939,639

Long-term debt as of June 30, 2011 matures as follows:

	Principal	Interest
2012	12,720,090	10,215,015
2013	13,262,099	9,650,302
2014	11,064,331	9,028,671
2015	11,596,465	8,483,911
2016	12,161,481	7,914,523
2017-2021	59,499,302	31,030,608
2022-2026	58,580,871	17,777,023
2027-2031	42,055,000	4,201,149
Total	220,939,639	98,301,202

A. Installment Purchases Payable

In December 2005, the University entered into an installment purchase agreement with Rockingham Memorial Hospital for purchase of the hospital's premises primarily located at 235 Cantrell Avenue, Harrisonburg, Virginia. This purchase included seven buildings containing approximately 623,000 square feet, six paved parking lots, 2 multi-story parking decks, and two converted residences to offices, all situated on approximately 15.9 acres of land. The total purchase price was $50,600,000, with the initial installment payment of $8,000,000 made at settlement. $12,000,000 installments were made in both 2007 and 2008, and another installment of $8,600,000 was made in 2009. The final payment of $10,000,000 was originally scheduled for December 2009; however, the hospital requested an extension in order facilitate their move and to occupy the Cancer Center Building for an additional year.

In December 2010, a payment of $8,000,000 was made to RMH with the remaining $2,000,000 to be paid in December 2011; however, RMH agreed to reduce the final payment by $950,538 for additional costs incurred relating to the abatement of the South Tower.

The interest expense obligation has been estimated using an imputed rate of 4.0 percent. The remaining payment of $1,049,462 consists of a principal liability of $879,226 as of June 30, 2011. Funding sources for the purchase included $32,000,000 from state general funds, $8,600,000 from the VCBA 21st Century program, $8,000,000 from bond proceeds, with the remaining balance from auxiliary reserve funds. Series 2010A revenue bonds were issued to cover the $8,000,000 payment made in December 2010.

B. Long-term Debt Defeasance

In prior years, in accordance with GASB Statement 7, *Advance Refundings Resulting in the Defeasance of Debt*, the University excluded from its financial statements the assets in escrow and the Section 9(c) or 9(d) bonds payable that were defeased "in-substance." For the year ended June 30, 2011, bonds payable considered defeased in previous years have all been called and paid, resulting in no balances considered defeased.

C. Foundation Debt

The Foundation's long-term debt consists of $5,630,997 outstanding at June 30, 2011, in notes payable to SunTrust Bank at a fixed interest rate of 3.64 percent, and maturing through 2014. The note is secured by a deed of trust on real estate acquired with the proceeds of the note.

9. SUPPLEMENTAL RETIREMENT PLAN

Effective January 1, 1997, the University established a Supplemental Retirement Plan for tenured faculty members. The plan was designed to provide flexibility in the allocation of faculty positions. The plan is a qualified plan within the meaning of section 401(c) of the Internal Revenue Code of 1986 (the Code) and is a governmental plan within the meaning of section 414(d) of the Code. Since it is a governmental plan, the plan is not subject to the Employee Retirement Income Security Act of 1974 as amended. Since inception, 183 faculty members have elected to enroll in the plan. As of June 30, 2011, 66 participants remain, including 8 new participants who retired under this plan during fiscal year 2011. In order to satisfy IRS requirements, a trust fund has been established as means to make the payments to the plan participants. The University prepaid $1,776,394 of the fiscal year 2012-plan contribution in 2011. The plan payment schedule is as follows:

Year Ending June 30,	Supplemental Plan Obligations
2012	$ 26,492
2013	1,412,717
2014	1,145,916
2015	897,342
2016	285,647
Total	$ 3,768,114

10. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expenses consisted of the following for the year ended June 30, 2011. The University used auxiliary revenues and cash reserves to pay debt service and capitalized improvements of $19,515,690 and $8,729,312. Those amounts are not included in the auxiliary operating expenses below.

Revenues:	
Room contracts, net of scholarship allowances of $1,805,850	$ 23,483,639
Food service contracts, net of scholarship allowances of $2,443,000	32,486,302
Comprehensive fee, net of scholarship allowances of $4,281,171	57,429,807
Food service commissions	9,015,955
Parking fees and fines	3,055,424
Other student fees and sales and services	15,653,489
Total auxiliary enterprises revenues	$141,124,616
Expenses:	
Residential facilities	$ 19,292,394
Dining operations	44,142,527
Athletics	20,474,267
Parking services	2,834,071
Health services	3,182,677
Student unions	4,751,207
Student recreation	4,012,569
Other auxiliary activities	9,023,414
Total auxiliary activities expenses	$ 107,713,126

11. EXPENSES BY NATURAL CLASSIFICATIONS

The following table shows a classification of expenses for the year ended June 30, 2011, both by function as listed in the Statement of Revenues, Expenses, and Changes in Net Assets and by natural classification, which is the basis for amounts shown in the Statement of Cash Flows.

	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholarships and Fellowships	Utilities	Plant and Equipment	Depreciation	Total
Instruction	$ 82,786,684	$23,004,128	$ 12,315,924	$ -	$ 30,823	$ 3,292,750	$ -	$121,430,309
Research	3,379,431	518,161	3,837,228	-	-	328,441	-	8,063,261
Public service	6,073,902	1,326,396	3,431,163	-	240	149,831	-	10,981,532
Academic support	16,485,436	4,769,860	4,237,622	-	-	9,492,841	-	34,985,759
Student services	7,419,151	2,178,484	3,236,380	-	5,485	322,239	-	13,161,739
Institutional support	11,695,554	4,761,613	6,945,171	-	3,517	989,486	-	24,395,341
Operation and maintenance of plant	8,854,734	3,712,943	6,748,978	-	7,123,232	2,116,378	-	28,556,265
Depreciation expense	-	-	-	-	-	-	27,665,431	27,665,431
Scholarship and related expenses	-	-	-	9,091,548	-	-	-	9,091,548
Auxiliary activities	23,682,312	8,194,124	64,780,821	-	8,155,918	2,899,951	-	107,713,126
Total	$160,377,204	$48,465,709	$105,533,287	$9,091,548	$15,319,215	$19,591,917	$27,665,431	$386,044,311

12. STATE APPROPRIATIONS

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that such unexpended appropriations that remain on the last day of the current year, ending June 30, 2011, shall be re-appropriated for expenditure in the first month of the next year, beginning on July 1, 2011, except as may be specifically provided otherwise by the General Assembly. The Governor may, at his discretion, unallot funds from the re-appropriated balances that relate to unexpended appropriations.

During the year ending June 30, 2011 the following adjustments were made to the University's original appropriations:

Original legislative appropriation:	
Educational and general programs	$63,577,853
Student financial assistance	6,724,848
Supplemental adjustments:	
Central Fund appropriation transfers:	
Faculty and staff bonus	1,793,343
Health insurance premium	242,766
Partial suspension of employer match to employee deferred compensation accounts and delay of retirement contribution payments	(253,325)
All other miscellaneous increases/decreases	4,557
Other financial aid transfers	220,048
Other	20,042
Reversion to the General Fund of the Commonwealth	(8,312)
Adjusted appropriation	$72,321,820

13. CAPITAL APPROPRIATIONS AND CONTRIBUTIONS

Following are the capital appropriations and contributions recognized by the University from the Commonwealth for the years ending June 30, 2011.

Treasury reimbursement programs:	
VCBA 21st Century	$27,799,025
VCBA Equipment Trust Fund	2,044,162
General Obligation Bonds	5,905
Total capital appropriations and contributions	$29,849,092

14. COMMITMENTS

At June 30, 2011, the University was a party to construction and other contracts totaling approximately $271,119,512 of which $205,862,684 has been incurred.

Under a contract between the Board of Visitors of the University and the City of Harrisonburg dated April 12, 1995, the University is committed to city services for steam and chilled water purchases and waste disposal. The city will bill the University for annual debt service for a new resource recovery facility and cost of delivered quantities of steam and chilled water. The contract will expire April 12, 2036. During the years ended June 30, 2011, such purchases totaled $6,109,790.

The University is committed under various operating leases for equipment and space. In general, the equipment leases are for two-year term and the space leases are for three- to four-year terms with appropriate renewal options for each type of lease. In most cases, the University expects that in the normal course of business, these leases will be replaced by similar leases. Rental expense was approximately $3,488,225 for the years ended June 30, 2011.

The University has, as of June 30, 2011, the following future minimum rental payments due under the above leases:

Year Ending June 30,	Operating Lease Obligation
2012	$ 2,907,386
2013	2,823,808
2014	1,404,516
2015	1,108,561
2016	1,012,921
2017-2021	864,601
Total	$10,121,793

15. RETIREMENT PLANS

a. Virginia Retirement System

Employees of the University are employees of the Commonwealth. Substantially all full-time classified salaried employees of the University participate in a defined benefit retirement plan administered by the Virginia Retirement System (VRS). VRS is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agency for the Commonwealth and its political subdivisions.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Information relating to this plan is available at the statewide level only and can be found in the Commonwealth's *Comprehensive Annual Financial Report* (CAFR). The Commonwealth, not the University, has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2011. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled $8,565,904 for the year ended June 30, 2011.

b. Optional Retirement Plans

Full-time faculty and certain administrative staff participate in defined contribution plans, TIAA/CREF Insurance Companies and Fidelity Investments Tax-Exempt Services. These plans are fixed-contribution programs where the retirement benefits received are based upon employer and employee contributions, plus interest and dividends. Employees hired prior to July 1, 2010 (Plan 1) and have an employer required contribution rate of 10.4 percent. Employees hired on or after July 1, 2010 (Plan 2) and have an employer required contribution rate of 8.5 percent and an employee required contribution rate of 5 percent.

Individual contracts issued under the plan provide for full and immediate vesting of both the University's and the employee's contributions. Total pension costs under this plan were approximately $6,079,443 for the year ended June 30, 2011. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $58,652,519 for fiscal year 2011.

c. Deferred Compensation Plan

Employees of the University are employees of the Commonwealth. State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to $10 per pay period. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. The University's expense for contributions under the Deferred Compensation Plan, which is an amount assessed by the Commonwealth, was approximately $439,603 for the fiscal year 2011.

16. POST-EMPLOYMENT BENEFITS

The Commonwealth participates in the VRS-administered, statewide group life insurance program that provides post-employment life insurance benefits to eligible retired and terminated employees. The Commonwealth also provides health care credits against the monthly health insurance premiums of its retirees who have at least 15 years of service and participate in the state health plan. Information related to these plans is available at the statewide level in the CAFR.

17. GRANTS AND CONTRACTS CONTINGENCIES

The University has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the University.

In addition, the University is required to comply with the various federal regulations issued by the Office of Management and Budget. Failure to comply with certain system requirements of these regulations may result in questions concerning the allowance of related direct and indirect charges pursuant to such agreements. As of June 30, 2011, the University estimates that no material liabilities will result from such audits or questions.

18. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The University participates in insurance plans maintained by the Commonwealth. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The University pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the CAFR.

19. FEDERAL DIRECT LENDING PROGRAM

The University participates in the Federal Direct Lending Program. Under this program, the University receives funds from the U.S. Department of Education for Stafford and Plus Parent Loan Programs and disburses these funds to eligible students. The funds can be applied to outstanding student account balances or refunded directly to the student.

These loan programs are treated as student payments with the University acting as a fiduciary agent for the student. Therefore, the receipt of the funds from the federal government is not reflected on the Statement of Revenues, Expenses and Changes in Net Assets. The activity is included in the noncapital financing section of the Statement of Cash Flows. For the fiscal year ended June 30, 2011, cash provided and used by the program totaled $89,180,826.

Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

March 28, 2012

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
James Madison University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of **James Madison University**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2011, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of University management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component unit of James Madison University, which is discussed in Note 1. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the component unit of the University is based on the report of the other auditors. The prior year summarized comparative information has been derived from James Madison University's 2010 financial statements, and in our report dated May 6, 2011, we expressed an unqualified opinion on the respective financial statements of the University.

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 financial statements are free of material misstatement. The financial statements of the component unit of the University that was audited by other auditors upon whose report we are relying was audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and discretely presented component unit of James Madison University as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated March 28, 2012, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 audit.

AUDITOR OF PUBLIC ACCOUNTS

AWP/clj

JAMES MADISON UNIVERSITY

BOARD OF VISITORS
As of June 30, 2011

Mr. James E. Hartman
Rector

Mr. Wharton Rivers
Vice Rector

Susan Allen
Kenneth Bartee
Mark T. Bowles
Joseph F. Damico
Ronald C. Devine
Vanessa M. Evans
Lois J. Forbes
Joseph K. Funkhouser, II
Elizabeth V. Lodal
Larry M. Rogers
Steve Smith
Judith S. Strickler

Christopher Brown, Student Representative

Donna L. Harper
Secretary to the Board of Visitors

OFFICERS

Linwood H. Rose
President

Charles W. King, Jr.
Senior Vice President for Administration and Finance

John F. Knight
Assistant Vice President for Finance