JAMES MADISON UNIVERSITY®

AUDITED FINANCIAL REPORT

FOR THE YEAR ENDED

JUNE 30, 2017

JAMES MADISON UNIVERSITY

AUDITED FINANCIAL REPORT 2016 – 2017

TABLE OF CONTENTS

Page Left Intentionally Blank

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 overall view of the university's 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, 2017. Comparative numbers, where presented, are for the fiscal year ending June 30, 2016. 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 35, *Basic Financial Statements–and Management's Discussion and Analysis–for Public Colleges and Universities*, as amended by GASB Statement Numbers 37, 38, 61 and 63. The three basic financial statements are the Statement of Net Position (balance sheet), the Statement of Revenues, Expenses, and Changes in Net Position (operating statement), and the Statement of Cash Flows. These statements are summarized and analyzed in the following sections.

GASB Statement Number 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*, 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 Statement Number 61'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 following GASB statements of standards became effective in fiscal year 2017: Statement 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68;* Statement 74, *Financial Reporting for Postemployment and Benefits Plans Other Than Pension Plans;* Statement 77, *Tax Abatement Disclosures*; Statement 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*; Statement 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement 14*. Portions of both GASB Statement 73 and GASB Statement 79 were effective in the prior fiscal year. None of these GASB statements had a significant effect upon the university's financial statements for the current year.

Statement of Net Position

The Statement of Net Position (SNP) presents the University's assets, liabilities, and net position 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, 2017. The data presented in the SNP 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 SNP provides a picture of net assets and their availability for expenditure by the University. Sustained increases in net position are one indicator of an organization's financial health.

Net position is divided into the following major categories:

- Net investment in capital assets – The net investment in capital assets category 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 net investment in capital assets.

- Restricted net position, expendable – The expendable restricted position includes resources the University is legally or contractually obligated to expend in accordance with restrictions imposed by external third parties.

- Restricted net position, nonexpendable – Non-expendable restricted net position consists 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 position – Unrestricted net position represents 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. The unrestricted component of net position absorbed 100% of the 2015 beginning balance adjustment for the pension liability resulting from implementation of GASB Statement 68.

Statement of Net Position
(In thousands)

	2017	2016	Change Amount	Change Percent
Current Assets	**$ 217,809**	**$ 213,406**	**$ 4,403**	**2.1%**
Noncurrent assets				
Capital assets, net	1,080,586	1,040,373	40,213	3.9%
Other noncurrent assets	32,370	13,343	19,027	142.6%
Total noncurrent assets	**1,112,956**	**1,053,716**	**59,240**	**5.6%**
Deferred outflow of resources	**45,407**	**27,169**	**18,238**	**67.1%**
Total Assets and deferred outflow of resources	**1,376,172**	**1,294,291**	**81,881**	**6.3%**
Current liabilities	**99,360**	**96,776**	**2,584**	**2.7%**
Noncurrent liabilities				
Long-term liabilities	334,898	289,626	45,272	15.6%
Net pension liability	166,981	148,708	18,273	12.3%
Total Noncurrent liabilities	**501,879**	**438,334**	**63,545**	**14.5%**
Deferred inflow of resources	**4,596**	**10,763**	**(6,167)**	**-57.3%**
Total liabilities and deferred inflow of resources	**605,835**	**545,873**	**59,962**	**11.0%**
Net position				
Net investment in capital assets	773,661	748,475	25,186	3.4%
Restricted - expendable	6,800	26,170	(19,370)	-74.0%
Unrestricted	(10,123)	(26,227)	16,104	-61.4%
Total net position	**$ 770,338**	**$ 748,418**	**$ 21,920**	**2.9%**

In 2017, the University's total assets and deferred outflow of resources increased by $81.9 million, mostly attributable to the $40.2 million net increase in capital assets. Significant additions included construction-in-progress capitalized during the year, including West Campus Dining Hall ($30.3 million), and the Madison Hall Renovation ($11.8 million). The increase in capital assets is further discussed in the next section of this analysis.

The $4.4 million increase in current assets primarily relates to an increase in cash and cash equivalents of $22.6 million, which was driven by a $16.5 million increase in auxiliary cash balances. This increase is offset by a decrease in amounts due from the commonwealth of $19.9 million. This decrease was primarily the result of a $15.9 million decrease in capital appropriations available due to the expenditure of general fund capital appropriations related to the Madison Hall Renovation project and Resource Recovery Facility purchase. Other non-current assets increased by $19.1M, largely due to an $18.1 million increase in restricted cash and cash equivalents. This increase was the result of a $24.0 million increase in unspent bond proceeds held as restricted cash equivalents, which will be used for the West Campus Dining Hall construction project. This increase was offset by a $5.9 million decrease in unspent non-general fund restricted cash related to expenditures associated with the USB Annex project.

Current liabilities increased $2.6 million, including an increase of $3.0 million in unearned revenue and a $2.9 million increase in the current portion of long-term debt. The increase in unearned revenue is primarily due to an increase in funds collected in advance for summer online courses and the NCAA distribution for fiscal year 2018. These increases are offset by a $2.5 million decrease in accounts payable and accrued expenses. This decrease is largely attributable to the timing of accounts payable related to capital projects.

Non-current liabilities increased by $63.5 million, primarily due to a $45.3 million increase in long-term liabilities and an $18.3 million increase in net pension liability related to the University's portion of VRS' unfunded pension liability. The increase in long-term liabilities is mainly due to a $45.4 million increase in long-term debt. For more detailed debt information, see the Capital Asset and Debt Administration section.

The increase in total assets and deferred outflows of resources along with the increase in total liabilities and deferred inflow of resources is reflected in the year-over- year increase of the University's net position of $21.9 million. Net position in the category of net investment in capital assets increased $25.2 million, reflecting the university's continued investment in new facilities and equipment supporting the university's missions, as well as prudent management of the university's fiscal resources.

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.

Depreciable capital asset additions totaled $69.9 million (excludes land, artwork, and construction-in-progress) in 2017, as compared to $180.9 million in 2016.

PROJECTS COMPLETED OR ACQUIRED DURING 2016-17 *(in thousands)*

PROJECT	**CAPITALIZED COST**
Madison Hall Renovation/Expansion	$ 23,425
Construct Mason Street Parking Deck	18,726
Purchase Resource Recovery Facility	4,021
All other capitalized additions	23,764
TOTAL	**$ 69,936**

Non-depreciable additions for 2017 include $2.1 million for various land purchases. Depreciation expense was $41.9 million with net asset retirements of $1.3 million.

Major projects under construction in 2017 totaled $59.1 million, as compared to $47.8 million in 2016.

PROJECTS IN PROGRESS AT YEAR-END *(in thousands)*

PROJECT	AMOUNT
Construct West Campus Dining Hall	$41,296
University Services Building Annex	6,542
Showker Hall Renovation/Expansion	2,025
All other projects in progress	9,251
TOTAL	**$59,114**

The University's total long-term debt increased to $344.5 in 2017 from $299.1 million in fiscal year 2016. The increase is the result of new debt in 2017 of $53.7 million for the construction of the West Campus Dining Hall and its associated premium of $6.5 million, offset by debt principal payments made throughout the year on outstanding debt balances.

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 2017 ratio was 5.8 percent, as compared to 5.5 percent for 2016.

Overall, unpaid construction commitments increased from $29.0 million in 2016 to $59.8 million in 2017, and other related contractual commitments decreased from $5.0 million to $4.3 million, respectively.

UNPAID CONSTRUCTION COMMITMENTS AT YEAR-END *(in thousands)*

PROJECT	UNPAID COMMITMENT
Construct West Campus Dining Hall	$34,379
Construct New Convocation Center	6,928
College of Business Renovation/Expansion	4,889
All other construction contracts	13,638
TOTAL	**$59,834**

Further information relating to capital assets, construction, and capital debt is included in the Notes to Financial Statements in Notes 5 and 8. Information on other contractual commitments is included in Note 17.

Statement of Revenues, Expenses, and Changes in Net Position

The operating and non-operating activities creating the changes in the University's total net position are presented in the Statement of Revenues, Expenses, and Changes in Net Position. 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.

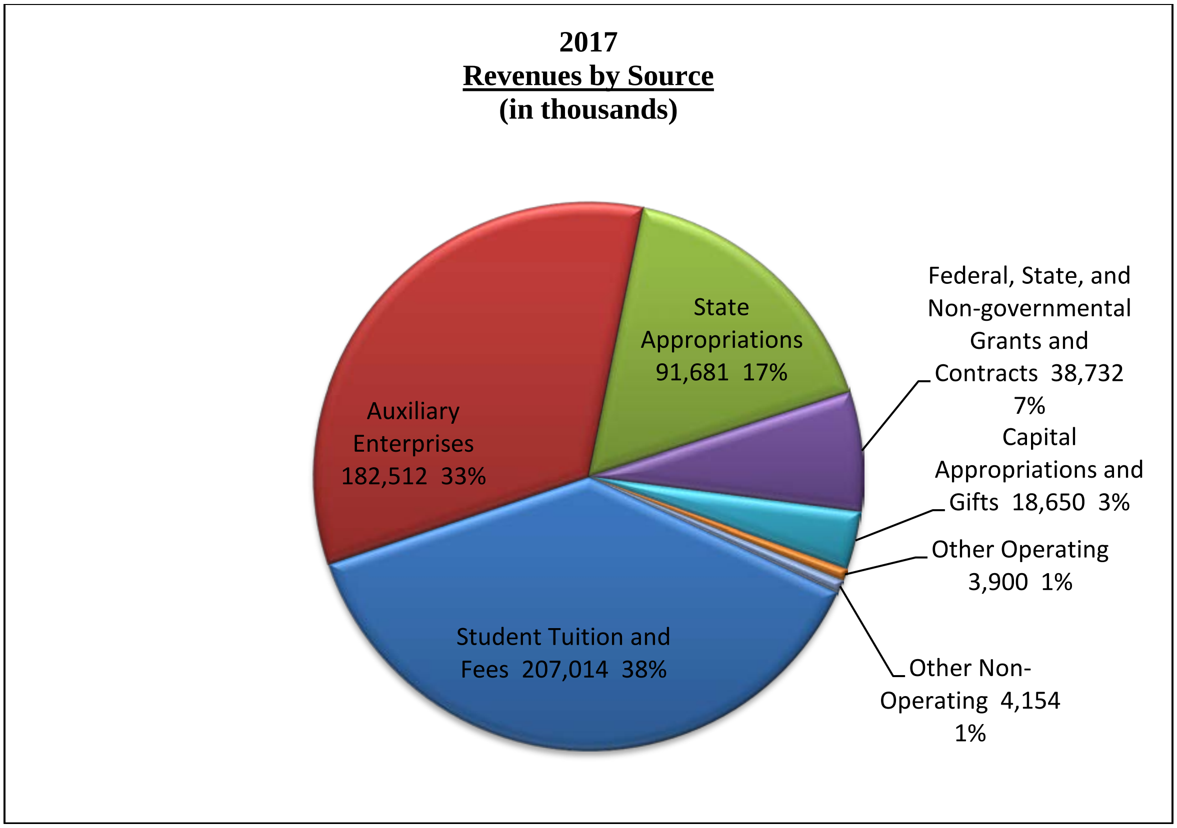
Generally, operating revenues are received for providing goods and services to students and other constituencies of the University. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the University's 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 Position
(In thousands)

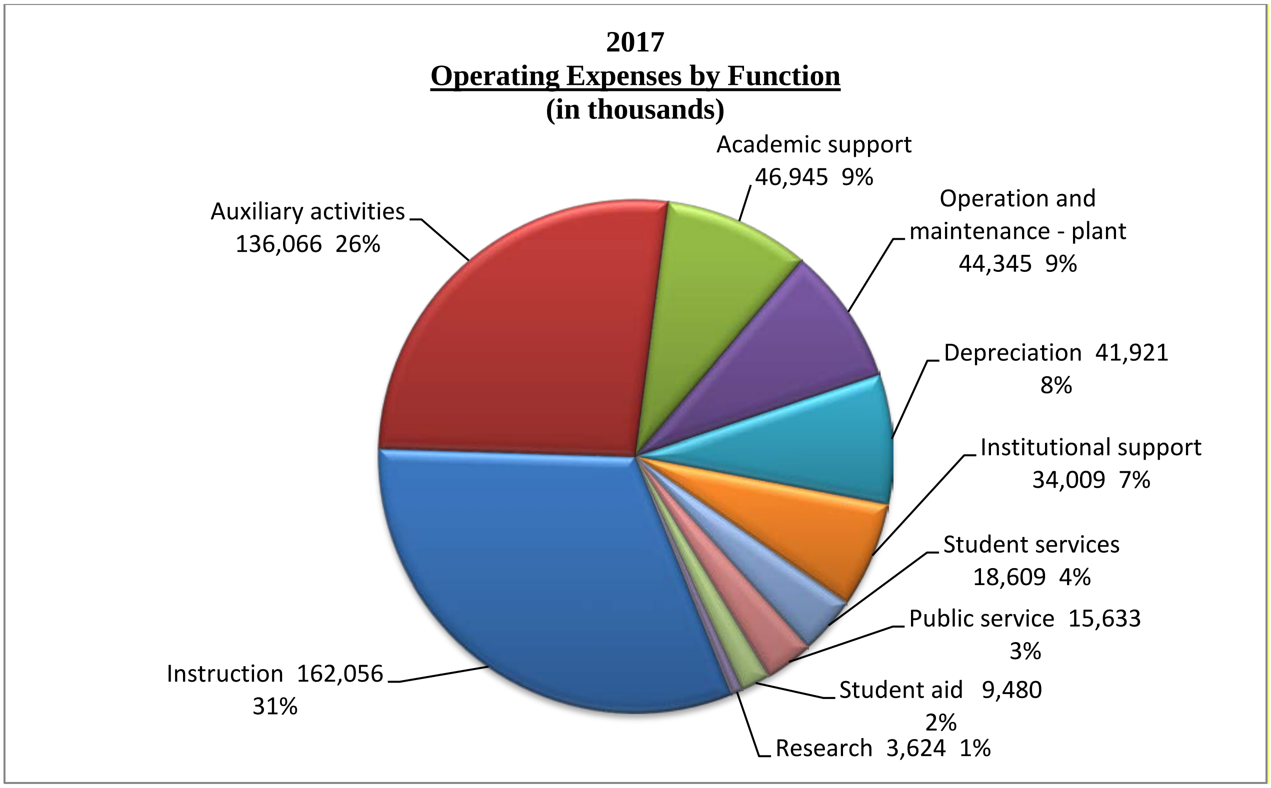
	2017	2016	Change Amount	Change Percent
Operating revenues	**$ 419,668**	**$ 408,979**	**$ 10,689**	**2.6%**
Operating expenses	**512,688**	**484,112**	**28,576**	**5.9%**
Operating loss	**(93,020)**	**(75,133)**	**(17,887)**	**23.8%**
Nonoperating revenues (expenses)				
State appropriations	91,681	86,632	5,049	5.8%
Grants and Contracts	12,489	12,036	453	3.8%
Gifts	7	48	(41)	-85.4%
Pension related contribution revenue	2,552	-	2,552	100.0%
Investment Income	1,595	751	844	112.4%
Interest on capital asset related debt	(7,963)	(8,445)	482	-5.7%
Loss on disposal of plant assets	(1,142)	(470)	(672)	143.0%
Payments to the Commonwealth	(2,930)	(2,930)	-	0.0%
Net nonoperating revenue (expenses)	**96,289**	**87,622**	**8,667**	**9.9%**
Income before other revenues, expenses, gains, or losses	**3,269**	**12,489**	**(9,220)**	**-73.8%**
Capital appropriations and contributions	14,425	63,076	(48,651)	-77.1%
Capital gifts	4,225	6,169	(1,944)	-31.5%
Total other	**18,650**	**69,245**	**(50,595)**	**-73.1%**
Increase in net position	**21,919**	**81,734**	**(59,815)**	**-73.2%**
Net position - beginning of year	748,418	666,684	81,734	12.3%
Adjustment to beginning net position	-	-	-	100.0%
Net position - end of year	**$ 770,337**	**$ 748,418**	**$ 21,919**	**2.9%**

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, 2017. As noted above, critical recurring revenue sources such as state and capital appropriations are considered non-operating.



Operating revenues, consisting mostly of tuition and fees and auxiliary enterprises, increased $10.7 million or three percent from the prior fiscal year. Student tuition and fees, net of scholarship allowances, increased by $4.9 million or two percent in fiscal year 2017. The 2017 tuition increase was due to a combination of average rate increases of three percent and changes in the mix of in-state vs. out-of-state student headcounts. Auxiliary revenues increased by $4.1 million or two percent. The increase reflects an approximate three percent rate increase in room, board, and comprehensive fees year over year.

The following graphical illustration presents total operating expenses for fiscal year 2017 by function.



Total 2017 operating expenses increased $28.6 million or six percent. Compensation expenses, consisting of the natural expense classifications salaries, wages, and fringe benefits, comprise the largest University expense. Compensation expenses comprised 57 percent of the University's total operating expenses in 2017 and 56 percent in 2016. Compensation expense increased by $19.3 million, or seven percent. The increase is a result of increases in salaries/wages ($6.4 million) due to faculty/staff salary increases and employee headcount increases, increases in pension expense ($5.4 million), increases in medical insurance premiums ($3.8 million), and increases in the supplemental retirement plan ($2.0 million).

Net non-operating revenue and expenses totaled $96.3 million, an increase of $8.7 million from the prior year. The increase in this category results primarily from an increase in state appropriations of $5.0 million and an increase in pension-related contribution revenue of $2.6 million. The pension-related contribution revenue consists of a $4.1 million special revenue allocation stemming from the general assembly's accelerated payback of the deferred VRS contribution in the 2010-12 biennium, offset by a $1.6 million transfer to the general fund in June 2017 to fund a portion of the non-general share of the accelerated payback.

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 Position (SRECNP). This difference occurs because the SRECNP 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 SRECNP.

Statement of Cash Flows
(in thousands)

			Change	
	2017	**2016**	**Amount**	**Percent**
Cash provided (used) by:				
Operating activities	$ (41,167)	$ (33,059)	$ (8,108)	24.5%
Non-capital financing activities	99,431	95,789	3,642	3.8%
Capital financing activities	(17,899)	(76,797)	58,898	-76.7%
Investing activities	388	535	(147)	-27.5%
Net increase(decrease) in cash	**40,753**	**(13,532)**	**54,285**	**-401.2%**
Cash - beginning of the year	176,294	189,826	(13,532)	-7.1%
Cash - end of the year	**$ 217,047**	**$ 176,294**	**$ 40,753**	**23.1%**

Major sources of cash from operating activities include student tuition and fees ($208.3 million in 2017 and $203.0 million in 2016), auxiliary enterprises receipts ($183.2 million in 2017 and $178.6 million in 2016), and grants and contracts ($26.8 million in 2017 and $24.0 million in 2016). Major uses of cash include payments for salaries, wages, and fringe benefits ($282.4 million in 2017 and $270.3 million in 2016), payments for supplies, services, and utilities ($141.6 million in 2017 and $134.7 million in 2016), and payments for non-capitalized plant improvements and equipment ($30.1 million in 2017 and $28.0 million in 2016).

Cash flows from non-capital financing activities include state appropriations for the University's educational and general programs and financial aid of $91.7 million and $86.6 million in 2017 and 2016, 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 2017 and 2016 include capital appropriations and contributions ($33.8 million in 2017 and $43.9 million in 2016) and proceeds from issuance of capital related debt ($60.0 million in 2017 and $8.3 million in 2016). Significant cash outflows include purchases and construction of capital assets ($82.7 million in 2017 and $101.6 million in 2016) and repayment of principal and interest on capital related debt ($29.6 million in 2017 and $27.5 million in 2016).

Economic Outlook

The University, as a public institution, is subject to many of the macro-economic conditions impacting the nation and 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 27 percent of operating expenses, excluding auxiliary activities and depreciation.

The *Virginia Higher Education Opportunity Act* of 2011 marked the commonwealth's reemphasis on positioning institutions of higher education for the future. While the Commonwealth of Virginia maintains the university's board of visitors' authority to establish tuition and fee rates, significant national and state emphasis has been focused on slowing the rate of tuition growth for undergraduate students, particularly state residents. The 2016 General Assembly made significant investments in higher education. The commonwealth increased original General fund support for the University's educational and general programs by $7.8 million for 2017. However, fiscal year 2016 state revenue collections fell short of the official budgetary forecast for 2016 by $268.9 million. Since that shortfall was greater than 1% below the official budget estimate, state law required the Governor to prepare a re-estimate of the general fund revenues for 2017 and 2018. The Governor's Advisory Council on Revenue Estimates met in August 2016 and the revised interim forecast reduced revenues from that currently contained in the Appropriation Acts for 2017 and 2018 by $564.4 million and $632.7 million, respectively. Despite the shortfall, 2017 state appropriations for higher education institutions were not reduced during the 2017 General Assembly legislative session. However, the 2018 original General fund support for educational and general programs was reduced by $3.3 million. Additionally, other targeted reductions (nongeneral fund cost of VRS payments) of $1.6 million and $1.0 million were made for 2017 and 2018, respectively.

The University continues to work with the state officials to support higher education through the *Virginia Higher Education Opportunity Act of 2011*. The six year academic, enrollment, and financial planning process defined by this legislation has potential implications for future state support and tuition rates. As a part of this funding framework, the commonwealth has moved to an environment that seeks to incentivize certain activities in support of state goals such as increased STEM-H (science, technology, engineering, mathematics, and health) degree completion.

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 2016 Appropriation Acts provided additional flexibility by allowing the University, along with George Mason University, to participate in a 5-year pilot program (referred to as "Tier 2.5"). This program will allow the University greater financial autonomy over collection and disbursement processes, along with less oversight over capital projects. In June 2016, the University's Board of Visitors approved management's request to move to Tier 2.5 autonomy in the areas of Finance and Capital Projects.

The University's overall financial position remains strong. As in fiscal year 2016, the University generated an overall increase in net position during 2017. 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.

Page Left Intentionally Blank

Financial Statements

JAMES MADISON UNIVERSITY
STATEMENT OF NET POSITION
As of June 30, 2017 (with comparative information as of June 30, 2016)

	2017		2016	
	James Madison University	Component Unit	James Madison University*	Component Unit
ASSETS				
Current assets:				
Cash and cash equivalents (Note 2)	$ 188,434,045	$ 3,855,387	$ 165,814,416	$ 3,559,716
Securities lending - Cash and cash equivalents (Note 2)	-	-	685,677	-
Short-term investments (Note 2)	2,185,217	-	1,628,567	-
Accounts receivable (Net of allowance for doubtful accounts of $771,300 and $788,710 for 2017 and 2016, respectively) (Note 3)	7,313,331	75,821	6,549,383	70,674
Contributions receivable (Net of allowance for doubtful contributions of $54,274 and $53,000 for 2017 and 2016, respectively) (Note 3)	-	2,659,405	-	2,172,150
Due from the Commonwealth (Note 4)	6,583,908	-	26,443,048	-
Prepaid expenses	11,678,610	43,152	10,472,146	43,584
Prepaid expenses to component unit	360,409	-	528,241	-
Inventory	873,654	-	900,222	-
Notes receivable (Net of allowance for doubtful accounts of $54,550 and $53,000 for 2017 and 2016, respectively)	379,849	-	384,504	-
Total current assets	217,809,023	6,633,765	213,406,204	5,846,124
Non-current assets:				
Restricted cash and cash equivalents (Note 2)	28,613,443	-	10,479,972	-
Endowment investments (Note 2)	-	64,355,685	-	59,010,424
Other long-term investments (Note 2)	1,665,250	54,102,297	887,967	39,301,930
Land held for future use	-	6,264,640	-	6,264,640
Contributions receivable (Net of allowance for doubtful contributions of $202,729 and $174,079 for 2017 and 2016 respectively) (Note 3)	-	9,933,756	-	8,413,096
Prepaid expenses	362,244	-	173,784	-
Notes receivable (Net of allowance for doubtful accounts of $248,507 and $249,443 for 2017 and 2016, respectively)	1,729,285	3,226,647	1,800,675	150,000
Capital assets, net: (Note 5)				
Non-depreciable	147,839,638	656,552	134,344,247	1,250,552
Depreciable	932,746,183	3,003,080	906,029,110	3,695,642
Other assets	-	2,145	-	17,255
Total non-current assets	1,112,956,043	141,544,802	1,053,715,755	118,103,539
DEFERRED OUTFLOW OF RESOURCES				
Related to debt refundings (Note 9)	10,890,597	-	5,334,505	-
Related to pensions (Note 11)	34,516,381	-	21,834,122	-
Total deferred outflow of resources	45,406,978	-	27,168,627	-
Total assets and deferred outflow of resources	$ 1,376,172,044	$ 148,178,567	$ 1,294,290,586	$ 123,949,663

JAMES MADISON UNIVERSITY
STATEMENT OF NET POSITION
As of June 30, 2017 (with comparative information as of June 30, 2016)

	2017		2016	
	James Madison University	Component Unit	James Madison University*	Component Unit
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses (Note 6)	$ 47,135,556	$ 192,635	$ 49,599,922	$ 167,502
Unearned revenue	19,054,651	-	16,073,585	-
Unearned revenue from James Madison University	-	360,409	-	528,241
Obligations under securities lending	-	-	685,677	-
Deposits held in custody for others	7,826,137	-	8,003,970	-
Long-term liabilities - current portion (Note 7)	25,343,307	251,835	22,412,312	232,495
Total current liabilities	99,359,651	804,879	96,775,466	928,238
Non-current liabilities:				
Long-term liabilities (Note 7)	334,898,377	5,519,561	289,626,187	2,341,051
Net pension liability (Note 11)	166,981,000	-	148,708,000	-
Total non-current liabilities	501,879,377	5,519,561	438,334,187	2,341,051
DEFERRED INFLOW OF RESOURCES				
Related to debt refundings (Note 9)	66,510	-	137,874	-
Related to pensions (Note 11)	4,529,000	-	10,625,000	-
Total deferred inflow of resources	4,595,510	-	10,762,874	-
Total liabilities and deferred inflow of resources	605,834,538	6,324,440	545,872,527	3,269,289
NET POSITION				
Net investment in capital assets	773,660,854	1,831,855	748,475,110	2,961,750
Restricted for:				
Non-expendable:				
Scholarships and fellowships	-	44,756,841	-	41,431,017
Research and public service	-	857,254	-	2,314,955
Other	-	22,592,420	-	18,757,778
Expendable:				
Scholarships and fellowships	-	15,360,477	-	10,608,828
Research and public service	1,811,692	910,730	2,207,959	1,626,174
Debt service	218,467	-	213,015	-
Capital projects	4,475,269	12,404,366	23,448,761	8,216,661
Loans	294,461	-	300,636	-
Other	-	25,785,944	-	21,589,642
Unrestricted	(10,123,237)	17,354,240	(26,227,422)	13,173,569
Total net position	$ 770,337,506	$ 141,854,127	$ 748,418,059	$ 120,680,374

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.

Page Left Intentionally Blank

JAMES MADISON UNIVERSITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the year ended June 30, 2017 (with comparative information for the year ended June 30, 2016)

	2017		2016	
	James Madison University	Component Unit	James Madison University*	Component Unit
Operating revenues:				
Student tuition and fees (Net of scholarship allowances of $19,038,129 and $17,892,706 for 2017 and 2016, respectively)	$ 207,013,768	$ -	$ 202,136,780	$ -
Gifts and contributions	-	12,289,043	-	13,018,522
Federal grants and contracts	12,818,803	-	11,566,280	-
State grants and contracts	8,514,500	-	7,681,380	-
Non-governmental grants and contracts	4,909,152	-	5,250,765	-
Auxiliary enterprises (Net of scholarship allowances of $13,620,070 and $12,778,357 for 2017 and 2016, respectively) (Note 13)	182,511,536	-	178,393,022	-
Sales and Services of Education and General Activities	2,051,558	-	1,849,702	-
Other operating revenues	1,848,324	863,342	2,101,057	800,431
Total operating revenues	419,667,641	13,152,385	408,978,986	13,818,953
Operating expenses (Note 14):				
Instruction	162,056,031	587,905	153,285,977	599,485
Research	3,623,976	11,586	3,325,484	13,031
Public service	15,632,592	153,325	13,313,116	325,549
Academic support	46,944,912	1,269,840	42,658,976	1,202,398
Student services	18,608,567	148,627	17,175,682	72,994
Institutional support	34,009,506	6,149,561	32,070,953	5,854,385
Operation and maintenance - plant	44,345,268	626,201	41,178,658	78,522
Depreciation	41,921,323	117,906	39,495,236	116,966
Student aid	9,479,895	3,510,104	9,205,261	3,292,967
Auxiliary activities (Note 13)	136,065,856	759,736	132,402,302	1,016,942
Total operating expenses	512,687,926	13,334,791	484,111,645	12,573,239
Operating loss	(93,020,285)	(182,406)	(75,132,659)	1,245,714
Non-operating revenues/(expenses):				
State appropriations (Note 15)	91,680,650	-	86,631,522	-
Grants and contracts (Note 1 Q.)	12,489,535	-	12,035,589	-
Pension related contribution revenue	2,552,171	-	-	-
Gifts	7,006	-	47,939	-
Investment income (Net of investment expense of $831 and $7,634 for the University and $403,766 and $393,367 for the Foundation for 2017 and 2016, respectively)	1,594,586	11,942,501	751,478	(3,114,161)
In-Kind support from James Madison University	-	3,702,567	-	3,527,132
Interest on capital asset - related debt	(7,962,653)	(131,573)	(8,445,566)	(101,703)
Gain(Loss) on disposal of plant assets	(1,142,270)	337,757	(469,931)	-
Payment to the Commonwealth	(2,929,583)	-	(2,929,583)	-
Net non-operating revenues/(expenses)	96,289,442	15,851,252	87,621,448	311,268
Income before other revenues, expenses, gains or losses	3,269,157	15,668,846	12,488,789	1,556,982
Capital appropriations and contributions (Note 16)	14,425,600	-	63,075,971	-
Capital gifts	4,224,690	-	6,169,177	-
Additions to permanent endowments	-	5,504,907	-	4,633,736
Net other revenues	18,650,290	5,504,907	69,245,148	4,633,736
Increase in net position	21,919,447	21,173,753	81,733,937	6,190,718
Net position - beginning of year	748,418,059	120,680,374	666,684,122	114,489,656
Net position - end of year	$ 770,337,506	$ 141,854,127	$ 748,418,059	$ 120,680,374

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, 2017 (with comparative information for the year ended June 30, 2016)

	2017	2016*
Cash flows from operating activities:		
Student tuition and fees	$ 208,302,336	$ 203,038,547
Grants and contracts	26,836,094	24,044,332
Auxiliary enterprises	183,194,764	178,589,760
Other receipts	4,067,977	3,465,044
Payments for compensation and benefits	(282,394,454)	(270,314,800)
Payments for services, supplies and utilities	(141,599,592)	(134,727,189)
Payments for scholarships and fellowships	(9,479,895)	(9,205,261)
Payments for non-capitalized plant improvements and equipment	(30,143,063)	(28,011,771)
Loans issued to students	(399,996)	(365,465)
Collections of loans from students	449,288	428,016
Net cash used by operating activities	(41,166,541)	(33,058,787)
Cash flows from noncapital financing activities:		
State appropriations	91,657,608	86,634,130
Nonoperating grants and contracts	12,069,873	11,612,677
Payment to the Commonwealth	(2,929,583)	(2,929,583)
Pension related contributions	(1,551,829)	-
Loans issued to students and employees	(11,122)	(9,659)
Collections of loans from students and employees	10,872	9,659
Gifts and grants for other than capital purposes	7,006	8,190
Federal direct lending program receipts	99,042,045	97,486,457
Federal direct lending program disbursements	(99,042,045)	(97,486,457)
Agency receipts	13,443,222	11,991,967
Agency payments	(13,265,388)	(11,528,093)
Net cash provided by noncapital financing activities	99,430,659	95,789,288
Cash flows from capital and related financing activities:		
Capital appropriations and contributions	33,797,794	43,904,362
Proceeds from capital debt	59,972,584	8,299,480
Proceeds from sale of capital assets	52,379	68,812
Capital gifts	544,112	-
Purchase of capital assets	(82,699,322)	(101,562,776)
Principal paid on capital debt, leases, and installments	(17,611,632)	(15,728,315)
Interest paid on capital debt, leases, and installments	(11,955,014)	(11,778,889)
Net cash used by capital and related financing activities	(17,899,099)	(76,797,326)
Cash flows from investing activities:		
Interest on investments	320,136	80,615
Interest on cash management pools	1,327,064	803,009
Proceeds from sale of investments	146,982	-
Purchase of investments	(1,406,101)	(348,505)
Net cash provided by investing activities	388,081	535,119
Net increase in cash	40,753,100	(13,531,706)
Cash and cash equivalents - beginning of the year	176,294,388	189,826,094
Cash and cash equivalents - end of the year	$ 217,047,488	$ 176,294,388

JAMES MADISON UNIVERSITY
STATEMENT OF CASH FLOWS
For the year ended June 30, 2017 (with comparative information for the year ended June 30, 2016)

	2017	2016*
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (93,020,285)	$ (75,132,659)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	41,921,323	39,495,236
Changes in assets, liabilities, deferred outflows, and deferred inflows:		
Receivables, net	(253,962)	(740,577)
Prepaid expenses	(1,227,092)	(39,556)
Inventory	26,569	175,211
Notes receivable, net	76,295	128,382
Deferred outflows of resources - pension	(12,682,259)	(9,289,833)
Accounts payable and accrued expenses	1,924,737	2,556,528
Unearned revenue	2,981,066	927,939
Net Pension Liability	22,377,000	20,726,000
Advance from Treasurer of Virginia	-	-
Accrued compensated absences	773,542	344,934
Accrued retirement plan	2,049,986	(127,080)
Federal loan programs contributions refundable	(17,461)	(61,312)
Deferred inflows of resources - pension	(6,096,000)	(12,022,000)
Net cash used by operating activities	$ (41,166,541)	$ (33,058,787)
NON-CASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS:		
Gift of capital assets	$ 3,606,757	$ 6,169,177
Amortization of bond premium/discount and gain/loss on debt refinancing	$ (2,983,708)	$ (1,913,464)
Capitalization of interest revenue and expense, net	$ (1,093,815)	$ (2,130,997)
Change in fair value of investments recognized as a component of interest income	$ 33,716	$ 10,434
Loss on disposal of capital assets	$ (1,194,649)	$ (538,743)
Special revenue allocation related to pensions	$ 4,104,000	$ -

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.

Page Left Intentionally Blank

NOTES TO FINANCIAL STATEMENTS

JAMES MADISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

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 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*, the James Madison University Foundation, Inc. is included 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, 2017, the Foundation distributed $7,842,231 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 following GASB statements of standards became effective in fiscal year 2017: Statement 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68;* Statement 74, *Financial Reporting for Postemployment and Benefits Plans Other Than Pension Plans;* Statement 77, *Tax Abatement Disclosures*; Statement 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*; Statement 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement 14*. Portions of both GASB Statement 73 and GASB Statement 79 were effective in the prior fiscal year. None of these GASB statements had a significant effect upon the university's financial statements for the current year.

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.

C. Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government 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.

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* and GASB Statement 72, *Fair Value Measurement and Application*, 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 Position.

E. Accounts Receivable

Accounts receivable consists of tuition and fee charges to students, and amounts due for auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from federal, state and local governments and nongovernmental sources, in connection with reimbursement of allowable expenses made pursuant to the university's grants and contracts. Accounts receivable are recorded net of allowance for doubtful accounts.

F. Prepaid Expenses

The University has recorded certain expenses for future fiscal years that were paid in advance as of June 30, 2017. Payments of expenses that extend beyond fiscal year 2018 are classified as a non-current asset. Prepaid expenses consist primarily of the supplemental retirement obligation (see Note 10), information technology maintenance contracts, property leases, and insurance.

G. 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.

H. Capital Assets

Capital assets consisting of land, buildings, infrastructure, computer software and equipment are stated at cost at date of acquisition, or acquisition 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 $1,093,815 for this fiscal year.

Collections of works of art and historical treasures are capitalized at cost or acquisition 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

I. 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 Position. 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.

J. Unearned Revenue

Unearned 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.

K. Long-term Debt and Debt Issue Costs

Long-term debt on the Statement of Net Position is reported net of related discounts and premiums, which are amortized over the life of the debt. Debt issuance costs are expensed as non-operating expenses.

L. 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 Position. 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.

M. Pensions

The Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' System (VaLORS) Retirement Plan are single employer pension plans that are treated like cost-sharing plans. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' System (VaLORS) Retirement Plan; and the additions to/deductions from the VRS State Employee Retirement Plan's and the VaLORS Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note 11 for more information about pension plans.

N. 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 Title 2, Part 200 of the U.S. Code of Federal Regulations, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

O. Deferred Inflows and Outflows of Resources

Deferred outflows of resources are defined as the consumption of net assets applicable to a future reporting period. The deferred outflows of resources have a positive effect on net position, similar to assets.

Deferred inflows of resources are defined as the acquisition of net assets applicable to a future reporting period. The deferred inflows of resources have a negative effect on net position, similar to liabilities.

P. Net Position

GASB Statement 63 requires that the Statement of Net Position report the difference between assets, deferred outflows, liabilities and deferred inflows as net position, not net assets or fund balances. Net position is classified as net investment in capital assets, restricted, and unrestricted. "Net investment in capital assets" 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 position is reported as restricted when constraints on the net asset/deferral use are either externally imposed by creditors, grantors, or contributors or imposed by law. Unrestricted net position consists of net assets/deferrals 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.

Q. 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 Position. 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 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.

R. Scholarship Discounts and Allowances

Student tuition and fees revenues, certain auxiliary revenues, and student aid expenses, are reported net of scholarship discounts and allowances in the Statements of Revenue, Expenses, and Changes in Net Position. 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. Scholarship discounts and allowances are reported using the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). The alternative method is a computation that calculates scholarship discounts and allowances on a University-wide basis, rather than on an individual student basis.

S. 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 2017, funding has been provided to the University from two programs managed by the Virginia College Building Authority (VCBA): 21st Century and Equipment Trust Fund. 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 Position 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 Position 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 16.

T. 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, 2016, from which the summarized information was derived.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The following information is provided with respect to the university's cash, cash equivalents and investments as of June 30, 2017. The following risk disclosures are required by GASB Statement 40, *Deposit and Investment Risk Disclosures*:

- Custodial Credit Risk – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction a government will not be able to recover the value of investment or collateral securities at are in the possession of an outside party. The university had no category 3 deposits or investments for 2017.

- 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. The University places no limit on the amount that may be invested in any one issuer. The following issuers hold more than five percent of the University's investments as of June 30, 2017: Summit Bank (26.1%), Northern Bank and Trust (5.3%), United Bank (5.3%), Ally Bank (5.2%), and Capital One Bank (5.2%).

- 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 $3,406,874 in 2017, consisting of $2,515,594 in Euros and $891,280 in Great Britain Pounds Sterling. The University does not have a foreign currency risk policy.

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 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.

GASB Statement 72, *Fair Value Measurement and Application* establishes general principles for measuring fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. A fair value hierarchy of inputs is used in measuring fair value and requires that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing an asset or liability based on market data obtained from sources independent of the University. The fair value hierarchy is categorized into three levels based on the inputs as follows:

- *Level 1* - Unadjusted quoted prices in active markets for identical assets or liabilities that University has the ability to access.
- *Level 2* - Observable inputs other than quoted prices included in Level 1 that are not observable for the asset or liability either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, and/or prices for similar instruments in inactive markets.
- *Level 3* - Unobservable inputs for the asset or liability to the extent that relevant observable inputs are not available, representing the University's own assumptions about the assumptions that a market participant would use in valuing the asset or liability, and that would be based on the best information available.

For purposes of determining fair value of investments as of June 30, 2017, the University utilizes Level 1 and Level 2 inputs. Sources of these inputs may include observable price information, and/or quotations received from market makers, brokers, dealers and/or counterparties (when available and considered reliable) provided by independent pricing services or derived from market data.

Cash, cash equivalents, and investments consisted of the following at June 30, 2017:

					GASB 72 Fair Value Measurement		
	Standard & Poor's Credit Quality Rating	Value	Less than 1 Year	1-5 Years	Not Applicable to Fair Value Measurement	Level 1	Level 2
Cash:							
Cash with the Treasurer of Virginia		$ 157,216,765	$ -	$ -	$ 157,216,765	$ -	$ -
Cash on hand and deposits with financial institutions		24,124,493	-	-	24,124,493	-	-
Total Cash		181,341,258	-	-	181,341,258	-	-
Cash Equivalents:							
Money market accounts with financial institutions:							
BB&T	N/A	1,303,382	1,303,382	-	1,303,382	-	-
Bank of the James	N/A	505,933	505,933	-	505,933	-	-
United Bank	N/A	250,644	250,644		250,644	-	-
Union Bank & Trust	N/A	2,508,892	2,508,892	-	2,508,892	-	-
Treasurer of Virginia (STIF)	N/A	67,826	67,826	-	67,826	-	-
Bank of New York (SNAP)	AAAm	31,069,553	31,069,553	-	31,069,553	-	-
Total Cash Equivalents		35,706,230	35,706,230	-	35,706,230	-	-
Total Cash and Cash Equivalents		217,047,488	35,706,230	-	217,047,488	-	-
Investments not with the Treasurer of Virginia:							
Certificates of Deposit - United Bank	N/A	203,935	151,323	52,612	203,935	-	-
Certificates of Deposit - Summit Bank	N/A	1,005,245	-	1,005,245	1,005,245	-	-
Wells Fargo Advisors Money Market	AAAm	406,148	406,148	-	406,148	-	-
Mutual Funds:							
Washington Mutual	N/A	401,128	401,128	-	-	401,128	-
Wells Fargo Advisors	AAAm	223,336	223,336	-	-	223,336	-
Income Fund of America	Various	61,917	61,917	-	-	61,917	-
Brokered Certificates of Deposit - Loomis	N/A	1,548,758	941,365	607,393	-	-	1,548,758
Total Investments		3,850,467	2,185,217	1,665,250	1,615,328	686,381	1,548,758
Total Cash, Cash Equivalents and Investments at Fair Value		220,897,955	37,891,447	1,665,250	218,662,816	686,381	1,548,758

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, 2017. 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 position 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 advisors. 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, 2017 the foundation held investments totaling $46,950,489 and $580,155 in category 1 and 2, 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	$ 14,283,236	$ 14,305,347
Certificate of deposit	3,029,366	3,022,158
US treasury securities	6,827,246	6,812,343
Common stock	5,524,310	3,787,874
Mutual funds	17,286,331	15,399,186
Alternative Investments	70,927,338	60,229,551
Life insurance policies	580,155	-
Total	$ 118,457,982	$ 103,556,459

3. ACCOUNTS AND CONTRIBUTIONS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2017:

Student tuition and fees	$ 2,043,089
Auxiliary enterprises	1,606,355
Federal, state, and non-governmental grants and contracts	3,425,650
Unreimbursed Capital	509,988
Other activities	499,549
Total	8,084,631
Less: allowance for doubtful accounts	771,300
Net accounts receivable	$ 7,313,331

The Foundation’s contributions receivable consisted of the following at June 30, 2017:

Due in less than one year	$	2,713,679
Due between one and five years		7,358,600
Due in more than five years		3,488,230
Total		13,560,509
Less: present value discount (1% - 6%)		710,345
Less: allowance for doubtful accounts		257,003
Net contributions receivable	$	12,593,161

4. DUE FROM THE COMMONWEALTH

Due from the Commonwealth consisted of the following at June 30, 2017:

Treasury programs reimbursement due:		
Equipment Trust Fund	$	2,309,646
21st Century		1,296,138
Appropriations available - Capital Projects		2,949,286
Appropriations available - Financial Aid		28,838
Total	$	6,583,908

5. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2017 is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Non-depreciable capital assets:				
Land	$ 84,214,296	$ 2,129,272	$ -	$ 86,343,568
Inexhaustible artwork and historical treasures	2,333,848	48,000	-	2,381,848
Construction-in-progress	47,796,103	66,434,939	55,116,820	59,114,222
Total non-depreciable capital assets	134,344,247	68,612,211	55,116,820	147,839,638
Depreciable capital assets:				
Buildings	1,033,981,023	54,843,435	971,406	1,087,853,052
Infrastructure	92,113,305	2,337,050	11,250	94,439,105
Computer Software	11,104,101	1,402,256	-	12,506,357
Equipment	80,799,361	7,494,195	2,187,299	86,106,257
Other improvements	62,108,952	1,021,242	702,512	62,427,682
Library materials	55,122,972	2,837,856	1,425,532	56,535,296
Total depreciable capital assets	1,335,229,714	69,936,034	5,297,999	1,399,867,749
Less accumulated depreciation for:				
Buildings	264,486,854	25,417,513	187,420	289,716,947
Infrastructure	39,846,605	4,043,543	11,250	43,878,898
Computer Software	9,831,466	848,390	-	10,679,856
Equipment	46,285,152	5,873,388	1,911,142	50,247,398
Other Improvements	21,551,653	3,108,065	465,016	24,194,702
Library materials	47,198,874	2,630,424	1,425,533	48,403,765
Total accumulated depreciation	429,200,604	41,921,323	4,000,361	467,121,566
Depreciable capital assets, net	906,029,110	28,014,711	1,297,638	932,746,183
Total capital assets, net	$ 1,040,373,357	$ 96,626,922	$ 56,414,458	$ 1,080,585,821

The Foundation’s net capital assets consist of $3,559,041 in property and equipment, and $100,591 in collections of historical artifacts for the year ending June 30, 2017.

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2017:

Employee salaries, wages, and fringe benefits payable	$ 34,527,308
Vendors and suppliers accounts payable	3,352,796
Capital projects accounts and retainage payable	6,178,131
Accrued interest payable on bond debt	3,077,321
Total accounts payable and accrued expenses	$ 47,135,556

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 10), and other non-current liabilities. A summary of changes in non-current liabilities for the year ending June 30, 2017 is presented as follows:

Long-term debt:	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Non-current Portion
Revenue bonds	$ 179,025,000	$ 47,855,000	$ 58,040,000	$ 168,840,000	$ 10,320,000	$ 158,520,000
General obligation bonds	91,668,443	53,700,000	7,636,631	137,731,812	7,246,747	130,485,065
Bond premium	28,380,987	16,105,948	6,587,199	37,899,736	3,363,098	34,536,638
Total long-term debt	299,074,430	117,660,948	72,263,830	344,471,548	20,929,845	323,541,703
Accrued retirement plan	4,777,458	4,585,189	2,535,203	6,827,444	36,235	6,791,209
Accrued compensated absences	5,910,991	7,201,821	6,428,279	6,684,533	4,377,227	2,307,306
Federal loan program contributions	2,275,620	-	17,461	2,258,159	-	2,258,159
Total long-term liabilities	$ 312,038,499	$ 129,447,958	$ 81,244,773	$ 360,241,684	$ 25,343,307	$ 334,898,377

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 (%)	Fiscal Year Maturity	2017
Revenue bonds:			
Dormitory, Series 2007B	4.25 – 4.50	2019	$ 2,075,000
Property acquisition, Series 2007A	5.00	2018	495,000
Grace St. acquisition, Series 2010A	3.75 – 5.50	2031	6,745,000
Multipurpose Recreation Fields, Series 2009A	3.00– 5.00	2021	980,000
Multipurpose Recreation Fields, Series 2015B	3.00 – 5.00	2029	3,845,000
Softball/Baseball Complex, Series 2009A	3.00– 5.00	2021	950,000
Softball/Baseball Complex, Series 2015B	3.00 – 5.00	2029	3,655,000
Renov/Expand Athletics/Recreation 2009B	5.00	2020	3,670,000
Renov/Expand Athletics/Recreation 2010A	3.75 – 5.50	2031	7,480,000
Renov/Expand Bridgeforth Stadium 2009B	5.00	2020	5,750,000
RMH property acquisitions, Series 2010A	3.75 – 5.50	2031	6,000,000
Construct Student Health Ctr, 2012B	3.00 – 5.00	2033	9,270,000
Renovate West Wing RMH-Dining, 2012B	3.00 – 5.00	2033	4,675,000
Renov/Expand Recreation Center, 2014A	5.00	2035	45,190,000
Parking, Series 2014B	5.00	2024	4,510,000
Student Center 2014B	5.00	2020	1,990,000
Acq of Land, Athletics, Series 2014B	5.00	2024	1,480,000
Property acquisition, Series 2014B	4.00 – 5.00	2026	4,715,000
Mason Street Parking Deck, Series 2015A	3.00 – 5.00	2036	7,510,000
Parking, Series 2016A	3.00	2027	1,705,000
Renov/Expand Athletics/Recreation 2016A	3.00 – 5.00	2030	17,075,000
Acq of Land, Athletics, Series 2016A	3.00	2027	790,000
Property acquisition, Series 2016A	3.00 – 5.00	2028	1,530,000
Renov/Expand Bridgeforth Stadium 2016A	3.00 – 5.00	2030	26,755,000
Total revenue bonds			$168,840,000
General obligation revenue bonds:			
Dormitory and dining hall:			
Series 2008B	5.00	2018	910,000
Series 2009C	4.00	2022	1,831,725
Series 2009D	5.00	2022	1,750,000
Series 2010A	2.40 – 4.40	2030	10,660,000
Series 2013B	4.00 – 5.00	2026	10,764,400
Series 2014A	3.00 – 5.00	2034	42,150,000
Series 2014B	5.00	2020	1,187,306
Series 2015B	4.00 – 5.00	2028	15,748,381
Series 2016A	3.00 – 5.00	2036	52,730,000
Total general obligation revenue bonds			137,731,812
Total bonds payable			$306,571,812

Long-term debt as of June 30, 2017 matures as follows:

	Principal	Interest
2018	$ 17,566,747	$ 13,245,093
2019	18,255,589	12,395,369
2020	18,001,381	11,537,903
2021	17,747,897	10,696,875
2022	18,147,837	9,831,099
2023-2027	101,427,133	35,815,897
2028-2032	80,715,228	14,416,688
2033-2037	34,710,000	2,465,266
Total	$ 306,571,812	$ 110,404,190

The Foundation's long-term debt consists of the following:

- $1,827,777 outstanding at June 30, 2017, in notes payables to Bank of America at a fixed interest rate of 4.85%, and maturing through fiscal year 2029. The note is secured by a deed of trust on real estate acquired with the proceeds of the note.

- $3,218,530 outstanding at June 30, 2017, in notes payable to Union Bank, maturing through fiscal year 2032. The note is secured by a first priority security interest in 3,000,000 of unrestricted cash or marketable securities/mutual funds margined at 70%, a first priority security interest in a specific deposit account maintained by the lender, and a first priority security interest in the assignment of certain agreements specific to the Shenandoah Valley Conference Center project. Principal on the note is paid annually beginning in fiscal year 2020 and is based on a 20-year amortization period. Interest is payable monthly and based on the following rates:

Period	Interest Rate
Current – 9/30/2019	LIBOR + 2% (3.06% as of 6/30/2017)
10/1/2019 – 9/30/2024	4% Fixed
10/1/2024 – 9/30/2029	5 year U.S. Treasury Security rate @ 10/1/24 + 2.75%, but not less than 4%
10/1/2029–12/31/2031	2 year U.S. Treasury Security rate @ 10/1/29 + 2.75%, but not less than 4%

9. DEBT DEFEASANCE

A. Deferral on Debt Defeasance

In accordance with GASB Statement 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, as amended by GASB Statement 65 *Items Previously Reported as Assets and Liabilities*, for current refundings and advance refundings resulting in defeasance of debt, the difference between the new and old debt (accounting gain or loss) is deferred and amortized as a component of interest expense. For each of the current or advance refundings noted below, the accounting gain or loss is amortized to interest expense over the life of the new debt. A summary of changes in deferred outflows and deferred inflows as a result of debt refundings for the year ending June 30, 2017 is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Deferred Outflows	5,334,505	6,095,733	539,641	10,890,597
Deferred Inflows	137,874	-	71,364	66,510

During 2017, the Virginia College Building Authority, on behalf of the University, issued $47,855,000 of Revenue Refunding Bonds, Series 2016A, with interest rates of 3.0 percent – 5.0 percent. The bonds, issued at a premium of $9,621,537, were used to refund the following:

- $2,710,000 of outstanding Revenue Bonds, Series 2006A with an interest rate of 3.0 – 3.5 percent. The advance refunding resulted in the recognition of a deferred accounting loss of $25,057 in fiscal year 2017, which is being amortized to interest expense over the life of the new debt. The University in effect reduced its aggregate debt service obligation by $383,925 over the next 10 years and obtained an economic gain (equal to the difference between the present values of the old and new debt service payments) of $341,838, discounted at a rate of 1.730 percent.

- $1,565,000 of outstanding Revenue Bonds, Series 2007A with an interest rate of 4.5 percent. The advance refunding resulted in the recognition of a deferred accounting loss of $255,905 in fiscal year 2017, which is being amortized to interest expense over the life of the new debt. The University in effect reduced its aggregate debt service obligation by $148,092 over the next 11 years and obtained an economic gain (equal to the difference between the present values of the old and new debt service payments) of $132,553, discounted at a rate of 2.057 percent.

- $43,790,000 of outstanding Revenue Bonds, Series 2009B with an interest rate of 4.25 – 5.0 percent. The advance refunding resulted in the recognition of a deferred accounting loss of $5,814,771 in fiscal year 2017, which is being amortized to interest expense over the life of the new debt. The University in effect reduced its aggregate debt service obligation by $2,897,748 over the next 13 years and obtained an economic gain (equal to the difference between the present values of the old and new debt service payments) of $2,673,891, discounted at a rate of 1.849 percent.

For financial reporting purposes, the bonds designated above as being refunded are considered to be defeased and have been removed from the non-current liabilities line in the Statement of Net Position. Any related assets in escrow have similarly been excluded.

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." As of June 30, 2017, $69,870,000 of the bonds outstanding were considered defeased.

10. 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, 287 faculty members have elected to enroll in the plan. As of June 30, 2017, 86 participants remain, including 27 new participants who retired under this plan during fiscal year 2017. 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 $2,439,241 of the fiscal year 2018-plan contribution in 2017. The plan payment schedule is as follows:

Year Ending June 30,	Supplemental Plan Obligations
2018	$ 36,235
2019	2,197,499
2020	1,936,072
2021	1,508,563
2022	937,221
2023	188,613
2024	23,241
Total	$ 6,827,444

11. RETIREMENT PLANS

A. Virginia Retirement System (Defined Benefit Retirement Plans)

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS State Employee Retirement Plan or the VaLORS Retirement Plan upon employment, unless they are eligible and choose to enroll in the optional retirement program described in section B of Note 11. These plans are single-employer plans treated as cost-sharing plans for financial reporting purposes. The plans are administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees in the VRS State Employee Retirement Plan – Plan 1, Plan 2, and, Hybrid and two different benefit structures for covered employees in the VaLORS Retirement Plan – Plan 1 and Plan 2. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit

		plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. **Hybrid Opt-In Election** VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not	**Eligible Members** Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. **Hybrid Opt-In Election** Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • State employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 ***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Members of the Virginia Law Officers' Retirement System (VaLORS) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.

eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	ORP.	
Retirement Contributions State employees, excluding state elected officials, and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement	**Creditable Service** Same as Plan 1.	**Creditable Service** **<u>Defined Benefit Component:</u>** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A

benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.		member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **<u>Defined Contributions Component:</u>** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	**Vesting** Same as Plan 1.	**Vesting** **<u>Defined Benefit Component:</u>** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **<u>Defined Contributions Component:</u>** Defined contribution vesting

		refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **<u>Defined Benefit Component:</u>** See definition under Plan 1 **<u>Defined Contribution Component:</u>** The benefit is based on contributions made by the member and any matching contributions made by the

An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.		employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier **VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. **VaLORS:** The retirement multiplier for VaLORS employees is 1.70% or 2.00%.	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. **VaLORS:** The retirement multiplier for VaLORS employees is 2.00%.	**Service Retirement Multiplier** **<u>Defined Benefit Component:</u>** **VRS:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **VaLORS:** Not applicable. **<u>Defined Contribution Component:</u>** Not applicable.
Normal Retirement Age **VRS:** Age 65.	**Normal Retirement Age** **VRS:** Normal Social Security retirement age.	**Normal Retirement Age** **<u>Defined Benefit Component:</u>**

VaLORS: Age 60.	**VaLORS:** Same as Plan 1.	**VRS:** Same as Plan 2. **VaLORS:** Not applicable. **<u>Defined Contribution Component:</u>** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility **VRS:** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. **VaLORS:** Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**Earliest Unreduced Retirement Eligibility** **VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. **VaLORS:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **<u>Defined Benefit Component:</u>** **VRS:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **VaLORS:** Not applicable. **<u>Defined Contribution Component:</u>** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility **VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. **VaLORS:** 50 with at least	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service. **VaLORS:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **<u>Defined Benefit Component:</u>** **VRS:** Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. **VaLORS:** Not applicable.

five years of creditable service.		**<u>Defined Contribution Component:</u>** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. **<u>Eligibility:</u>** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date. **<u>Exceptions to COLA Effective Dates:</u>** The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. **<u>Eligibility:</u>** Same as Plan 1 **<u>Exceptions to COLA Effective Dates:</u>** Same as Plan 1	**Cost-of-Living Adjustment (COLA) in Retirement** **<u>Defined Benefit Component:</u>** Same as Plan 2. **<u>Defined Contribution Component:</u>** Not applicable. **<u>Eligibility:</u>** Same as Plan 1 and Plan 2. **<u>Exceptions to COLA Effective Dates:</u>** Same as Plan 1 and Plan 2.

following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member Is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member’s survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.		
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.	**Disability Coverage** State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **<u>Defined Benefit Component:</u>** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost./ After that on-year period, the rate for most categories of service will change to actuarial cost. **<u>Defined Contribution Component:</u>** Not applicable.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012 state employees were required to pay the 5.00% member contribution and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each state agency's contractually required contribution rate for the year ended June 30, 2017 was 13.49% of covered employee compensation for employees in the VRS State Employee Retirement Plan. For employees in the VaLORS Retirement Plan, the contribution rate was 21.05% of covered employee compensation. These rates were based on actuarially determined rates from an actuarial valuation as of June 30, 2015. The contribution rate for the VRS State Employee Retirement Plan also reflects the transfer in June 2016 of $162,406,273 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The contribution rate for the VaLORS Retirement Plan also reflects the transfer in June 2016 of $16,491,559 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the University to the VRS State Employee Retirement Plan were $13,466,814 and $13,331,290 for the years ended June 30, 2017 and June 30, 2016, respectively. Contributions from the University to the VaLORS Retirement Plan were $296,567 and $253,832 for the years ended June 30, 2017 and June 30, 2016, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the University reported a liability of $163,889,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability and a liability of $3,092,000 for its proportionate share of the VaLORS Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2016 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The University's proportion of the Net Pension Liability was based on the University's actuarially determined employer contributions to the pension plan for the year ended June 30, 2016 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2016, the University's proportion of the VRS State Employee Retirement Plan was 2.49% as compared to 2.38% at June 30, 2015. At June 30, 2016, the University's proportion of the VaLORS Retirement Plan was .40% as compared to .41% at June 30, 2015.

For the year ended June 30, 2017, the University recognized pension expense of $17,610,000 for the VRS State Employee Retirement Plan and $349,000 for the VaLORS Retirement Plan. Since there was a change in proportionate share between June 30, 2015 and June 30, 2016, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2017, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	State employee plan		VaLORs plan	
	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual earnings on pension plan investments	$ 10,447,000	$ -	$ 127,000	$ -
Differences between expected and actual experience	702,000	4,463,000	14,000	9,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	9,377,000	-	86,000	57,000
Employer contributions subsequent to the measurement date	13,466,814	-	296,567	-
Total deferred outflows/inflows related to pensions	$ 33,992,814	$ 4,463,000	$ 523,567	$ 66,000

$13,763,381 reported as deferred outflows of resources related to pensions resulting from the University's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	State employee plan	VaLORs plan
2018	$ 3,217,000	$ 40,000
2019	2,225,000	3,000
2020	6,345,000	69,000
2021	4,276,000	49,000
Total	$ 16,063,000	$ 161,000

Actuarial Assumptions (State Employee Plan)

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent – 5.35 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:
RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 2 years and females were set back 3 years.

Post-Retirement:
RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with females set back 1 year.

Post-Disablement:
RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of withdrawals for less than 10 years of service
- Decrease in rates of male disability retirement
- Reduce rates of salary increase by 0.25% per year

Actuarial Assumptions (VaLORS Plan)

The total pension liability for the VaLORS Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent – 4.75 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more

than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:
RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 5 years and females were set back 3 years.

Post-Retirement:
RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with females set back 1 year.

Post-Disablement:
RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for females under 10 years of service
- Increase in rates of disability
- Decrease service related disability rate from 60% to 50%

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2016, NPL amounts for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan are as follows (amounts expressed in thousands):

	State Employee Plan	VaLORs Plan
Total Pension Liability	$ 22,958,593	$ 1,985,618
Plan Fiduciary Net Position	16,367,842	1,211,446
Employer' Net Pension Liability (Asset)	$ 6,590,751	$ 774,172
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.29%	61.01%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
Inflation			2.50%
* Expected arithmetic nominal return			8.33%

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the University for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the University's proportionate share of the VRS State Employee Retirement Plan and VaLORS Retirement Plan net pension liabilities using the discount rate of 7.00%, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00 % Decrease (6.00%)	Current Discount Rate (7.00%)	1.00 % Increase (8.00%)
The University's proportionate share of the VRS State Employee Retirement Plan Net Pension	230,645,000	163,889,000	107,843,000
The University's proportionate share of the VaLORS Retirement Plan Net Pension Liability	4,138,000	3,092,000	2,230,000

Pension Plan Fiduciary Net Position

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position or the VaLORS Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

Included in Accounts Payable and Accrued Expenses at June 30, 2017 are payables of \$1,338,843 and \$18,948 for the outstanding amount of contributions to the VRS State Employee Retirement Plan and the VaLORS Retirement Plan, respectively.

B. Optional Retirement Plans

Full-time faculty and certain administrative staff participate in defined contribution plans as authorized by the Code of Virginia, offered by 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) have an employer required contribution rate of 10.4 percent. Employees hired on or after July 1, 2010 (Plan 2) 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 $7,012,717 for the year ended June 30, 2017. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $71,329,044 for fiscal year 2017.

Included in Accounts Payable and Accrued Expenses at June 30, 2017 are payables of $1,071,364 for the outstanding amount of contributions to the Optional Retirement Plans.

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 $20 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 $890,745 for the fiscal year 2017.

12. OTHER POSTEMPLOYMENT BENEFITS

The University participates in postemployment benefit programs that are sponsored by the Commonwealth and administered by the Virginia Retirement System. These programs include the Group Life Insurance Program, Virginia Sickness and Disability Program, Retiree Health Insurance Credit Program, and Line of Duty Act Program.

The Group Life Insurance Program provides members basic group life insurance upon employment. In addition to benefits provided to active members during employment, the Virginia Sickness and Disability Program provides inactive members with long-term disability and long-term care benefits. The Retiree Health Insurance Credit Program provides members health insurance credits to offset the monthly health insurance premiums for retirees who have at least 15 years of service. The Line of Duty Act Program provides death and health insurance reimbursement benefits to eligible state employees, such as campus police, who die or become disabled as a result of the performance of their duties as a public safety officer. The university is required to contribute to the costs of participating in these programs.

The university also participates in the Pre-Medicare Retiree Healthcare Plan, which is sponsored by the Commonwealth and administered by the Department of Human Resources Management. The plan provides the option for retirees who are not yet eligible to participate in Medicare to participate in the Commonwealth's healthcare plan for its active employees. The university/agency does not pay a portion of the retirees' healthcare premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, this generally results in a higher rate for active employees. Therefore, the university effectively subsidizes the costs of the participating retirees' healthcare through payment of the employer's portion of premiums for active employees.

Additional information related to all of these plans is available at the state-wide level in the Commonwealth's Comprehensive Annual Financial Report.

13. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expenses consisted of the following for the year ended June 30, 2017. The University used auxiliary revenues and cash reserves to pay debt service and capitalized improvements of $28,182,056 and $12,231,366. Those amounts are not included in the auxiliary operating expenses below.

Revenues:	
Room contracts, net of scholarship allowances of $2,819,854	$ 30,207,575
Food service contracts, net of scholarship allowances of $3,732,217	40,171,368
Comprehensive fee, net of scholarship allowances of $7,067,999	76,054,656
Food service commissions	12,355,439
Parking fees and fines	3,994,584
Other student fees and sales and services	19,727,914
Total auxiliary enterprises revenues	$ 182,511,536

Expenses:	
Residential facilities	$ 20,797,663
Dining operations	51,556,848
Athletics	31,410,843
Parking services	3,073,658
Health services	4,993,529
Student unions	5,435,238
Student recreation	7,762,874
Other auxiliary activities	11,035,203
Total auxiliary activities expenses	$ 136,065,856

14. EXPENSES BY NATURAL CLASSIFICATIONS

The following table shows a classification of expenses for the year ended June 30, 2017, both by function as listed in the Statement of Revenues, Expenses, and Changes in Net Position and by natural classification, which is the basis for amounts shown in the Statement of Cash Flows.

	Compensation and Benefits	Services, Supplies and Utilities	Scholarships and Fellowships	Non-capitalized equipment, property and plant improvements	Depreciation	Total
Instruction	$ 146,745,990	$ 11,996,127	$ -	$ 3,313,914	$ -	$ 162,056,031
Research	2,363,798	1,157,967	-	102,211	-	3,623,976
Public service	10,789,009	4,691,137	-	152,446	-	15,632,592
Academic support	30,447,300	5,268,501	-	11,229,111	-	46,944,912
Student services	15,314,067	2,899,240	-	395,260	-	18,608,567
Institutional support	23,501,309	8,968,816	-	1,539,381	-	34,009,506
Operation and maintenance-plant	18,732,287	16,871,061	-	8,741,920	-	44,345,268
Depreciation	-	-	-	-	41,921,323	41,921,323
Student aid	-	-	9,479,895	-	-	9,479,895
Auxiliary activities	43,063,774	88,800,955	-	4,201,127	-	136,065,856
Total	$ 290,957,534	$ 140,653,804	$ 9,479,895	$ 29,675,370	$ 41,921,323	$ 512,687,926

15. 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, 2017, shall be re-appropriated for expenditure in the first month of the next year, beginning on July 1, 2017, 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, 2017 the following adjustments were made to the University's original appropriations:

Original legislative appropriation:	
Educational and general programs	$ 81,684,561
Student financial assistance	8,620,285
Supplemental adjustments:	
Central Fund appropriation transfers:	
Health insurance premium	1,081,657
Changes in contribution rates for retirement and benefits	(85,199)
Other financial aid transfers	343,350
Other	52,025
Reversion to the General Fund of the Commonwealth	(16,029)
Adjusted appropriation	$ 91,680,650

16. CAPITAL APPROPRIATIONS AND CONTRIBUTIONS

Following are the capital appropriations and contributions recognized by the University from the Commonwealth for the year ending June 30, 2017.

Treasury reimbursement programs:		
VCBA 21st Century	$	12,115,954
VCBA Equipment Trust Fund		2,309,646
Total capital appropations and contributions	$	14,425,600

17. COMMITMENTS

At June 30, 2017, the University was a party to construction and other contracts totaling approximately $142,340,378 of which $82,506,015 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 year ended June 30, 2017, such purchases totaled $34,127.95.

In July 2015, the University entered into a lease agreement with the City of Harrisonburg, which suspends the University's commitment to purchase steam, chilled water, and waste disposal services from the City as discussed above. During the lease term, the University assumes responsibility for operation and maintenance of the Resource Recovery Facility (RRF), and the City commits to decommissioning and closing Waste-to-Energy operations. At the conclusion of the lease term, the University will purchase the facility and lease a portion back to the city for use as a transfer facility. During the 2015 legislative session, the general assembly appropriated $2.8 million in general funds and $2.2 in auxiliary reserve funds for the University's purchase of the facility. In July 2016, RRF operations fully transitioned from the city to the University, and in May 2017 the University acquired the facility for $4.3 million.

In December 2014, the University entered into a Memorandum of Understanding with the City of Harrisonburg, the Industrial Development Authority of the City of Harrisonburg, dpM Partners, LLC (the developer) and the James Madison University Foundation, to construct and operate a 230-room independent hotel and conference center. As a part of this agreement, the University has agreed to lease land located between Martin Luther King, Jr. Way and East Grace Street to the developer for an annual nominal rent payment for 50 years. Also, the University has constructed a 1,000 space parking deck to support the hotel and conference center.

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 $4,661,523 for the year ended June 30, 2017.

The University has, as of June 30, 2017, the following future minimum rental payments due under the above leases:

Year Ending June 30,	Operating Lease Obligation
2018	2,521,469
2019	1,278,889
2020	409,461
2021	107,166
2022	9,762
Total	$ 4,326,747

18. 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, 2017, the University estimates that no material liabilities will result from such audits or questions.

19. 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.

20. 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 Position. The activity is included in the noncapital financing section of the Statement of Cash Flows. For the fiscal year ended June 30, 2017, cash provided and used by the program totaled $99,042,045.

21. SUBSEQUENT EVENTS

In November 2017, the University entered into a promissory note with the Virginia College Building Authority (VCBA) to participate in the Educational Facilities Revenue Bonds Series 2017A, issued by the VCBA under its Pooled Bond Program. The total principal amount of these bonds is $50,460,000. The University will use the proceeds to construct a new dormitory on campus. Payment on the notes will be made semi-annually, with an interest rate of five percent. The final payment will be in fiscal year 2038.

REQUIRED SUPPLEMENTAL INFORMATION

JAMES MADISON UNIVERSITY

SCHEDULE OF EMPLOYER'S SHARE OF THE NET PENSION LIABILITY

VRS STATE EMPOYEE RETIREMENT PLAN

	2017	**2016**	**2015**
Employer's Proportion of the Net Pension Liability (Asset)	2.48665%	2.38118%	2.23926%
Employer's Proportionate Share of the Net Pension Liability (Asset)	$ 163,889,000	$ 145,789,000	$ 125,362,000
Employer's Covered Payroll	$ 96,387,707	$ 90,050,760	$ 85,089,890
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	170.03%	161.90%	147.33%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.29%	72.81%	74.28%

VALORS RETIREMENT PLAN

	2017	**2016**	**2015**
Employer's Proportion of the Net Pension Liability (Asset)	0.39940%	0.41071%	0.38856%
Employer's Proportionate Share of the Net Pension Liability (Asset)	$ 3,092,000	$ 2,919,000	$ 2,620,000
Employer's Covered Payroll	$ 1,378,784	$ 1,377,116	$ 1,333,379
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	224.26%	211.96%	196.49%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	61.01%	62.64%	63.05%

Schedule is intended to show information for 10 years. Since 2017 is the third year for this presentation, only two additional years of data are available. However, additional years will be included as they become available.

The amounts presented have a measurement date of the previous fiscal year end.

JAMES MADISON UNIVERSITY
SCHEDULE OF EMPLOYER CONTRIBUTIONS

VRS STATE EMPOYEE RETIREMENT PLAN

	2017	2016	2015
Contractually required contribution	$ 13,466,814	$ 13,331,290	$ 10,894,300
Contributions in relation to the contractually required contribution	13,466,814	13,331,290	10,894,300
Contribution deficiency (excess)	-	-	-
Employer's covered payroll	100,984,332	96,387,707	90,050,760
Contributions as a percentage of covered payroll	13.34%	13.83%	12.10%

VALORS RETIREMENT PLAN

	2017	2016	2015
Contractually required contribution	$ 296,567	$ 253,832	$ 243,989
Contributions in relation to the contractually required contribution	296,567	253,832	243,989
Contribution deficiency (excess)	-	-	-
Employer's covered payroll	1,408,518	1,378,784	1,377,116
Contributions as a percentage of covered payroll	21.06%	18.41%	17.72%

Schedule is intended to show information for 10 years. Since 2017 is the third year for this presentation, only two additional years of data are available. However, additional years will be included as they become available.

1. CHANGES OF BENEFIT TERMS

There have been no significant changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 are not material.

2. CHANGES OF ASSUMPTIONS

The following changes in actuarial assumptions were made for the VRS - State Employee Retirement Plan and VaLORS Plan effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

VRS SERP

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of withdrawals for less than 10 years of service
- Decrease in rates of male disability retirement
- Reduce rates of salary increase by 0.25% per year

VaLORS

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for females under 10 years of service
- Increase in rates of disability
- Decrease service related disability rate from 60% to 50%

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

April 19, 2018

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
James Madison University

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and 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, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component unit of the University, which are discussed in Note 1.A. Those financial statements were audited by another auditor

www.apa.virginia.gov | (804) 225-3350 | reports@apa.virginia.gov

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 auditor.

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 were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinions.

Opinion

In our opinion, based on our audit and the report of another auditor, 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, 2017, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior-Year Summarized Comparative Information

We have previously audited the University's 2016 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated July 12, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 11, the Schedule of Employer's Share of the Net Pension Liability on page 62, the Schedule of Employer Contributions on page 63 and the Notes to Required Supplementary Information on page 64, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated April 19, 2018, on our consideration of the James Madison 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 in considering the University's internal control over financial reporting and compliance.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

AVC/alh

JAMES MADISON UNIVERSITY

BOARD OF VISITORS
As of June 30, 2017

Mrs. Vanessa Evans-Grevious
Rector

Warren Coleman
Vice Rector

Michael Battle
William Bolling
Jeffrey Grass
Matthew Gray-Keeling
Maribeth Herod
Lucy Hutchinson
Maria Jankowski
Deborah Johnson
Lara Major
Edward Rice
John Rothenberger
Michael Thomas
Craig Welburn

Eric Kaufmann, Student Representative

Donna L. Harper
Secretary to the Board of Visitors

OFFICERS

Jonathan R. Alger
President

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

John F. Knight
Assistant Vice President for Finance