

JAMES MADISON UNIVERSITY

**REPORT ON AUDIT
FOR THE YEARS ENDED
JUNE 30, 2005 AND 2004**

APA

**Auditor of
Public Accounts**
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of James Madison University for the years ended June 30, 2005 and 2004 found:

- the financial statements are presented fairly, in all material respects;
- no internal control matters that we consider to be material weaknesses; and
- no instances of non-compliance or other matters that are required to be reported.

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UNIVERSITY OFFICIALS

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

Overview

This unaudited 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 years ended June 30, 2005 and 2004. Comparative numbers, where presented, are for the fiscal years ending June 30, 2004 and 2003. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying financial statements, notes to financial statements, and other supplementary information. University management is responsible for all of the financial information presented, including this discussion and analysis.

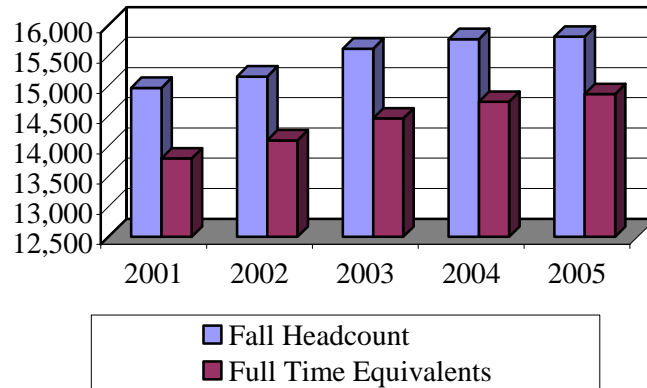
The financial statements referred to above were prepared in accordance with GASB Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement Number 35, *Basic Financial Statements—and Management's Discussion and Analysis—for 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.

Enrollment and Admissions Information

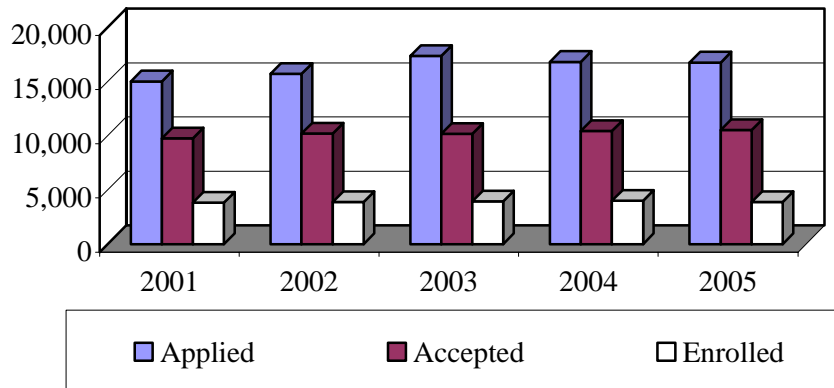
After a period of continuous enrollment growth in the 1990's, the University's enrollment stabilized in 2001-2005 at approximately 15,000 students. However, as further discussed in the "Economic Outlook" section, under the Higher Education Restructuring Act, institutions are required to adhere to goals that increase student access. Successful efforts in this area will result in increased enrollment, now projected at over 17,000 students by 2010.

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. The University 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 (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, 2005 and 2004. 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.

	<u>Statement of Net Assets</u> (In thousands)		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Current assets	\$ 95,048	\$ 89,373	\$ 67,562
Capital assets, net	330,990	305,460	279,798
Other non-current assets	<u>14,513</u>	<u>3,210</u>	<u>7,716</u>
Total assets	<u>440,551</u>	<u>398,043</u>	<u>355,076</u>
Liabilities:			
Current liabilities	54,386	50,440	36,408
Non-current liabilities	<u>72,288</u>	<u>77,921</u>	<u>82,724</u>
Total liabilities	<u>126,674</u>	<u>128,361</u>	<u>119,132</u>
Net assets:			
Invested in capital assets, net of related debt	258,926	231,678	203,488
Restricted – expendable	24,555	8,712	7,304
Restricted – non-expendable	309	291	260
Unrestricted	<u>30,087</u>	<u>29,001</u>	<u>24,892</u>
Total net assets	<u>\$313,877</u>	<u>\$269,682</u>	<u>\$235,944</u>

In 2005, the University's total assets increased by \$42,508,000. The University continued to use state capital appropriations to construct and purchase capital assets. The net increase of \$25,530,000 in capital assets is discussed in the next section of this analysis. The \$5,675,000 increase in current assets includes a \$6,606,000 increase in amounts due from the Commonwealth related to construction cost reimbursements due for capital projects being funded by the state's 21st Century and General Obligation bond programs. Non-current restricted cash and cash equivalents increased by \$10,788,000. This balance primarily is due to receipt of state General Fund capital appropriations in June 2005 of \$8,000,000 to begin the purchase of Rockingham Memorial Hospital's property and facilities and \$1,405,000 for fiscal year 2006 maintenance reserve funding. Current liabilities increased \$3,946,000, including \$1,558,000 related to accrued payroll reflecting pay rate increases and a one-day change in the wage accrual period, and an increase of \$2,632,000 in deferred revenue due to the timing of collections for summer and fall programs and increased tuition and fee rates. Non-current liabilities decreased \$5,633,000, mostly attributable to payments on bond debt and the incurrence of no new bond debt in fiscal year 2005.

In 2004, the University's total assets increased by \$42,967,000. Generally, the University used non-current assets such as investments with the Treasurer of Virginia, and state capital appropriations to construct and purchase capital assets. The net increase in capital assets of \$25,662,000 is discussed in the next section of this analysis. The \$21,811,000 increase in current assets includes a \$7,484,000 increase in short-term investments related to the University's allocated share in the Commonwealth's securities lending program. The current liabilities include an increase in the same amount for obligations under the securities lending program. An increase of \$3,656,000 in accounts receivable includes \$2,695,000 due under insurance settlement for the Financial Services Building fire. Increases in amounts due from the Commonwealth of \$1,843,000 are expenditure reimbursements for capital projects funded by the state's 21st Century and General Obligation bond programs. Total liabilities increased by \$9,229,000, due to obligations related to securities as discussed above and a \$5,686,000 increase in accounts payable and accrued expenses. Capital related accounts and retainage payables increased \$3,353,000, reflecting the on-going construction projects.

Capital Asset and Debt Administration

The University continues to maintain and upgrade current facilities, as well as pursue opportunities for additional facilities. Investment in new and upgrading current structures serves to facilitate the current and future instructional programs and residential lifestyles.

Note 4 of the Notes to Financial Statements describes the University's significant investment in capital assets with total depreciable capital asset additions of \$59,345,000 and \$16,077,000 (excluding land and construction-in-progress) in fiscal years 2005 and 2004. Additions in fiscal year 2005 included completion of the third academic building on the East Campus (\$23,617,000), the Logan Hall renovation project (\$4,753,000), the Athletic Performance Center (\$8,840,000), and the Steam Infrastructure project (\$4,328,000). Significant additions in fiscal year 2004 included the completion of the Track Relocation project (\$3,694,000) and the purchase of Blue Ridge Hall (\$2,693,000). The East Campus Academic building was funded through the state's 21st Century bond Program and state General Funds. The University incurred no debt for this project. The Athletic Performance Center project was funded by a combination of auxiliary reserve funds, gifts, and debt proceeds. The Steam Infrastructure project was funded by general obligation bonds, and bond debt proceeds funded the Logan Hall renovation project. Auxiliary reserve funds provided for the Track Relocation project and the Blue Ridge Hall purchase in fiscal year 2004. Non-depreciable additions for 2005 include \$523,000 in land transferred from the Foundation and land purchases of \$345,000 for the Arboretum property and \$686,000 for the Grace Street property. Non-depreciable additions for 2004 included \$684,000 for land associated with the Blue Ridge Hall purchase and \$703,000 in artwork transferred from the Foundation. Depreciation expense was \$16,652,000 and \$15,388,000 in 2005 and 2004, with net retirements of \$287,000 and \$2,102,000 resulting in a net increase of depreciable capital assets of \$42,405,000 and a net decrease of depreciable capital assets of \$1,413,000 for 2005 and 2004, respectively.

Major projects still under construction at June 30, 2005 include the Harrison Hall renovation (\$10,362,000) and Financial Services Building (\$1,323,000) projects. The Harrison Hall renovation project was substantially completed and the building was occupied prior to the 2005 fall semester. This project was primarily funded by state general obligation bonds. Costs for the Financial Services Building are generally for construction of a new administrative building to replace the one destroyed by fire in November 2003. The construction costs are being funded from educational and general and auxiliary reserve funds, and insurance proceeds. Major projects under construction at June 30, 2004, included the third academic building on the East Campus, the Athletic Performance Center, and the Harrison Hall renovation.

The University decreased its total long-term debt from \$81,026,000 in fiscal year 2003 to \$76,936,000 and \$72,082,000 in fiscal years 2004 and 2005. The only new bond indebtedness in the past two years was for \$1,865,000 in 2004 to fund construction on the Athletic Performance Center.

As calculated under the State Council of Higher Education for Virginia's (SCHEV) formula, the University's 2005 debt service to unrestricted expenditures and mandatory transfers ratio was 3.9 percent, as compared to 4.6 percent for 2004 and 5.4 percent for 2003. This ratio is one of the system-wide measures in SCHEV's Reports on Institutional Effectiveness. The Commonwealth recommends that this ratio not exceed seven percent. The Council has not indicated a new method for calculating this ratio based on the new reporting model. We computed our ratio based on the previous reporting model.

Overall, unpaid construction and other related contractual commitments increased from \$19,229,000 in 2003 to \$21,714,000 in 2004, and then decreased to \$18,166,000 in 2005. Unpaid commitments at June 30, 2005 primarily reflect the Architectural and Engineering contract for the Art Center and Music Recital Hall projects, and construction on the Financial Services Building project. Unpaid commitments at both June 30, 2004 and 2003 primarily reflected construction on the East Campus' third academic building and the Athletic Performance Center projects. Further information relating to capital assets, construction, and capital debt is included in the Notes to Financial Statements in Notes 4 and 7.

The University's long-range capital outlay program received a major boost in fall 2002 from the voter-approved Virginia Higher Education Bond Referendum. This referendum provides over \$900 million in debt-financed capital projects at higher education facilities. The bond projects will be spread out over the next four years and the bond debt will be the obligation of the Commonwealth. The University will receive \$99.9 million in funds for construction, renovation, and infrastructure work. Some colleges and universities will use the bond issue to add facilities in order to increase enrollment. This is generally not the case at the University. University enrollment increased substantially in the late 1990s and these planned bond projects will be used to meet the needs of the current student body, not to further expanded enrollment. The University's first bond project that got underway in 2003 was the recently completed \$9.7 million Harrison Hall renovations. A second project that began in 2004 and was completed in 2005 was the \$4.3 million renovation of steam utility lines. Other projects planned and approved under the bond issue include a \$29.8 million Center for the Arts and a \$20.9 million Music Recital Hall. In addition to the bond funds authorized, the University is supplementing each project with private funding. These two new buildings will be constructed on the west side of Main Street across from the original campus. Other projects include a \$19.8 million library for the east campus, \$13.9 million in renovations for Miller Hall, and improvements for handicapped accessibility.

