

**JAMES MADISON UNIVERSITY
HARRISONBURG, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2001**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of James Madison University for the year ended June 30, 2001, found:

- the financial statements are presented fairly, in all material respects;
- no material weaknesses in the internal controls tested;
- no material instances of noncompliance required to be reported under Government Auditing Standards; and
- corrective action was taken in regards to the previous year audit finding titled, "Reconcile Student Information System."

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UNIVERSITY OFFICIALS

July 15, 2002

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
And Review Commission

Board of Visitors
James Madison University

We have audited the accounts and records of **James Madison University** as of and for the year ended June 30, 2001, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of James Madison University, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2001, as listed in the table of contents. These basic financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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. 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 provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of James Madison University as of June 30, 2001, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 in the Notes to Financial Statements, the University has implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board

Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and Statement 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities* as of June 30, 2001.

The Management's Discussion and Analysis presented on pages 4 through 8 is not a required part of the basic financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying Schedule of Auxiliary Enterprises - Revenues and Expenditures is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, such information is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of James Madison University as of and for the year ended June 30, 2001, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants 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.

Compliance

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

Internal Control over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Status of Prior Findings

The University has taken adequate corrective action with respect to audit findings reported in the prior year.

The Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting is intended solely for the information and use of the Governor and General Assembly of Virginia, Board of Visitors and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on July 16, 2002.

AUDITOR OF PUBLIC ACCOUNTS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

New Accounting Standards

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*, which established new financial reporting requirements. In November 1999, GASB issued Statement 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities - an Amendment of GASB Statement 34*, which applies the new reporting standards to public institutions. As component units of the Commonwealth of Virginia, public institutions will implement GASB Statement 35 at the same time the state government implements GASB Statement 34. Although the state will not implement GASB Statement 34 until fiscal year 2002, James Madison University chose to implement GASB Statement 35 in fiscal year 2001.

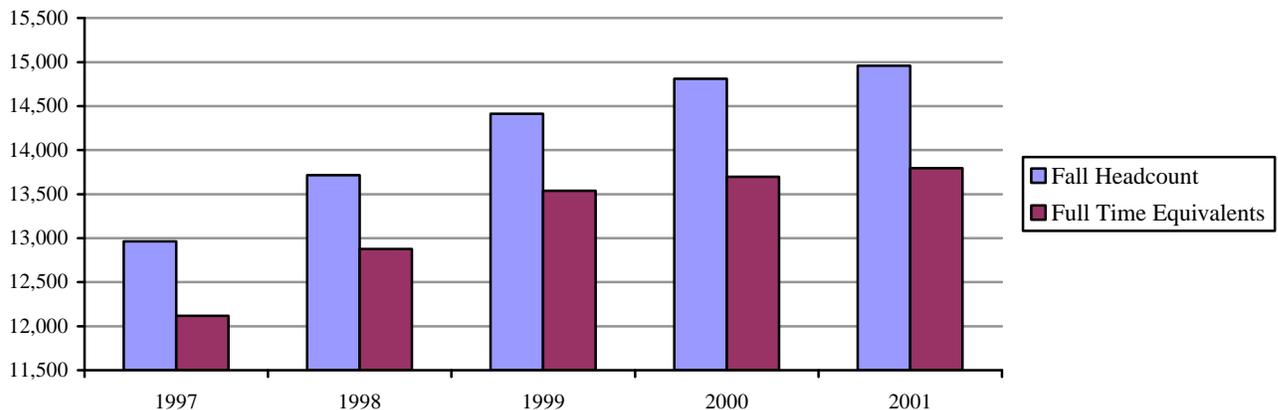
The new financial reporting standards significantly change the appearance and nature of the required financial information. The major changes are: (1) financial statements are presented on an entity-wide basis and not by major fund groups; (2) depreciation expense is recognized, previously it was not; (3) expenses rather than expenditures are reported; and (4) the basic financial statements are preceded by this Management's Discussion and Analysis.

As required by the new accounting pronouncements, the basic financial statements are: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; 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. Since this is a transition year for the new reporting format, only one year of information is presented in the audited financial statements. For this discussion and analysis, the University restated previously reported financial information in order to provide a comparison.

Enrollment and Admissions Information

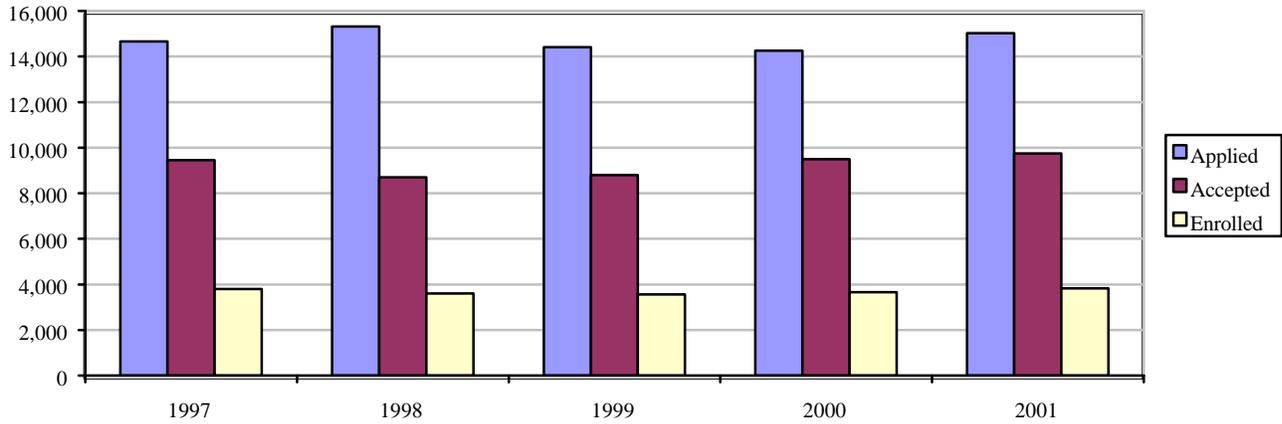
In the 1980's and 1990's, James Madison University's goals included continuous enrollment growth. This substantial growth developed considerably faster than the funding necessary to support the student population. In order to not make further sacrifices in the quality of programs by continued enrollment expansion, University management developed a strategic plan to stabilize enrollment at approximately 15,000 students. The following chart demonstrates the beginning of this trend.

Enrollment Information



Overall undergraduate and transfer applications, acceptances, and subsequent enrollment of accepted applicants are indicators of the University's popularity and selectivity among prospective students as shown in the graph below. JMU continues to be a popular choice for students seeking a comprehensive, student-centered educational experience.

Applications and Admissions



Statement of Net Assets

The Statement of Net Assets 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 fiscal snapshot at June 30, 2001. From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the University's operations. They are also able to determine how much the University owes vendors and creditors.

Net assets are divided into three major categories. The first category, "Invested in capital assets, Net of debt," provides the University's equity in property, plant, and equipment owned by the institution. The next category is "Restricted net assets," which is divided into two categories, expendable and nonexpendable. Expendable restricted resources are available for expenditure by the institution, but must be spent for purposes as determined by donors and/or other entities that have placed time or purpose restrictions on the use of the assets. The corpus of nonexpendable restricted resources is available only for investment purposes. Unrestricted net assets are available to the University for any lawful purpose of the institution.

Statement of Net Assets (in thousands)

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Assets:		
Current assets	\$ 51,830	\$ 46,267
Capital assets, Net	260,619	246,025
Other noncurrent assets	<u>12,702</u>	<u>29,449</u>
Total assets	<u>\$325,151</u>	<u>\$321,741</u>
Liabilities:		
Current liabilities	\$ 37,547	\$ 33,851
Noncurrent liabilities	<u>85,738</u>	<u>93,999</u>
Total liabilities	<u>123,285</u>	<u>127,850</u>

Net assets:		
Invested in capital assets, Net of related debt	\$ 186,016	\$174,236
Restricted - Expendable	14,713	18,295
Restricted - Nonexpendable	276	245
Unrestricted	<u>861</u>	<u>1,115</u>
Total net assets	<u>\$201,866</u>	<u>\$193,891</u>

The University's total assets increased by \$3,410,000. Generally, noncurrent assets such as investments with the Treasurer of Virginia and appropriations available were used to construct and purchase capital assets. Total liabilities decreased by \$4,565,000. The primary cause was a reduction in long-term debt represented by principal payments made on long-term debt combined with no new debt issuances.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity as presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of this statement is to present the University's operating and nonoperating revenues recognized and expenses incurred and any other revenues, expenses, gains, and losses.

Generally speaking, operating revenues are received for providing goods and services to students and other constituencies of the institution. 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.

Nonoperating revenues are revenues received for which goods and services are not provided. For example, the University's state appropriations are nonoperating because they are provided by the state legislature without the legislature directly receiving commensurate goods and services for those revenues.

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

	For the Year Ended	
	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Operating revenues	\$144,302	\$134,254
Operating expenses	<u>211,250</u>	<u>193,761</u>
Operating loss	(66,948)	(59,507)
Nonoperating revenues and expenses	<u>69,516</u>	<u>61,023</u>
Income before other revenues, expenses, gains, or losses	2,568	1,516
Other revenues, expenses, gains, or losses	<u>5,407</u>	<u>3,469</u>
Increase in net assets	7,975	4,985
Net assets - beginning of year	<u>193,891</u>	<u>188,906</u>
Net assets - end of year	<u>\$201,866</u>	<u>\$193,891</u>

Operating revenues primarily include tuition and fees and auxiliary enterprises. Tuition and fees revenue remained relatively stable given the state's continued freeze on tuition increases. Auxiliary revenues increased due to the outsourcing of dining operations in July 2000. The University continues to recognize board fees and now receives commissions on dining services' revenues. Management fee expenses to the private vendor that manages the dining operations generally offset these increases. Other operating expense increases include salaries and fringe benefits (i.e., an approximate three percent pay raise for University faculty and staff in December 2000); information technology increases for system upgrades and the machine room renovations; custodial services and utilities increases primarily related to new east campus buildings; and significant natural gas cost increases in the winter of 2001.

Nonoperating revenue increases are attributable to increases in state appropriations. Other revenues and gains include capital appropriations, which remained consistent between fiscal year 2000 and 2001. The increase in this category is due to private gifts funding the construction of the new alumni center.

While it appears that the University received a substantial amount of new money from the state, given mandatory cost increases in various categories of expenses and funding for previous enrollment increases, the University maintained a relatively stable financial position over the course of the year. The majority of the increase in net assets represents additions to capital projects as discussed below.

Statement of Cash Flows

The final statement presented by the University is the Statement of Cash Flows. This statement presents detailed information about the institution's cash activity during the year. Operating cash flows shows the net cash used by the operating activities of the University. Significant sources of cash include student tuition and fees (\$47,932,000), auxiliary enterprise's receipts (\$77,206,000), and grants and contracts (\$16,205,000). Major uses of cash include payments for salaries, wages, and fringe benefits (\$118,019,000), payments for services and supplies (\$52,521,000), and payments for noncapitalized plant improvements and equipment (\$12,392,000).

The next section reflects the cash flows from noncapital financing activities and includes state appropriations for the University's educational and general programs and financial aid of \$69,003,000. The cash flows from the capital financing activities section deals with cash used for the acquisition and construction of capital and related items. Primary sources of cash include the conversion of noncash assets (appropriations available and investments with the State Treasurer) into cash (\$14,464,000), and capital appropriations of \$3,664,000. Significant cash outflows include the purchase of capital assets (\$25,650,000), and the repayment of principal and interest on capital related debt. The last section reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Capital Asset and Debt Administration

Overall, invested in capital assets increases reflect the continued substantial campus construction. Significant fiscal year 2001 capital projects include a second residence hall and the alumni center on the East Campus, and the Main Campus parking deck. The alumni center is primarily funded by private gifts and the other projects are funded by previously issued capital debt.

Significant additions to capitalized assets include buildings, equipment, and infrastructure for the East Campus' second academic building and building renovations for the Ashby residence hall. Major projects still under construction at June 30, 2001, include the second phase of the East Campus student center (\$3,900,000), steam line repairs (\$1,600,000), the alumni center (\$1,600,000), and the Main Campus parking deck (\$6,700,000). The parking deck was put in use during summer 2001.

The University decreased its total long-term debt from \$89,095,000 in fiscal year 2000 to \$82,151,000 in fiscal year 2001 and incurred no new bond indebtedness during the year. The University participated in the Commonwealth's Fall 2001 bond sale. The University expected bond debt of approximately \$6,200,000 for renovation of Gifford residence hall. As calculated under the State Council of Higher Education in Virginia's formula, the University's 2001 debt service to expenditures ratio was five percent.

Overall, unpaid construction and other related contractual commitments decreased from \$13,200,000 in 2000 to \$11,900,000 in 2001. Unpaid commitments at June 30, 2001, primarily reflect the East Campus student center and alumni center projects. Further information relating to capital assets, construction, and capital debt is included in the Notes to the Financial Statements in Notes 4 and 7.

Economic Outlook

The University's economic outlook is closely related to its role as one of the Commonwealth's comprehensive higher education institutions. As such, it is largely dependent upon ongoing financial and political support from the state government. Due to a continued lag in state revenue collections, all state agencies, including higher education institutions suffered three percent cuts in General Fund appropriations for fiscal year 2002. In establishing the 2003-2004 biennial budget, the Virginia General Assembly applied further budget cuts to all state colleges and universities. Cuts were moderated for institutions that have been underfunded in the past. The University's scheduled budget cuts were \$4.7 million and \$7.3 million for 2003 and 2004, respectively.

Another significant factor in the University's economic position relates to its ability to recruit and retain high quality students. As noted earlier, applications remain strong. For the 2002-2003 academic year, JMU received over 18,000 applications. The state legislature authorized colleges and universities to increase tuition for the first time since 1996. The University's governing board has increased tuition and mandatory fees to offset most of the reductions in the state General Fund appropriations noted above.

JAMES MADISON UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2001

ASSETS

Current assets:	
Cash and cash equivalents (Note 2)	\$ 38,389,586
Short-term investments (Note 2)	3,875,430
Accounts receivable, Net of allowance for doubtful accounts of \$422,192 (Note 3)	3,645,436
Due from the Commonwealth (Note 7)	1,874,680
Prepaid expenses	2,759,720
Inventory	894,228
Notes receivable, Net of allowance for doubtful accounts of \$38,092	<u>390,931</u>
Total current assets	<u>51,830,011</u>
Noncurrent assets:	
Restricted cash and cash equivalents (Note 2)	65,697
Endowment investments (Note 2)	210,552
Other long-term investments (Note 2)	8,060,323
Appropriations available	2,187,461
Notes receivable, Net of allowance for doubtful accounts of \$205,275	2,177,797
Capital assets, Net (Note 4)	<u>260,619,496</u>
Total noncurrent assets	<u>273,321,326</u>
Total assets	<u>\$ 325,151,337</u>

LIABILITIES

Current liabilities:	
Accounts payable and accrued expenses (Note 5)	\$ 17,910,695
Deferred revenue	4,268,355
Obligations under securities lending	3,875,430
Deposits held in custody for others	2,841,277
Long-term liabilities - current portion (Note 6)	8,597,509
Advance from the Treasurer of Virginia	<u>54,500</u>
Total current liabilities	37,547,766
Noncurrent liabilities (Note 6)	<u>85,737,794</u>
Total liabilities	<u>\$ 123,285,560</u>

NET ASSETS

Invested in capital assets, Net of related debt	186,016,405
Restricted for:	
Nonexpendable - scholarships and fellowships	276,249
Expendable:	
Scholarships and fellowships	31,239
Research and public service	866,334
Debt service	4,073
Capital projects	13,810,944
Unrestricted	<u>860,533</u>
Total net assets	<u>\$ 201,865,777</u>

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

JAMES MADISON UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2001

Operating revenues:	
Student tuition and fees, Net of scholarship allowances of \$3,374,654	\$ 48,529,185
Federal grants and contracts	9,096,016
State grants and contracts	5,641,370
Nongovernmental grants and contracts	2,292,633
Auxiliary enterprises, Net of scholarship allowances of \$3,950,536 (Note 9)	78,002,577
Other operating revenues	740,399
	<u>144,302,180</u>
Operating expenses (Note 10):	
Instruction	68,020,149
Research	1,537,122
Public service	8,303,263
Academic support	18,397,936
Student services	6,138,847
Institutional support	11,775,436
Operation and maintenance - Plant	17,096,858
Depreciation	13,314,796
Student aid	3,760,238
Auxiliary activities (Note 9)	62,905,733
	<u>211,250,378</u>
Operating loss	<u>(66,948,198)</u>
Nonoperating revenues (expenses):	
State appropriations (Note 11)	69,793,028
Gifts	585,589
Investment income, Net of investment expense of \$149,614	2,818,235
Interest on capital asset - Related debt	(3,489,577)
Loss on disposal of plant assets	(191,353)
	<u>69,515,922</u>
Income before other revenues, expenses, gains or losses	<u>2,567,724</u>
Capital appropriations	3,663,533
Capital gifts	1,743,402
	<u>5,406,935</u>
Increase in net assets	7,974,659
Net assets - Beginning of year as restated (Note 1)	<u>193,891,118</u>
Net assets - End of year	<u><u>\$201,865,777</u></u>

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

JAMES MADISON UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2001

Cash flows from operating activities:	
Student tuition and fees	\$ 47,932,140
Grants and contracts	16,204,804
Auxiliary enterprises	77,206,095
Other receipts	789,026
Payments to employees	(92,341,581)
Payments for fringe benefits	(25,677,754)
Payments for services and supplies	(52,520,540)
Payments for utilities	(9,369,152)
Payments for scholarships and fellowships	(3,707,831)
Payments for noncapitalized plant improvements and equipment	(12,391,999)
Loans issued to students	(548,668)
Collections of loans from students	442,662
	<hr/>
Net cash used by operating activities	(53,982,798)
Cash flows from noncapital financing activities:	
State appropriations	69,002,676
Gifts and grants for other than capital purposes	585,589
Loans issued to students and employees	(37,512)
Collections of loans from students and employees	50,084
Agency receipts	10,210,702
Agency payments	(9,503,464)
	<hr/>
Net cash provided by noncapital financing activities	70,308,075
Cash flows from capital financing activities:	
Proceeds from capital appropriations available and investments	14,463,911
Capital appropriations	3,663,533
Capital gifts	1,068,402
Proceeds from sale of capital assets	15,990
Purchase of capital assets	(25,649,872)
Principal paid on capital debt, leases, and installments	(6,218,482)
Interest paid on capital debt, leases, and installments	(3,866,224)
	<hr/>
Net cash used by capital financing activities	(16,522,742)
Cash flows from investing activities:	
Interest on investments	129,766
Interest on cash management pools	2,664,080
	<hr/>
Net cash provided by investing activities	2,793,846
Net increase in cash	2,596,381
Cash and cash equivalents - Beginning of the year	<hr/>
	35,858,902
Cash and cash equivalents - End of the year	<hr/> <hr/>
	\$ 38,455,283

JAMES MADISON UNIVERSITY
STATEMENT OF CASH FLOWS (continued)
For the Year Ended June 30, 2001

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

Operating loss	(\$66,948,198)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	13,314,796
Changes in assets and liabilities:	
Receivables, net	(828,259)
Due from the Commonwealth	(125,181)
Prepaid expenses	(282,849)
Inventory	339,944
Notes receivable, net	(124,850)
Accounts payable and accrued expenses	2,205,250
Deferred revenue	(1,278,651)
Advance from the Treasurer of Virginia	(1,000)
Accrued compensated absences	227,885
Accrued retirement plan	(515,163)
Federal loan programs contributions refundable	<u>33,478</u>
Net cash used by operating activities	<u><u>(\$53,982,798)</u></u>

NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL
AND RELATED FINANCING TRANSACTIONS:

Gift of capital assets	(\$675,000)
Principal and interest on capital lease debt paid by State agency on behalf of the University	\$790,352
Capitalization of interest expense	(\$443,353)
Change in fair value of investments recognized as a component of interest income	\$33,478

The accompanying notes to financial statements are an integral part of this statement.

JAMES MADISON UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

James Madison University (the "University") is a comprehensive university that is part of the Commonwealth of Virginia'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 of Virginia, 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 of Virginia and is included in the general purpose financial statements of the Commonwealth.

The University has no component units, as defined by the Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*; however, the University does have related party corporations whose combined financial conditions are stated in Note 12. These organizations are separate legal entities from James Madison University and the University exercises no control over them. For these reasons, the University's related parties are not included in these financial statements.

B. Basis of Presentation

The University's accounting policies conform with generally accepted accounting principles as prescribed by GASB, including all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (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 that conflict with or contradict GASB pronouncements. 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*. These new statements will be effective for the Commonwealth and all of its component units for the fiscal year ending June 30, 2002, however the University elected to implement the changes for the fiscal year ending June 30, 2001. The University now follows Statement 34 requirements for "reporting by special-purpose governments engaged only in business-type activities." The change in financial statement presentation provides a comprehensive entity-wide look at the University's financial activities and replaces the fund-group perspective previously required.

C. Basis of Accounting

The University's 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.

D. Investments

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 nonoperating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

E. Capital Assets

Capital assets include land, buildings and other improvements, library materials, equipment and infrastructure assets such as sidewalks, steam tunnels, and electrical and computer network cabling systems. Capital assets are generally defined by the University as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of two years. Library materials are valued using published average prices for library acquisitions. Such assets are recorded at actual cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Expenses for major capital assets and improvements are capitalized (construction in progress) as projects are constructed. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. The costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life are not capitalized. Certain maintenance and replacement reserves have been established to fund costs relating to residences and other auxiliary activities.

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	50 years
Other improvements and infrastructure	20 years
Equipment	5-15 years
Library materials	5 years

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. On July 5, 2000, the University contracted with Aramark Educational Services to manage dining operations. The contract included the sale of the existing dining services' inventory.

G. Noncurrent 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 noncurrent assets are classified as noncurrent assets in the Statement of Net Assets.

H. Deferred Revenue

Deferred revenue primarily includes amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year, but related to the period after June 30, 2001.

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 of Virginia's sick leave pay-out 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, 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 is 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.

In connection with the implementation of GASB Statements 34 and 35, the following adjustment was made to reflect the cumulative effect of this accounting change:

Fund balances reported at June 30, 2000	\$315,746,790
Accumulated depreciation on capital assets at June 30, 2000, not previously recorded	(117,636,684)
Federal loan program contributions previously recorded as fund balance in loan funds, now recorded as liabilities	(2,384,020)
Write-off of equipment previously capitalized that does not meet current capitalization threshold	<u>(1,834,968)</u>
Net asset balance at July 1, 2000	<u>\$193,891,118</u>

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 nongovernmental grants and contracts.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts, and other revenue sources that are defined as nonoperating revenues by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 34, such as state appropriations and investment and interest income.

Nonoperating expenses include interest on debt related to the purchase of capital assets and losses on the disposal of capital assets. 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. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that such revenues are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The following information is provided with respect to the credit risk associated with the University's cash and cash equivalents and investments at June 30, 2001.

A. Cash and Cash Equivalents

Pursuant to Section 2.1-177, 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. Cash deposits held by the University are maintained in accounts that are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.1-359, et seq., Code of Virginia, except for cash held in foreign banks. 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 definition of cash and cash equivalents, cash represents cash with the Treasurer, cash on hand, and cash deposits including certificates of deposits, and temporary investments with original maturities of three months or less.

B. Investments

The Board of Visitors establishes the University's investment policy. Credit risk is the risk that the University may not be able to obtain possession of its investment instrument at maturity. The University's investments are in investment pools held by the Treasurer of Virginia and in mutual funds and therefore, are not categorized as to level of credit risk.

	Market Value *
Cash and cash equivalents:	
Deposits with financial institutions	\$ 3,494,394
Money market and index funds	2,748,110
Cash with the Treasurer	<u>32,212,779</u>
Total	<u>\$38,455,283</u>
Investments:	
State non-arbitrage program (SNAP)	\$ 7,698,432
Investments with the Treasurer of Virginia	4,073
Collateral held for securities lending	3,875,430
Mutual funds	<u>568,370</u>
Total	<u>\$12,146,305</u>

* As of June 30, 2001

C. Securities Lending Transactions

Collateral held for securities lending 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. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*.

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2001:

Student tuition and fees	\$ 457,229
Auxiliary enterprises	937,498
Federal, state, and nongovernmental grants and contracts	2,440,571
Other activities	<u>232,330</u>
Total	4,067,628
Less: Allowance for doubtful accounts	<u>422,192</u>
Net accounts receivable	<u>\$3,645,436</u>

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2001, is presented as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable capital assets:				
Land	\$ 6,208,741	\$ 782,700	\$ -	\$ 6,991,441
Inexhaustible artwork and historical treasures	94,976	10,000	-	104,976
Construction in progress	<u>31,020,870</u>	<u>14,635,454</u>	<u>28,597,776</u>	<u>17,058,548</u>
Total nondepreciable capital assets	<u>37,324,587</u>	<u>15,428,154</u>	<u>28,597,776</u>	<u>24,154,965</u>
Depreciable capital assets:				
Buildings	242,035,123	33,705,214	-	275,740,337
Infrastructure	24,638,343	30,000	-	24,668,343
Equipment	29,200,743	4,904,535	2,717,041	31,388,237
Other improvements	5,706,433	1,311,537	108,557	6,909,413
Library materials	<u>26,591,787</u>	<u>1,334,606</u>	<u>101,624</u>	<u>27,824,769</u>
Total depreciable capital assets	<u>328,172,429</u>	<u>41,285,892</u>	<u>2,927,222</u>	<u>366,531,099</u>
Less accumulated depreciation for:				
Buildings	73,134,899	6,137,961	-	79,272,860
Infrastructure	6,470,977	1,105,264	-	7,576,241
Equipment	12,843,755	4,531,900	776,354	16,599,301
Other improvements	2,543,512	255,524	108,557	2,690,479
Library materials	<u>22,643,540</u>	<u>1,284,147</u>	<u>-</u>	<u>23,927,687</u>
Total accumulated depreciation	<u>117,636,683</u>	<u>13,314,796</u>	<u>884,911</u>	<u>130,066,568</u>
Depreciable capital assets, Net	<u>210,535,746</u>	<u>27,971,096</u>	<u>2,042,311</u>	<u>236,464,531</u>
Total capital assets, Net	<u>\$247,860,333</u>	<u>\$43,399,250</u>	<u>\$30,640,087</u>	<u>\$260,619,496</u>

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2001:

Current liabilities:

Employee salaries, wages, and fringe benefits payable	\$14,975,178
Vendors and suppliers accounts payable	<u>2,935,517</u>

Total current liabilities – accounts payable and accrued liabilities	<u>\$17,910,695</u>
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6. NONCURRENT LIABILITIES

The University's noncurrent liabilities consist of long-term debt (further described in Note 7), the accrued supplemental retirement plan (further described in Note 8), and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ending June 30, 2001, is presented as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Long-term debt:					
Revenue bonds	\$ 45,750,000	\$ -	\$ 1,815,000	\$ 43,935,000	\$ 1,995,000
General obligation bonds	40,060,994	-	3,671,770	36,389,224	3,456,763
Capital leases	2,307,035	-	968,987	1,338,048	842,782
Installment purchases	<u>977,214</u>	<u>-</u>	<u>488,051</u>	<u>489,163</u>	<u>254,099</u>
Total long-term debt	<u>89,095,243</u>	<u>-</u>	<u>6,943,808</u>	<u>82,151,435</u>	<u>6,548,644</u>
Accrued retirement plan	3,228,787	1,053,025	1,568,188	2,713,624	-
Accrued compensated absences	3,946,834	2,228,703	2,000,818	4,174,719	2,048,865
Federal loan program contributions	2,384,020	33,479	-	2,417,499	-
Capital projects accounts payable and retainage payable	<u>3,496,497</u>	<u>2,878,026</u>	<u>3,496,497</u>	<u>2,878,026</u>	<u>-</u>
Total long-term liabilities	<u>\$102,151,381</u>	<u>\$6,193,233</u>	<u>\$14,009,311</u>	<u>\$94,335,303</u>	<u>\$8,597,509</u>

7. 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 of Virginia, legally, morally, or otherwise. Pledged 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 also 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) also 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 of Virginia 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 of Virginia.

<u>Description</u>	<u>Interest Rates (%)</u>	<u>Maturity</u>	<u>Outstanding Balance at June 30, 2001</u>
Revenue bonds:			
Dormitory, Series 1993a	4.55 - 5.375	2009	\$ 1,515,000
Dormitory, Series 1998a	3.50 - 5.00	2019	13,615,000
Parking, Series 1999a	4.50 - 6.00	2020	6,290,000
Student center, Series 1999a	4.50 - 6.00	2020	9,660,000
Recreation, Series 1993a	4.55 - 5.375	2013	<u>12,855,000</u>
Total revenue bonds			<u>43,935,000</u>

General obligation revenue bonds:

Dormitory and dining hall:

Series 1979	3.00	2009	1,350,000
Series 1993a	4.50 - 5.25	2013	6,128,792
Series 1993b	4.20 - 5.00	2010	2,468,228
Series 1997	5.00	2017	16,665,000
Series 1998	4.00 - 5.50	2018	965,000

Student Center:

Series 1992	5.40 - 5.90	2005	1,165,639
Series 1992c	5.40 - 5.80	2004	1,000,000
Series 1998	3.75 - 5.00	2013	4,474,660

Electrical upgrade:

Series 1993a	4.50 - 4.80	2003	95,000
Series 1994	6.00	2004	330,000

Athletics:

Series 1992	5.40 - 5.70	2003	1,123,653
Series 1993a	4.50 - 4.90	2004	231,190
Series 1993b	4.20 - 4.50	2003	<u>392,062</u>

Total general obligation revenue bonds 36,389,224

Total bonds payable 80,324,224

Capital leases:

Higher education equipment trust fund leases payable	Various	2002-2003	971,253
Other capital leases payable	Various	2002-2005	<u>366,795</u>

Total capital leases payable 1,338,048

Installment purchases payable Various 2001-2005 489,163

Total \$82,151,435

Long-term debt matures as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2002	\$ 6,548,644	\$ 4,067,710
2003	6,240,295	3,759,718
2004	5,441,851	3,459,772
2005	4,767,894	3,198,144
2006	4,650,560	2,969,502
2007-2011	24,664,232	11,281,109
2012-2016	20,272,959	5,219,703
2017-2020	<u>9,565,000</u>	<u>903,016</u>
Total	<u>\$82,151,435</u>	<u>\$34,858,674</u>

Prior Year Defeasance of Debt

In prior years, the University and the Commonwealth of Virginia, on behalf of the University, issued bonds and the proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on other debt. The bonds representing that debt are, therefore, considered defeased. Accordingly, the trust account's assets and the liabilities for the defeased bonds are not included in the University's financial statements. On June 30, 2001, \$12,333,196 of the bonds considered defeased remained outstanding.

Equipment Trust Fund Program

The Equipment Trust Fund (ETF) program was established to provide state-supported institutions of higher education bond proceeds for financing the acquisition and replacement of instructional and research equipment. The Virginia College Building Authority (VCBA) manages the program. The VCBA issues bonds and uses the proceeds to reimburse the University and other institutions of higher education for equipment purchased. For fiscal years prior to 1999, the VCBA purchased the equipment and leased it to the University. For fiscal years 1999 and following, financing agreements for ETF were changed so that the University now owns the equipment from the date of purchase.

The Statement of Net Assets line "Due from the Commonwealth of Virginia" totaling \$1,874,680 at June 30, 2001, represents equipment purchased by the University that was not reimbursed by the VCBA at year-end.

8. 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 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. As of June 30, 2001, 78 faculty members elected to enroll in the plan, including ten new participants who retired under this plan during fiscal year 2001. 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 \$1,192,814 of the fiscal year 2002 plan contribution in 2001. The plan payment schedule is as follows:

<u>Year Ending June 30,</u>	<u>Supplemental Plan Obligations</u>
2002	\$ 210,605
2003	1,092,756
2004	613,679
2005	585,979
2006	<u>210,605</u>
Total	<u>\$2,713,624</u>

9. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expenses are distributed as shown in the following table for the year ended June 30, 2001. Additionally, the University used auxiliary revenues to pay debt

service and capital improvements of \$9,207,737 and \$7,324,744, respectively. Those amounts are not included in the auxiliary operating expenses below.

Revenues:	
Room contracts, Net of scholarship allowances of \$1,005,016	\$ 16,006,893
Food service contracts, Net of scholarship allowances of \$1,017,263	16,202,761
Comprehensive fee, Net of scholarship allowances of \$1,928,257	30,706,304
Other student fees and sales and services	<u>15,086,619</u>
Total auxiliary enterprises revenues	<u>\$78,002,577</u>
Expenses:	
Residential facilities	\$11,932,451
Dining operations	24,347,943
Athletics	10,488,059
Other auxiliary activities	<u>16,137,280</u>
Total auxiliary activities expenses	<u>\$62,905,733</u>

10. EXPENSES BY NATURAL CLASSIFICATIONS

The following table shows a classification of expenses 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 <u>Wages</u>	Fringe <u>Benefits</u>	Services and <u>Supplies</u>	Scholarships and <u>Fellowships</u>	<u>Utilities</u>	Plant and <u>Equipment</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$51,387,430	\$12,306,771	\$3,793,166	\$ -	\$ 11,092	\$ 521,690	\$ -	\$ 68,020,149
Research	776,482	58,007	644,356	-	-	58,277	-	1,537,122
Public service	3,674,221	846,417	3,468,158	-	-	314,467	-	8,303,263
Academic support	9,033,041	2,709,397	1,472,382	-	-	5,183,116	-	18,397,936
Student services	3,718,033	921,478	1,390,458	-	-	108,878	-	6,138,847
Institutional support	8,201,583	2,874,462	2,082	-	7,749	689,560	-	11,775,436
Operation and maintenance of plant	4,799,340	1,638,305	1,019,420	-	5,032,556	4,607,237	-	17,096,858
Depreciation expense	-	-	-	-	-	-	13,314,796	13,314,796
Scholarship and related expenses	39,584	8,437	4,386	3,707,831	-	-	-	3,760,238
Auxiliary activities	<u>11,672,072</u>	<u>3,731,342</u>	<u>41,806,419</u>	<u>-</u>	<u>4,760,244</u>	<u>935,656</u>	<u>-</u>	<u>62,905,733</u>
Total	<u>\$93,301,786</u>	<u>\$25,094,616</u>	<u>\$53,600,827</u>	<u>\$3,707,831</u>	<u>\$9,811,641</u>	<u>\$12,418,881</u>	<u>\$13,314,796</u>	<u>\$211,250,378</u>

11. STATE APPROPRIATIONS

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of the biennium. For years ending at the middle of a

biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the University for disbursements.

The following is a summary of state appropriations received by the University including all supplemental appropriations and reversions:

Original legislative appropriation per Chapter 1073:	
Educational and general programs	\$64,516,851
Student financial assistance	4,133,341
Higher education equipment trust fund program	790,352
Supplemental adjustments:	
Central Fund appropriation transfers:	
Salary increases and regrades	378,981
Health insurance premium	308,879
Deferred compensation match	327,445
Retirement plans, faculty salaries, auto liability insurance premium, and other miscellaneous reversions to the Central Fund	(660,884)
Reversion to the General Fund of the Commonwealth	<u>(1,937)</u>
Adjusted appropriation	<u>\$69,793,028</u>

12. AFFILIATED FOUNDATIONS

The financial statements do not include the assets, liabilities, and net assets of the James Madison University Foundation, Inc., James Madison University Alumni Association, or the James Madison University Research and Development Center, Inc. The purpose of these organizations is to operate for the benefit of the University. These organizations are separately incorporated entities and the related financial statements are examined by other auditors. The following condensed summary is based solely upon the reports of other auditors at and for the year ended June 30, 2001:

Assets:	
Cash and investments	\$35,474,698
Other assets	<u>4,413,033</u>
Total assets	<u>\$39,887,731</u>
Liabilities and net assets:	
Liabilities	\$ 4,303,694
Net assets	<u>35,584,037</u>
Total liabilities and net assets	<u>\$39,887,731</u>

The aggregate revenues and expenditures of these organizations determined as if in consolidation with the University were \$10,499,768 and \$5,391,095, respectively, for the year ended June 30, 2001.

The James Madison University Foundation, Inc., receives gifts and expends funds for the benefit of the University. The revenues and expenditures of the University include funds expended

by the Foundation and paid directly to the University of approximately \$5,253,448 for the year ended June 30, 2001.

13. COMMITMENTS

At June 30, 2001, the University was a party to construction and other contracts totaling approximately \$50,101,668 of which \$38,168,772 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 the cost of delivered quantities of steam and chilled water. The contract will expire April 12, 2036. During the year ended June 30, 2001, such purchases totaled \$3,636,977.

The University is committed under various operating leases for equipment and space. In general, the equipment leases are for a 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 \$2,142,549 for the year ended June 30, 2001.

The University has, as of June 30, 2001, the following future minimum rental payments due under the above leases:

<u>Year Ending June 30,</u>	<u>Operating Lease Obligation</u>
2002	\$ 2,163,851
2003	1,009,895
2004	914,679
2005	881,590
2006	779,635
2007-2011	3,872,220
2012-2016	<u>2,821,983</u>
Total	<u>\$12,443,853</u>

14. RETIREMENT PLANS

Virginia Retirement System

Employees of the University are employees of the Commonwealth of Virginia. 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 (PERS) that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Therefore, all 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 of Virginia, 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, 2001. 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 \$5,280,476 for the year ended June 30, 2001. These contributions included the five percent employee contribution assumed by the employer and represent 10.22 percent of covered payroll for the year. Contributions to the VRS were calculated using the base salary amount of approximately \$50,978,082 for the fiscal year ended June 30, 2001. The University's total payroll was approximately \$102,442,248 for the year ended June 30, 2001.

Optional Retirement Plans

Full-time faculty and certain administrative staff participate in a defined contribution plan administered by five different providers rather than the VRS. The five different providers are TIAA/CREF Insurance Companies, Fidelity Investments Tax-Exempt Services and MetLife Resources, Great-West Life Assurance Co., T. Rowe Price Associates, and VALIC. This plan is a fixed-contribution program where the retirement benefits received are based upon the employer's (5.4 percent) and employee's (5.0 percent) contributions, plus interest and dividends.

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 \$3,551,865 for year ended June 30, 2001. Contributions to the optional retirement plan were calculated using the base salary amount of approximately \$34,152,544 for fiscal year 2001.

15. POST-EMPLOYMENT BENEFITS

The Commonwealth participates in the VRS-administered statewide group life insurance program, which 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 state service and participate in the state's health plan. Information related to these plans is available at the statewide level in the Commonwealth's *Comprehensive Annual Financial Report*.

16. CONTINGENCIES

Grants and Contracts

The University has received 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 expenditures 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 requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 2001, the University estimates that no material liabilities will result from such audits or questions.

Litigation

The University has been named as a defendant in a number of lawsuits. The final outcome of these lawsuits cannot be determined at this time. However, management is of the opinion that any ultimate liability to which the University may be exposed will not have a material effect upon the University's financial position.

17. 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 of Virginia. 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 Commonwealth's *Comprehensive Annual Financial Report*.

JAMES MADISON UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUES AND EXPENDITURES
For the Year Ended June 30, 2001

	Food Services	Stores and Shops	Residential Facilities	Parking
Revenues:				
Student fees	\$17,119,989	\$ -	\$16,396,228	\$ -
Sales and services	8,025,707	1,466,148	975,989	1,878,364
Total revenues	25,145,696	1,466,148	17,372,217	1,878,364
Cost of sales	(412,261)	(134,863)	-	-
Net revenues	24,733,435	1,331,285	17,372,217	1,878,364
Expenses of operation:				
Personal service	809,468	317,284	1,762,209	379,663
Contractual service	20,267,871	42,656	5,213,419	854,183
Supplies and materials	353,517	6,305	1,677,996	11,720
Current charges and obligations	2,444,666	1,010,351	2,732,783	183,252
Miscellaneous	75,980	-	171,866	154,738
Equipment	103,510	27,612	590,541	23,945
Scholarships	36,692	-	96,118	-
Total expenses of operation	24,091,704	1,404,208	12,244,932	1,607,501
Excess (deficiency) of revenues over (under) expenses of operation	641,731	(72,923)	5,127,285	270,863
Nonoperating revenues (expenses):				
Private gifts	-	-	-	-
Scholarships	-	-	-	-
Total non-operating revenues (expenses)	-	-	-	-
Transfers:				
Mandatory:				
Debt service	(620,935)	(17,436)	(3,836,763)	(328,975)
Nonmandatory:				
Allocation of student fees	169,497	-	-	708,771
Capital improvements	-	-	(784,140)	(59,154)
Total transfers	(451,438)	(17,436)	(4,620,903)	320,642
Net revenue increase/(decrease) for the year	\$ 190,293	\$ (90,359)	\$ 506,382	\$ 591,505
Fund balance - Beginning of year				
Fund balance - End of year				

Telecom- munications	Student Health	Student Activities	Recreation	Other	Athletics	Total
\$ -	\$ -	\$ -	\$ -	\$33,291,372	\$ -	\$ 66,807,589
1,579,140	192,382	19,286	80,581	2,247,336	1,191,723	17,656,656
1,579,140	192,382	19,286	80,581	35,538,708	1,191,723	84,464,245
-	-	-	-	-	-	(547,124)
1,579,140	192,382	19,286	80,581	35,538,708	1,191,723	83,917,121
78,123	1,615,695	1,504,422	1,181,170	2,540,747	5,175,612	15,364,393
82,261	119,441	588,665	445,723	2,186,748	3,276,126	33,077,093
13,643	144,058	304,409	262,881	328,034	719,432	3,821,995
1,308	193,661	119,548	444,790	527,492	1,301,774	8,959,625
785	12,908	15,607	3,971	371,680	38,728	846,263
4,233	20,071	86,741	123,841	652,372	116,364	1,749,230
-	10,152	45,270	33,732	65,890	3,043,809	3,331,663
180,353	2,115,986	2,664,662	2,496,108	6,672,963	13,671,845	67,150,262
1,398,787	(1,923,604)	(2,645,376)	(2,415,527)	28,865,745	(12,480,122)	16,766,859
-	-	-	-	-	187,000	187,000
-	-	-	-	-	(187,000)	(187,000)
-	-	-	-	-	-	-
(592,363)	-	(1,445,036)	(1,462,754)	(17,739)	(885,737)	(9,207,738)
-	1,947,353	4,045,071	3,862,521	(24,072,008)	13,338,795	-
-	-	-	-	(6,269,791)	(211,659)	(7,324,744)
(592,363)	1,947,353	2,600,035	2,399,767	(30,359,538)	12,241,399	(16,532,482)
\$ 806,424	\$ 23,749	\$ (45,341)	\$ (15,760)	\$ (1,493,793)	\$ (238,723)	234,377
						15,124,839
						<u>\$ 15,359,216</u>

JAMES MADISON UNIVERSITY
Harrisonburg, Virginia

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