JAMES MADISON UNIVERSITY

REPORT ON AUDIT

FOR THE YEARS ENDED

JUNE 30, 2004 AND 2003

Auditor of
Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of James Madison University for the years ended June 30, 2004 and 2003 found:

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Accounting Standards

The following Management's Discussion and Analysis is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective, easily read analysis of 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, 2004. Comparative numbers, where presented, are for the fiscal years ending June 30, 2003 and 2002. 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.

In June 1999, GASB issued Statement 34, *Basic Financial Statements and Management's Discussion and Analysis–for State and Local Governments*, which established new financial reporting requirements. In November 1999, GASB issued Statement 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities–an Amendment of GASB Statement 34*, which applies the new reporting standards to public institutions. As component units of the Commonwealth of Virginia, public institutions implemented GASB Statement 35 in fiscal year 2002, which is the same time that state government implemented GASB Statement 34. James Madison University chose to implement GASB Statement 35 in fiscal year 2001.

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

As required by these accounting pronouncements, the basic financial statements are the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. The following analysis discusses elements from each of these statements, as well as an overview of the University's activities.

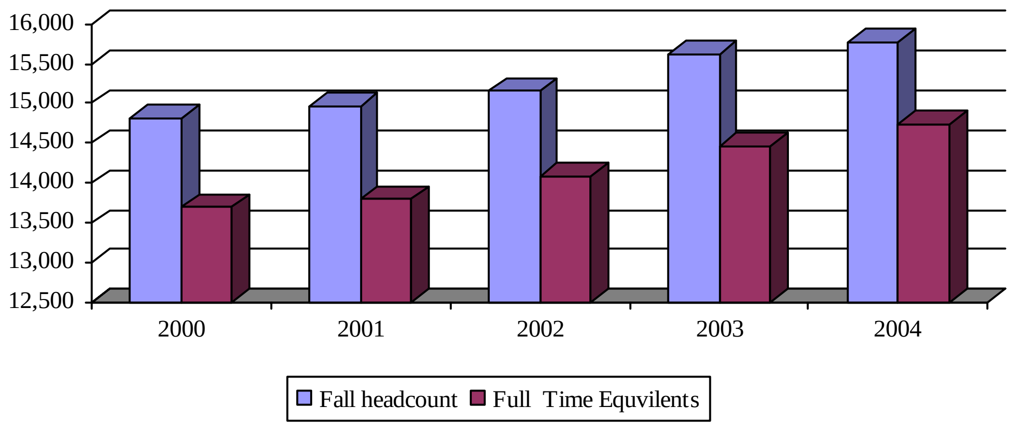
The University elected to implement early GASB Statement 39, *Determining Whether Certain Organizations are Component Units*. This statement addresses the conditions under which institutions should include associated fund-raising or research foundations as component units in their basic financial statements and how such component units should be displayed in the financial statements. Under the previous accounting standards, the University had no component units. Under the new standards, the James Madison University Foundation, Inc. (Foundation) meets criteria qualifying it as a component unit. The Foundation is included in the accompanying financial statements in a separate column. However, the following discussion and analysis does not include the Foundation's financial condition and activities.

Enrollment and Admissions Information

In the 1980's and 1990's, James Madison University's goals included continuous enrollment growth. This substantial growth developed considerably faster than the funding necessary to support the student population. In order not to sacrifice the quality of programs by uncontrolled enrollment expansion, University management developed a strategic plan to stabilize enrollment at approximately 15,000 students.

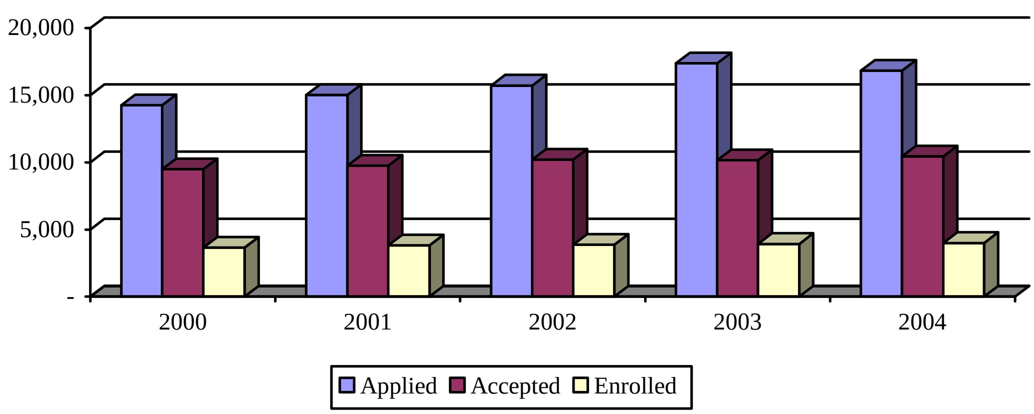
The chart below demonstrates the beginning of this trend.

Enrollment Information



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

Admission Information



Statement of Net Assets

The Statement of Net Assets (SNA) presents the University's assets, liabilities, and net assets as of the end of the fiscal year. The purpose of this statement is to present to the financial statement readers a snapshot of the University's financial position at June 30, 2004 and 2003. The data presented in the SNA aids in determining the assets available to continue the University's operations. It also allows readers to determine how much the University owes to vendors and creditors. Finally, the SNA provides a picture of net assets and their availability for expenditure by the University. Sustained increases in net assets are one indicator of an organization's financial health.

Net assets are divided into three major categories. The first category, "Invested in capital assets, Net of related debt," represents the University's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. Debt incurred, but not yet expended for capital assets, is not included as a component of invested in capital assets, net of related debt. The next category is "Restricted net assets," which is divided into two categories, expendable and nonexpendable. Expendable restricted assets include resources the University is legally or contractually obligated to expend in accordance with restrictions imposed by external third parties. Nonexpendable restricted net assets consist of endowments and similar type funds where donors or other outside sources have stipulated that, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or added to the principal. Unrestricted net assets represent resources used for the University's general operations. They may be used at the discretion of the University's Board of Visitors to meet current expenses for any lawful purpose in support of educational and general and auxiliary activities.

Statement of Net Assets

	2004	2003	2002
Assets:			
Current assets	$ 88,559	$ 67,562	$ 56,885
Capital assets, Net	305,460	279,798	271,993
Other noncurrent assets	4,024	7,716	4,576
Total assets	398,043	355,076	333,454
Liabilities:			
Current liabilities	50,440	36,408	37,094
Noncurrent liabilities	77,921	82,724	81,814
Total liabilities	128,361	119,132	118,908
Net assets:			
Invested in capital assets, Net of related debt	231,678	203,488	191,369
Restricted – Expendable	8,712	7,304	3,583
Restricted – Nonexpendable	291	260	262
Unrestricted	29,001	24,892	19,332
Total net assets	$269,682	$235,944	$214,546

* in thousands

In 2004, the University's total assets increased by $42,967,000. Generally, the University used noncurrent assets such as investments with the Treasurer of Virginia, and state capital appropriations to construct and purchase capital assets. The net increase in capital assets of $25,662,000 is discussed in the next section of this analysis. The $20,997,000 increase in current assets includes a $7,484,000 increase in short-term investments related to the University's allocated share in the Commonwealth's securities lending program. The current liabilities include an increase in the same amount for obligations under the securities lending program. An increase of $3,656,000 in accounts receivable includes $2,695,000 due under insurance settlement for the Financial Services Building fire. Increases in amounts due from the Commonwealth of $1,843,000 are expenditure reimbursements for capital projects funded by the state's 21st Century and General

Obligation Bond programs. Total liabilities increased by $9,229,000, due to obligations related to securities as discussed above and a $5,686,000 increase in accounts payable and accrued expenses. Capital related accounts and retainage payables increased $3,353,000, reflecting the on-going construction projects.

In 2003, the University's total assets increased by $21,622,000. Generally, the University used noncurrent assets, such as investments with the Treasurer of Virginia, to construct and purchase capital assets. The net increase in capital assets of $7,805,000 is discussed in the next section of this analysis. The $10,677,000 increase in current assets is related to an increase in cash and cash equivalents and amounts due from the Commonwealth for capital project expenditure reimbursements funded by the state's 21st Century and General Obligation Bond programs. Total liabilities increased by only $224,000.

Capital Asset and Debt Administration

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

Note 4 of the Notes to Financial Statements describes the University's significant investment in capital assets with total depreciable capital asset additions of $16,077,000 and $18,323,000 (excluding land and construction in progress) in fiscal years 2004 and 2003. Significant additions in fiscal year 2004 include the completion of the Track Relocation capital project ($3,694,000) and the purchase of Blue Ridge Hall ($2,693,000). Capital projects substantially completed in fiscal year 2003 included the Gifford residence hall ($5,197,000) and the campus bookstore ($3,947,000). The Track Relocation project was funded by auxiliary reserve funds. The Gifford Hall renovation was funded by previously issued debt and the campus bookstore was primarily funded by private gifts. Nondepreciable additions for 2004 include $684,000 for land associated with the Blue Ridge Hall purchase and $703,000 in artwork transferred from the Foundation. Nondepreciable additions for 2003 included $1,844,000 for parcel two of a two-parcel land acquisition, funded with the proceeds from debt issued in 2003. These sites were surrounded by the University and are now included in the planned development and expansion of the University's campus on the west side of Main Street. In 2003, the University also used $1,779,000 in auxiliary reserve funds to purchase land for future student recreation fields. Depreciation expense was $15,388,000 and $15,067,000 in 2004 and 2003, with net retirements of $2,102,000 and $600,000 resulting in a net decrease of depreciable capital assets of $1,413,000 and a net increase of depreciable capital assets of $2,656,000 for 2004 and 2003, respectively.

Major projects still under construction at June 30, 2004, include a third academic building on the East Campus ($17,542,000), the Athletic Performance Center ($4,946,000), and the Harrison Hall renovation ($5,082,000). The same projects, along with the Track Relocation project were in-progress at June 30, 2003. Costs incurred relating to the East Campus' third academic building are for planning, architectural and engineering fees, and construction. The planning and fees were funded by state general funds. The constructions costs, estimated to be approximately $24,249,000, are being funded by the state's 21st Century Bond Program. The University will incur no debt for this project. The Athletic Performance Center project is being funded by a combination of auxiliary reserve funds, gifts, and debt proceeds. The Harrison Hall renovation project is primarily being funded by state general obligation bonds.

The University decreased its total long-term debt from $81,026,000 in fiscal year 2003 to $76,936,000 in fiscal year 2004. The only new bond indebtedness in 2004 was $1,865,000 to fund construction on the Athletic Performance Center. The University decreased its total long-term debt from $81,647,000 in fiscal year 2002 to $81,026,000 in fiscal year 2003, even after incurring $2,100,000 in new bond indebtedness to fund the purchase of parcel two of the property acquisition discussed above and $4,170,000 for the Logan residence hall renovation.

As calculated under the State Council of Higher Education for Virginia's (SCHEV) formula, the University's 2004 debt service to unrestricted expenditures and mandatory transfers ratio was 4.6 percent, as compared to 5.4 percent for 2003 and 5.5 percent for 2002. This ratio is one of the system-wide measures in SCHEV's Reports on Institutional Effectiveness. The Commonwealth recommends that this ratio not exceed seven percent. The Council has not indicated a new method for calculating this ratio based on the new reporting model. We computed our ratio based on the previous reporting model.

Overall, unpaid construction and other related contractual commitments increased from $7,846,000 in 2002 to $19,229,000 in 2003, and increased again to $21,744,000 in 2004. Unpaid commitments at both June 30, 2004 and 2003 primarily reflect the East Campus' third academic building and the Athletic Performance Center projects. Further information relating to capital assets, construction, and capital debt is included in the Notes to Financial Statements in Notes 4 and 7.

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

<u>Statement of Revenues, Expenses, and Changes in Net Assets</u>

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

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

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

Statement of Revenues, Expenses, and Changes in Net Assets

	2004	2003	2002
Operating revenues:			
Student tuition and fees	$ 73,843	$ 59,153	$ 52,062
Grants and contracts	26,167	24,026	20,872
Auxiliary enterprises	87,600	85,189	80,165
Other operating revenues	762	850	792
Total operating reveues	188,372	169,218	153,891
Operating expenses:			
Instruction	74,911	72,384	68,907
Research	5,495	4,509	2,866
Public service	10,994	10,142	8,814
Academic support	20,241	17,348	18,093
Student services	6,495	6,804	6,430
Institutional support	12,278	10,838	11,680
Operation and maintenance – plant	13,987	13,533	13,188
Depreciation	15,388	15,067	14,212
Student aid	4,271	3,554	3,707
Auxiliary activities	68,921	64,884	61,176
Total operating expenses	232,981	219,063	209,073
Operating loss	(44,609)	(49,845)	(55,182)
Nonoperating revenues and expenses	55,676	58,822	62,604
Income before other revenues, expenses, gains, or losses	11,067	8,977	7,422
Other revenues, expenses, gains, or losses	22,671	12,421	5,958
Increase in net assets	33,738	21,398	13,380
Net assets - beginning of year	235,944	214,546	201,166
Net assets - end of year	$269,682	$235,944	$214,546

* in thousands

Operating revenues, consisting mostly of tuition and fees and auxiliary enterprises, increased $19,154,000 or 12 percent from the prior fiscal year, as compared to a ten percent increase from 2002 to 2003. Student tuition and fees, net of scholarship allowances, increased by $14,690,000 in fiscal year 2004. Most of this growth was attributable to tuition rate increases averaging 18 percent for state undergraduate, 29 percent for state graduates, and 19 percent for out-of-state students. In 2003, the University increased tuition by $170 per student for the Spring 2003 semester. These tuition increases were necessary in order to mitigate the state budget reductions in the 2002-2004 budget periods. Auxiliary revenues increased only $2,411,000 or 2.8 percent, as compared to an increase of 6.3 percent from 2002 to 2003. The increase in 2003 was mostly attributable to an overall room and board rate increase of two percent and a 2.1 percent increase in the comprehensive fee. Grants and contracts revenue also continues to increase, reflecting the overall increase in award activity.

Total operating expenses increased $13,918,000 or 6.4 percent, including an increase of $5,064,000 in compensation expenses, consisting of the natural expense classifications salaries, wages, and fringe benefits. Compensation expenses comprised 57 and 58 percent of the University's total 2004 and 2003 operating expenses, respectively. The Commonwealth provides across-the-board salary increases on a periodic basis. For the first time since November 2000, economic conditions accommodated an across-the-board increase. Faculty and staff received a 2.25 percent increase in November 2003. During most of the biennium just completed, economic conditions in the Commonwealth did not accommodate such increases; however, in September 2002, faculty and staff received a one-time bonus payment equal to 2.5 percent of their annual salary. Employees could take the bonus in cash, annual leave, or a combination of cash and leave. Compensation expense remained relatively stable with only four percent and 5.2 percent growth in 2004 and 2003. Due to a statewide budget shortfall in fiscal years 2002 and 2003, the Commonwealth significantly reduced general fund state appropriation support to higher education operating budgets in 2003 and 2004. These reductions were offset by the aforementioned tuition increases, therefore allowing the University to fund increases in operating expenses.

Net nonoperating income decreased by $3,146,000 and $3,782,000 in fiscal years 2004 and 2003. Due to the recent recession and its impact on state tax revenues, the University's total state appropriations were reduced by $4,366,000 (7.0 percent) in 2004 and $5,370,000 (8.7 percent) in 2003. Investment income, primarily from auxiliary reserve funds in state cash management pools, decreased by $575,000 due to decreases in interest rates. Other revenues and gains include capital appropriations, which increased $9,953,000 between fiscal years 2003 and 2004. This increase results from the 21st Century and General Obligation Bond funding for the East Campus academic building construction and Harrison Hall renovation described above. Capital gifts include $2,266,000 for the Athletic Performance Center in 2004 and $2 million for the bookstore and $1 million for the Athletic Performance Center in 2003.

Statement of Cash Flows

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

The statement is divided into five sections. The first section shows the net cash used by the University's operating activities. The next section reflects the cash flows from noncapital 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 presents cash used for the acquisition and construction of capital and related items. The next section shows cash flows related to purchases, proceeds, and interest received from investing activities. The last section reconciles the net cash used by operating activities to the operating loss reflected on the SRECNA.

Statement of Cash Flows

	2004	2003	2002
Cash provided (used) by:			
Operating activities	$ (26,912)	$ (34,170)	$ (43,102)
Noncapital financing activities	57,207	61,060	66,842
Capital financing activities	(23,076)	(22,072)	(22,560)
Investing activities	955	1,806	1,934
Net increase in cash	8,174	6,624	3,114
Cash – beginning of the year	49,633	43,009	39,895
Cash – end of year	$ 57,807	$ 49,633	$ 43,009

* in thousands

Major sources of cash from operating activities include student tuition and fees ($74,748,000 in 2004 and $58,882,000 in 2003), auxiliary enterprise's receipts ($87,497,000 in 2004 and $85,555,000 in 2003), and grants and contracts ($25,681,000 in 2004 and $23,719,000 in 2003). Major uses of cash include payments for salaries, wages, and fringe benefits ($130,765,000 in 2004 and $125,833,000 in 2003); payments for supplies and services ($58,833,000 in 2004 and $55,733,000 in 2003); and payments for noncapitalized plant improvements and equipment ($10,637,000 in 2004 and $9,035,000 in 2003).

Cash flows from noncapital financing activities include state appropriations for the University's educational and general programs and financial aid of $57,595,000 and 61,806,000 for 2004 and 2003, 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 2004 and 2003 include the conversion of noncash assets investments with the State Treasurer of Virginia into cash ($3,804,000 in 2004 and $2,033,000 in 2003)**,** proceeds from the issuance of debt ($2,013,000 in 2004 and $6,637,000 in 2003), capital appropriations ($16,617,000 in 2004) and capital gifts ($2,128,000 in 2004 and $3,056,000 in 2003). Significant cash outflows include $38,246,000 in 2004 and $26,999,000 in 2003 for the purchase and construction of capital assets and $9,361,000 in 2004 and $10,671,000 in 2003 for the repayment of principal and interest on capital related debt.

Economic Outlook

The University's economic outlook is closely related to its role as one of the Commonwealth's comprehensive higher education institutions. Economic factors related to the Commonwealth of Virginia can be found in the Commonwealth's Comprehensive Annual Financial Report. There is a direct correlation between the amount of state appropriations and establishment of tuition and fee rates. In fiscal year 2003-2004, the Commonwealth emerged from a succession of fiscal periods that resulted in a lag in revenue collections. In 2003-2004, state revenue collections strengthened, the General Assembly enacted tax increases to generate additional revenue for critical state programs, including an additional $278 million earmarked for higher education in 2005 and 2006, and the state ended 2004 with a significant surplus. The increased general fund allocations are intended to help institutions offset and control rising tuition and support growing enrollments. Also for 2004-2005, the General Assembly returned the authority to institutions boards of visitors to set tuition charges at levels they deem to be appropriate.

The University's overall financial position remains strong. Even with the general fund reductions, revenue shortfalls, and economic uncertainty that marked the 2002-2004 biennium; the University generated overall increases in net assets during fiscal years 2004 and 2003. Management will continue to closely monitor resources to ensure the ability to react to unknown internal and external issues.

JAMES MADISON UNIVERSITY
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2004 AND 2003

	2004		2003	
	James Madison University	Component Unit	James Madison University	Component Unit
ASSETS				
Current assets:				
Cash and cash equivalents (Note 2)	$ 57,288,258	$ 1,289,858	$ 49,170,617	$ 944,126
Short-term investments (Note 2)	10,944,536	-	3,165,318	-
Accounts receivable (Net of allowance for doubtful accounts of $439,659 and $396,330 for 2004 and 2003, respectively) (Note 3)	7,617,647	31,652	3,961,352	65,487
Contributions receivable (Net of allowance for doubtful contributions of $62,834 and $32,505 for 2004 and 2003, respectively) (Note 3)	-	3,183,099	-	1,839,924
Due from the Commonwealth (Note 7)	8,163,030	-	6,320,472	-
Prepaid expenses	3,311,982	296	3,723,104	2,166
Inventory	746,643	500	754,572	2,646
Notes receivable (Net of allowance for doubtful accounts of $50,257 and $39,356 for 2004 and 2003, respectively)	486,822	-	466,951	-
Total current assets	88,558,918	4,505,405	67,562,386	2,854,349
Noncurrent assets:				
Restricted cash and cash equivalents (Note 2)	518,743	-	462,575	-
Endowment investments (Note 2)	220,469	19,565,339	190,989	17,701,871
Other long-term investments (Note 2)	991,145	21,506,832	4,885,601	14,987,053
Contributions receivable (Net of allowance for doubtful contributions of $78,008 and $87,531 for 2004 and 2003, respectively) (Note 3)	-	3,846,185	-	4,289,019
Notes receivable (Net of allowance for doubtful accounts of $220,743 and $193,455 for 2004 and 2003, respectively)	2,293,328	-	2,176,348	-
Capital assets, net: (Note 4)				
Nondepreciable	52,075,615	910,739	25,000,115	1,610,204
Depreciable	253,384,865	43,373	254,797,506	90,161
Other assets	-	11,858	-	12,786
Total noncurrent assets	309,484,165	45,884,326	287,513,134	38,691,094
Total assets	398,043,083	50,389,731	355,075,520	41,545,443
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses (Note 5)	24,307,273	373,824	18,621,401	250,344
Deferred revenue	4,942,391	-	4,073,498	-
Obligations under securities lending	10,568,843	-	3,084,721	-
Deposits held in custody for others	2,725,039	-	2,743,677	-
Long-term liabilities - current portion (Note 6)	7,834,186	77,874	7,825,050	74,934
Advance from the Treasurer of Virginia	62,800	-	59,000	-
Total current liabilities	50,440,532	451,698	36,407,347	325,278
Noncurrent liabilities (Note 6)	77,920,931	1,548,015	82,724,220	2,222,235
Total liabilities	128,361,463	1,999,713	119,131,567	2,547,513

JAMES MADISON UNIVERSITY
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2004 AND 2003

	2004		2003	
	James Madison University	Component Unit	James Madison University	Component Unit
NET ASSETS				
Invested in capital assets, Net of related deb	231,677,905	682,862	203,488,453	1,408,115
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	290,508	16,162,577	259,507	13,612,427
Research and public service	-	323,150	-	323,051
Other	-	5,701,779	-	4,560,344
Expendable:				
Scholarships and fellowships	37,114	987,729	37,514	1,060,075
Research and public service	2,618,615	1,368,384	2,509,238	1,422,491
Debt service	2,231	831,389	7,647	782,285
Capital projects	5,712,311	8,166,840	4,391,809	7,634,527
Loans	341,695	-	357,516	-
Other	-	9,035,755	-	5,649,830
Unrestricted	29,001,241	5,129,553	24,892,269	2,544,785
Total net assets	$ 269,681,620	$ 48,390,018	$ 235,943,953	$ 38,997,930

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

JAMES MADISON UNIVERSITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	2004		2003	
	James Madison University	Component Unit	James Madison University	Component Unit
Operating revenues:				
Student tuition and fees (Net of scholarship allowances of $4,747,445 and $3,851,901 for 2004 and 2003, respectively)	$ 73,842,646	$ -	$ 59,152,970	$ -
Gifts and contributions	-	6,694,956	-	6,043,740
Federal grants and contracts	15,007,987	-	13,657,335	-
State grants and contracts	7,770,200	-	7,775,928	-
Nongovernmental grants and contracts	3,388,905	-	2,593,115	-
Auxiliary enterprises (Net of scholarship allowances of $4,570,696 and $4,500,656 for 2004 and 2003, respectively) (Note 9)	87,599,638	-	85,188,974	-
Other operating revenues	762,289	183,774	849,889	63,808
Total operating revenues	188,371,665	6,878,730	169,218,211	6,107,548
Operating expenses (Note 10):				
Instruction	74,910,956	1,624,804	72,384,226	272,222
Research	5,495,158	15,612	4,509,392	10,383
Public service	10,994,405	77,829	10,141,666	84,604
Academic support	20,240,974	295,965	17,347,854	230,042
Student services	6,495,522	30,648	6,804,003	31,124
Institutional support	12,277,727	843,539	10,837,539	816,433
Operation and maintenance - plant	13,986,765	2,329,625	13,533,167	148,252
Depreciation	15,387,782	64,779	15,067,069	46,790
Student aid	4,270,866	1,092,755	3,554,177	1,126,890
Auxiliary activities (Note 9)	68,921,216	620,376	64,884,111	560,337
Total operating expenses	232,981,371	6,995,932	219,063,204	3,327,077
Operating gain (loss)	(44,609,706)	(117,202)	(49,844,993)	2,780,471
Nonoperating revenues (expenses):				
State appropriations (Note 11)	57,597,656	-	61,963,431	-
Gifts	533,086	-	582,470	-
Investment income (Net of investment expense of $34,074 and $61,942 for the University and $279,713 and $227,724 for the Foundation for 2004 and 2003, respectively)	1,183,162	5,985,309	1,758,325	447,942
Interest on capital asset - related debt	(3,441,382)	(54,250)	(3,706,570)	(54,441)
Gain (loss) on disposal of plant assets	584,593	-	(543,691)	-
Payment to the Commonwealth	(781,186)	-	(1,231,830)	-
Net nonoperating revenues (expenses)	55,675,929	5,931,059	58,822,135	393,501
Income before other revenues, expenses, gains or losses	11,066,223	5,813,857	8,977,142	3,173,972
Capital appropriations	18,456,330	-	8,502,938	-
Capital gifts	4,214,940	-	3,917,981	-
Additions to permanent endowments	174	3,578,231	-	972,131
Net other revenues	22,671,444	3,578,231	12,420,919	972,131
Increase in net assets	33,737,667	9,392,088	21,398,061	4,146,103
Net assets - beginning of year	235,943,953	38,997,930	214,545,892	34,851,827
Net assets - end of year	$ 269,681,620	$ 48,390,018	$ 235,943,953	$ 38,997,930

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

JAMES MADISON UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
Cash flows from operating activities:		
Student tuition and fees	$ 74,747,965	$ 58,882,476
Grants and contracts	25,680,580	23,718,830
Auxiliary enterprises	87,496,590	85,555,411
Other receipts	707,908	721,255
Payments to employees	(101,905,556)	(100,430,282)
Payments for fringe benefits	(28,859,092)	(25,402,925)
Payments for services and supplies	(58,833,275)	(55,733,211)
Payments for utilities	(11,038,249)	(8,995,936)
Payments for scholarships and fellowships	(4,233,169)	(3,515,736)
Payments for noncapitalized plant improvements and equipment	(10,636,617)	(9,034,742)
Loans issued to students	(601,045)	(563,770)
Collections of loans from students	561,681	628,804
Net cash used by operating activities	(26,912,279)	(34,169,826)
Cash flows from noncapital financing activities:		
State appropriations	57,594,765	61,805,997
Payment to the Commonwealth	(781,186)	(1,231,830)
Gifts and grants for other than capital purposes	533,086	582,470
Loans issued to students and employees	(163,983)	(46,086)
Collections of loans from students and employees	68,436	17,417
Agency receipts	8,150,553	8,304,389
Agency payments	(8,195,192)	(8,372,139)
Net cash provided by noncapital financing activities	57,206,479	61,060,218
Cash flows from capital financing activities:		
Proceeds from investments	3,803,638	2,032,782
Proceeds from capital debt	2,012,995	6,636,573
Capital appropriations	16,616,664	3,857,659
Capital gifts	2,128,405	3,055,727
Proceeds from sale of capital assets	23,022	15,680
Purchase of capital assets	(38,103,475)	(26,998,972)
Principal paid on capital debt, leases, and installments	(5,919,656)	(6,778,061)
Interest paid on capital debt, leases, and installments	(3,637,553)	(3,893,436)
Net cash used by capital financing activities	(23,075,960)	(22,072,048)
Cash flows from investing activities:		
Interest on investments	64,895	266,887
Interest on cash management pools	890,674	1,538,866
Net cash provided by investing activities	955,569	1,805,753
Net increase in cash	8,173,809	6,624,097
Cash and cash equivalents - beginning of the year	49,633,192	43,009,095
Cash and cash equivalents - end of the year	$ 57,807,001	$ 49,633,192

JAMES MADISON UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (44,609,706)	$(49,844,993)
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation expense	15,387,782	15,067,069
Changes in assets and liabilities:		
Receivables, net	(567,186)	50,561
Due from the Commonwealth	(2,892)	508,640
Prepaid expenses	411,122	(1,077,757)
Inventory	7,929	1,824
Notes receivable, net	(40,008)	9,909
Accounts payable and accrued expenses	2,332,555	726,697
Deferred revenue	868,893	(215,767)
Advance from the Treasurer of Virginia	3,800	2,000
Accrued compensated absences	(22,089)	354,766
Accrued retirement plan	(670,927)	291,317
Federal loan programs contributions refundable	(11,552)	(44,092)
Net cash used by operating activities	$ (26,912,279)	$(34,169,826)
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS		
Gift of capital assets	$ (1,905,755)	$ (862,254)
Principal and interest on capital lease debt paid by state agency on behalf of the University	-	157,434
Capitalization of interest revenue and expense, net	-	(156,364)
Change in fair value of investments recognized as a component of interest income	67,067	(9,055)

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

In fiscal year 2002, the University implemented Governmental Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement 14, *The Financial Reporting Entity*. This statement addresses the conditions under which institutions should include associated fund-raising or research foundations as component units in their basic financial statements and how such component units should be displayed in the financial statements. This statement is effective for the fiscal year ending June 30, 2004.

Prior to fiscal year 2002, the University had no component units, as defined by GASB Statement 14. However, under GASB Statement 39 standards, the James Madison University Foundation, Inc. (Foundation) meets criteria qualifying it as a component unit of the University. The Foundation is a legally separate, tax-exempt organization formed to promote the achievements and further the aims and purposes of the University. The Foundation accomplishes its purposes through fundraising and funds management efforts that benefit the University and its programs. The 20-member board of the Foundation is self-perpetuating and consists of friends and supporters of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is discretely presented in the financial statements.

During the years ended June 30, 2004 and 2003, the Foundation distributed $3,266,523 and $2,249,913, respectively, 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*. These statements were effective for the Commonwealth and all of its component units for the fiscal year ending June 30, 2002; however, the University implemented the new standards for the fiscal year ended June 30, 2001. The current financial statement presentation provides a comprehensive entity-wide look at the University's financial activities and replaces the fund-group perspective previously required.

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, notes to the financial statements; and supplementary information other than MD&A.

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

C. Basis of Accounting

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

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

D. Investments

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

E. Capital Assets

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

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

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

F. Inventories

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

G. Noncurrent Cash and Investments

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

H. Deferred Revenue

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

I. Accrued Compensated Absences

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

J. Federal Financial Assistance Programs

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

K. Net Assets

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

L. Revenue and Expense Classifications

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

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

Nonoperating expenses include interest on debt related to the purchase of capital assets and losses on the disposal of capital assets. All other expenses are classified as operating expenses.

M. Scholarship Discounts and Allowances

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

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The following information is provided with respect to the credit risk associated with the University's cash and cash equivalents and investments at June 30, 2004 and 2003.

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 deposits with financial institutions of $299,916 at June 30, 2003, and 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. The University's deposits as of June 30, 2004 and 2003 are categorized by levels of credit risk as follows: Category 1 includes insured deposits and Category 3 includes uninsured, uncollateralized deposits. At June 30, 2003, deposits with financial institutions included $299,916 of uncollateralized deposits, which were Category three deposits; all remaining deposits were Category one. 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, and cash deposits, including certificates of deposits and temporary investments with original maturities of three months or less.

B. Investments

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

	2004	2003
Cash and cash equivalents:		
Deposits with financial institutions	$ 3,112,246	$ 3,950,565
Money market and index funds	5,683,281	3,650,140
Cash with the Treasurer	49,011,474	42,032,487
Total	$57,807,001	$49,633,192
Investments:		
State non-arbitrage program (SNAP)	$ 813,954	$ 4,617,592
Investments with the Treasurer of Virginia	2,232	7,647
Collateral held for securities lending	10,568,843	3,084,721
Mutual funds	771,121	531,948
Total	$12,156,150	$ 8,241,908

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, 2004 and 2003. The Foundation considers cash in demand deposit accounts and short-term certificates of deposit to be cash equivalents. The balances in these accounts are subject to electronic transfer for investment purposes and at times exceed federally-insured limits. However, the Foundation does not believe it is subject to any significant credit risk as a result of these deposits.

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

The Investment Committee of the Foundation's Board of Directors establishes the investment policies, objectives, and guidelines. The major portions of the investments are maintained in a portfolio managed by the Foundations' investment advisor, the Northern Trust Corporation. All investments, with the exception of the life insurance policies, are considered Category 1 investments and represent insured or registered securities held by James Madison University Foundation or its agent in the Foundation's name. Life insurance policies are not categorized as to credit risk. The Foundation's investments by type of security are as follows:

	2004		2003	
	Fair Value	Cost	Fair Value	Cost
Cash and cash equivalents	$ 1,402,663	$ 1,402,663	$ 529,049	$ 529,049
Common stock	10,818,278	7,709,742	9,145,757	7,552,953
Mutual funds	18,550,822	15,029,549	15,476,549	15,004,264
Corporate bonds	7,009,644	6,960,532	5,772,519	5,643,978
U.S. government securities	2,989,744	2,989,744	1,493,270	1,500,000
Life insurance policies	301,020	-	271,780	-
Total	$41,072,171	$34,092,230	$32,688,924	$30,230,244

C. Securities Lending Transactions

The investments under securities lending and the securities lending transactions reported on the financial statements represent the University's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

3. ACCOUNTS AND CONTRIBUTIONS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2004 and 2003:

	2004	2003
Student tuition and fees	$ 429,564	$ 411,542
Auxiliary enterprises	1,080,199	800,155
Federal, state, and nongovernmental grants and contracts	3,442,942	2,948,415
Insurance settlement for Financial Services Building fire	2,694,624	-
Other activities	409,977	197,570
Total	8,057,306	4,357,682
Less allowance for doubtful accounts	439,659	396,330
Net accounts receivable	$7,617,647	$3,961,352

The Foundation's contributions receivable at June 30, 2004 and 2003 is summarized below:

	2004	2003
Due in less than one year	$3,245,933	$1,872,429
Due between one and five years	3,753,573	4,245,150
Due in more than five years	645,131	756,440
Total	7,644,637	6,874,019
Less present value discount (3% - 6%)	474,511	625,040
Less allowance for doubtful accounts	140,842	120,036
Net contributions receivable	$7,029,284	$6,128,943

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the years ending June 30, 2004 and 2003 is presented as follows:

	2004			
	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable capital assets:				
Land	$ 13,237,511	$ 684,000	$ 2,732	$ 13,918,779
Inexhaustible artwork and historical treasures	198,798	703,047	-	901,845
Construction in progress	11,563,806	29,269,418	3,578,233	37,254,991
Total nondepreciable capital assets	25,000,115	30,656,465	3,580,965	52,075,615

Depreciable capital assets:				
Buildings	310,729,138	4,788,242	2,323,875	313,193,505
Infrastructure	28,076,787	369,378	-	28,446,165
Equipment	34,945,651	4,733,633	1,363,494	38,315,790
Other improvements	8,712,979	4,105,237	3,383	12,814,833
Library materials	29,721,832	2,080,660	368,002	31,434,490
Total depreciable capital assets	412,186,387	16,077,150	4,058,754	424,204,783
Less accumulated depreciation for:				
Buildings	95,580,798	8,319,622	344,703	103,555,717
Infrastructure	10,162,958	1,260,652	-	11,423,610
Equipment	21,958,636	4,179,764	1,243,701	24,894,699
Other improvements	3,487,832	429,266	339	3,916,759
Library materials	26,198,657	1,198,478	368,002	27,029,133
Total accumulated depreciation	157,388,881	15,387,782	1,956,745	170,819,918
Depreciable capital assets, Net	254,797,506	689,368	2,102,009	253,384,865
Total capital assets, Net	$279,797,621	$31,345,833	$5,682,974	$305,460,480

	2003			
	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable capital assets:				
Land	$ 9,192,774	$ 4,044,737	$ -	$ 13,237,511
Inexhaustible artwork and historical treasures	159,976	38,822	-	198,798
Construction in progress	10,498,888	9,177,967	8,113,049	11,563,806
Total nondepreciable capital assets	19,851,638	13,261,526	8,113,049	25,000,115
Depreciable capital assets:				
Buildings	299,483,078	11,282,411	36,351	310,729,138
Infrastructure	26,965,096	1,111,691	-	28,076,787
Equipment	33,531,763	3,215,781	1,801,893	34,945,651
Other improvements	7,611,750	1,101,229	-	8,712,979
Library materials	28,273,686	1,611,872	163,726	29,721,832
Total depreciable capital assets	395,865,373	18,322,984	2,001,970	412,186,387
Less accumulated depreciation for:				
Buildings	87,317,310	8,299,839	36,351	95,580,798
Infrastructure	8,891,709	1,271,249	-	10,162,958
Equipment	19,203,800	3,956,996	1,202,160	21,958,636
Other improvements	3,079,068	408,764	-	3,487,832
Library materials	25,232,162	1,130,221	163,726	26,198,657
Total accumulated depreciation	143,724,049	15,067,069	1,402,237	157,388,881
Depreciable capital assets, Net	252,141,324	3,255,915	599,733	254,797,506
Total capital assets, Net	$271,992,962	$16,517,441	$8,712,782	$279,797,621

The Foundation's net capital assets consist of $853,521 and $900,309 in property and equipment and $100,591 and $800,056 in collections of historical artifacts for the years ending June 30, 2004 and 2003, respectively. During fiscal year 2004, the Foundation transferred historical artifacts, primarily consisting of artwork, valued at $703,047 to the University. The Statement of Revenues, Expenses and Changes in Net Assets includes this transfer in the University's "capital gifts" and the Foundation's "instruction" operating expenses.

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2004 and 2003:

	2004	2003
Employee salaries, wages, and fringe benefits payable	$16,926,328	$14,960,400
Vendors and suppliers accounts payable	2,691,962	2,325,335
Capital projects accounts and retainage payable	4,688,983	1,335,666
Total accounts payable and accrued expenses	$24,307,273	$18,621,401

6. NONCURRENT LIABILITIES

The University's noncurrent liabilities consist of long-term debt (further described in Note 7), accrued supplemental retirement plan (further described in Note 8), and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the years ending June 30, 2004 and 2003 is presented as follows:

	2004				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds	$41,955,000	$1,865,000	$2,325,000	$41,495,000	$2,595,000
General obligation bonds	38,668,340	-	3,369,146	35,299,194	2,836,443
Installment purchases	402,670	39,610	300,050	142,230	133,778
Total long-term debt	81,026,010	1,904,610	5,994,196	76,936,424	5,565,221
Accrued retirement plan	2,610,172	571,545	1,242,472	1,939,245	-
Accrued compensated absences	4,510,025	2,223,944	2,246,033	4,487,936	2,268,965
Federal loan program contributions	2,403,063	-	11,551	2,391,512	-
Total long-term liabilities	$90,549,270	$4,700,099	$9,494,252	$85,755,117	$7,834,186

	2003				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds	$41,940,000	$12,100,000	$12,085,000	$41,955,000	$2,325,000
General obligation bonds	38,557,461	12,861,715	12,750,836	38,668,340	3,369,146
Capital leases	267,641	-	267,641	-	-
Installment purchases	882,230	-	479,560	402,670	280,195
Total long-term debt	81,647,332	24,961,715	25,583,037	81,026,010	5,974,341
Accrued retirement plan	2,318,855	1,415,180	1,123,863	2,610,172	-
Accrued compensated absences	4,155,260	2,246,448	1,891,683	4,510,025	1,850,709
Federal loan program contributions	2,447,155	-	44,092	2,403,063	-
Total long-term liabilities	$90,568,602	$28,623,343	$28,642,675	$90,549,270	$7,825,050

7. LONG-TERM DEBT

The University has issued two categories of bonds pursuant to Section 9 of Article X of the Constitution of Virginia. Section 9(d) bonds are revenue bonds, which are limited obligations of the University payable exclusively from pledged general revenues and are not debt of the Commonwealth of Virginia, legally, morally, or otherwise. Pledged 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 of Virginia on behalf of the University, which are secured by the net revenues of the completed project and the full faith, credit, and taxing power of the Commonwealth of Virginia.

Description	Interest Rates (%)	Maturity	2004	2003
Revenue bonds:				
Dormitory, Series 1993A	4.55 - 5.375	2006	$ 302,975	$ 477,975
Dormitory, Series 2003A	2.92	2009	787,050	803,550
Dormitory, Series 1998A	3.50 - 4.80	2019	11,980,000	12,545,000
Parking, Series 1999A	4.50 - 6.00	2020	5,660,000	5,880,000
Student center, Series 1999A	4.50 - 6.00	2020	8,685,000	9,025,000
Recreation, Series 1993A	4.55 - 5.375	2006	1,522,025	2,402,025
Recreation, Series 2003A	2.92	2013	9,042,950	9,126,450
Property acquisition, Series 2002A	3.00 - 5.00	2013	1,955,000	2,100,000
Athletics, Series 2003A	2.00 – 5.00	2014	1,865,000	-
Total revenue bonds			41,800,000	42,360,000
Deferred loss on refinancing			(305,000)	(405,000)
Revenue bonds payable			41,495,000	41,955,000

General obligation revenue bonds:				
Dormitory and dining hall:				
Series 1979	3.00	2009	880,000	1,040,000
Series 2002	2.50 - 5.00	2013	3,021,173	3,089,148
Series 2003A	2.50 - 5.50	2008	1,121,535	1,840,983
Series 2003A	2.50 - 5.50	2010	1,149,032	1,316,196
Series 1997	5.00	2017	14,445,000	15,220,000
Series 1998	4.00 - 5.50	2018	845,000	885,000
Series 2001	4.00 - 5.00	2021	5,220,000	5,425,000
Series 2002	2.50 - 5.00	2022	3,835,000	3,850,000
Student center:				
Series 2002	2.50 - 4.00	2005	322,252	631,460
Series 2002	2.50 - 4.00	2004	-	355,910
Series 1998	3.75 - 5.00	2013	4,376,872	4,410,316
Electrical upgrade:				
Series 2002	2.50 - 4.00	2004	-	116,978
Athletics:				
Series 2003A	2.50	2004	-	229,479
Total general obligation revenue bonds			35,215,864	38,410,470
Deferred gain on refinancing			83,330	257,870
General obligation bonds payable			35,299,194	38,668,340
Total bonds payable			76,794,194	80,623,340
Installment purchases payable	Various	2005-2007	142,230	402,670
Total			$76,936,424	$81,026,010

Long-term debt matures as follows:

	Principal	Interest
2005	$ 5,565,221	$ 3,534,678
2006	5,380,631	3,284,074
2007	5,627,347	3,043,552
2008	5,886,010	2,801,948
2009	5,846,709	2,547,306
2010-2014	27,605,506	8,898,384
2015-2019	18,000,000	3,148,261
2020-2022	3,025,000	175,606
Total	$76,936,424	$27,433,809

2003 Defeasance of Debt

In March 2003, the University issued $10 million of Section 9(d) General Revenue Pledge Refunding Bonds, Series 2003A, with interest rates of 2.92 percent to refund $9,525,000 of outstanding Section 9(d) Revenue Bonds, with interest rates of 4.90 percent - 5.375 percent. The Series 2003A bonds issued to refund a portion of the Recreation Series 1993A and Dormitory Series 1993A bonds were current refundings, where the proceeds of the new bonds were used to redeem the refunded bonds on June 1, 2003. The current refunding resulted in the recognition of a deferred accounting loss of $475,000 in fiscal year 2003, which is being amortized to interest expense over the life of the new bonds. Amortization of the accounting loss resulting from the defeasance was $100,000 and $70,000 for fiscal years 2004 and 2003. Though current refunding resulted in the recognition of an accounting loss, the University in effect reduced its aggregate debt service obligation by $1,244,577 over the next ten years and obtained an economic gain (equal to the difference between the present values of the old and new debt service payments) of $1,079,178.

In June 2003, the Commonwealth of Virginia, on behalf of the University, issued $3,386,658 of Section 9(c) General Obligation Bonds, Series 2003A, with interest rates of 2.5 percent - 5.0 percent to refund $3,537,671 of outstanding General Obligation Bonds, Series 1993A Refunding and Series 1993B Refunding, with interest rates of 4.60 percent - 5.20 percent. The net proceeds were deposited into an irrevocable trust with an escrow agent to redeem the refunded bonds on July 15, 2003. The current refunding resulted in the recognition of a deferred accounting gain of $151,013 in fiscal year 2003, which is being amortized to interest expense over the life of the new debt. Amortization of the accounting gain resulting from defeasance was $6,013 for fiscal year 2004. The current refunding resulted in the recognition of an accounting gain and the University in effect reduced its aggregate debt service obligation by $202,895 over the next seven years and obtained an economic gain (equal to the difference between the present values of the old and new debt service payments) of $185,774.

In October 2002, the Commonwealth of Virginia, on behalf of the University, issued $5,710,058 of Section 9(c) General Obligation Bonds, Series 2002, with interest rates of 2.50 percent - 5.00 percent to refund $5,850,613 of outstanding General Obligation Bonds, Series 1992 Refunding, Series 1992C, Series 1993A and Series 1994, with interest rates of 4.80 percent - 6.00 percent. The net proceeds were deposited into an irrevocable trust with an escrow agent to redeem the refunded bonds on July 15, 2003. The current refunding resulted in the recognition of a deferred accounting gain of $140,555 in fiscal year 2003, which is being amortized to interest expense over the life of the new debt. Amortization of the accounting gain resulting from the defeasance was $168,527 and $33,698 for fiscal years 2004 and 2003, respectively. The current refunding resulted in the recognition of an accounting gain and the University in effect reduced its aggregate debt service obligation by $400,923 over the next ten years and obtained an economic gain (equal to the difference between the present values of the old and new debt service payments) of $389,176.

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

Prior Year Defeasance of Debt

In prior years, the University and the Commonwealth of Virginia, on behalf of the University, issued bonds and the proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on other debt. The bonds representing that debt are, therefore, considered defeased. Accordingly, the trust account’s assets and the liabilities for the defeased bonds are not included in the University’s financial statements. On June 30, 2004 and 2003, $1,005,000 and $4,670,000, respectively, of the bonds outstanding were considered defeased.

Equipment Trust Fund Program

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

The Statement of Net Assets line "Due from the Commonwealth" includes $1,616,040 and $1,616,040 at June 30, 2004 and 2003, respectively, and represents equipment purchased by the University that was not reimbursed by the VCBA at year-end. The remaining balances in "Due from the Commonwealth" represent unreimbursed capital project expenses under the Commonwealth's 21st Century and General Obligation bond programs.

Foundation Debt

The Foundation has a line of credit for borrowings to a maximum of $500,000 with interest payable monthly at prime. The line of credit expires on January 30, 2005. At both June 30, 2004 and 2003, no balance was outstanding on the line of credit. The Foundation's long-term debt primarily consists of $778,328 and $832,262 outstanding at June 30, 2004 and 2003, in Series 1999 Industrial Development Authority Revenue Bonds, interest at 5.32 percent, and maturing through 2014. Remaining debt includes $271,250 and $292,250 in notes payable for 2004 and 2003, respectively.

8. SUPPLEMENTAL RETIREMENT PLAN

Effective January 1, 1997, the University established a Supplemental Retirement Plan for tenured faculty members. The plan was designed to provide flexibility in the allocation of faculty positions. The plan is a qualified plan within the meaning of section 401(c) of the Internal Revenue Code of 1986 (the Code) and 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, 109 faculty members have elected to enroll in the plan. As of June 30, 2004, 61 participants remain, including 6 new participants who retired under this plan during fiscal year 2004. 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 the entire fiscal year 2005 plan contribution of $1,202,472 in 2004. The plan payment schedule is as follows:

Year Ending June 30,	Supplemental Plan Obligations
2006	$ 827,098
2007	616,493
2008	389,345
2009	106,309
Total	$1,939,245

9. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expenses consisted of the following at June 30, 2004 and 2003. The University used auxiliary revenues to pay debt service and capital improvements of $9,068,459 and $6,409,006 in 2004 and $10,164,039 and $6,088,670 in 2003, respectively. Those amounts are not included in the auxiliary operating expenses below.

	2004	2003
Revenues:		
Room contracts, net of scholarship allowances of $1,122,067 in 2004 and $1,108,495 in 2003	$17,347,553	$16,992,531
Food service contracts, net of scholarship allowances of $1,204,894 in 2004 and $1,165,344 in 2003	18,628,078	17,863,999
Comprehensive fee, net of scholarship allowances of $2,243,735 in 2004 and $2,226,817 in 2003	35,692,110	35,136,826
Other student fees and sales and services	15,931,897	15,195,618
Total auxiliary enterprises revenues	$87,599,638	$85,188,974
Expenses:		
Residential facilities	$12,165,725	$12,125,268
Dining operations	26,182,977	24,966,259
Athletics	12,211,375	10,480,345
Other auxiliary activities	18,361,139	17,312,239
Total auxiliary activities expenses	$68,921,216	$64,884,111

10. EXPENSES BY NATURAL CLASSIFICATIONS

The following table shows a classification of expenses for the years ended June 30, 2004 and 2003 both by function as listed in the Statement of Revenues, Expenses, and Changes in Net Assets and by natural classification, which is the basis for amounts shown in the Statement of Cash Flows.

	2004							
	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholar-ships and Fellow-ships	Utilities	Plant and Equipment	Depre-ciation	Total
Instruction	$ 53,765,535	$14,303,614	$ 5,904,372	$ -	$ 19,562	$ 917,873	$ -	$ 74,910,956
Research	2,878,378	380,187	2,006,734	-	-	229,859	-	5,495,158
Public service	4,356,327	1,061,818	5,163,430	-	2,152	410,678	-	10,994,405
Academic support	10,376,858	2,716,261	2,105,578	-	298	5,041,979	-	20,240,974
Student services	4,002,812	1,031,347	1,279,471	-	-	181,892	-	6,495,522
Institutional support	5,681,143	2,065,136	3,873,935	-	3,295	654,218	-	12,277,727
Operation and maintenance of plant	4,823,938	1,764,091	1,034,489	-	5,209,424	1,154,823	-	13,986,765
Depreciation expense	-	-	-	-	-	-	15,387,782	15,387,782
Scholarship and related expenses	26,387	11,310	-	4,233,169	-	-	-	4,270,866
Auxiliary activities	17,440,319	5,256,489	38,468,299	-	5,578,453	2,177,656	-	68,921,216
Total	$103,351,697	$28,590,253	$59,836,308	$4,233,169	$10,813,184	$10,768,978	$15,387,782	$232,981,371

	2003							
	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholar-ships and Fellow-ships	Utilities	Plant and Equipment	Depre-ciation	Total
Instruction	$ 52,595,959	$13,682,263	$ 4,975,189	$ -	$ 3,603	$1,127,212	$ -	$ 72,384,226
Research	2,142,942	261,766	1,807,657	-	-	297,027	-	4,509,392
Public service	4,401,636	910,619	4,622,575	-	2,177	204,659	-	10,141,666
Academic support	9,662,477	2,288,801	1,396,867	-	-	3,999,709	-	17,347,854
Student services	3,977,998	1,018,493	1,688,976	-	-	118,536	-	6,804,003
Institutional support	5,454,358	1,997,873	2,929,508	-	4,179	451,621	-	10,837,539
Operation and maintenance of plant	5,014,478	1,598,186	1,173,353	-	4,411,473	1,335,677	-	13,533,167
Depreciation expense	-	-	-	-	-	-	15,067,069	15,067,069
Scholarship and related expenses	29,088	7,890	1,463	3,515,736	-	-	-	3,554,177
Auxiliary activities	17,114,999	4,718,015	36,701,240	-	4,888,642	1,461,215	-	64,884,111
Total	$100,393,935	$26,483,906	$55,296,828	$3,515,736	$9,310,074	$8,995,656	$15,067,069	$219,063,204

11. STATE APPROPRIATIONS

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of the biennium. For years ending at the middle of a biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the University for disbursements.

The following is a summary of state appropriations received by the University including all supplemental appropriations and reversions for the years ending June 30, 2004 and 2003:

Original legislative appropriation:	2004	2003
Educational and general programs	$51,608,921	$61,409,402
Student financial assistance	4,179,157	4,077,778
Higher education equipment trust fund program	-	157,434
Supplemental adjustments:		
Central Fund appropriation transfers:		
Additional student financial assistance	292,218	-
Budget reductions	-	(5,418,546)
Voluntary budget reductions	-	(235,000)
Reappropriation of 2003 voluntary budget reduction	235,000	-
Faculty and staff bonuses	-	1,757,967
Faculty and staff salary increases	582,804	-
Health insurance premium	1,123,045	1,386,867
Retirement plans, group life insurance rate reduction, and other miscellaneous reversions to the Central Fund	(422,747)	(1,172,093)
Reversion to the General Fund of the Commonwealth	(742)	(378)
Adjusted appropriation	$57,597,656	$61,963,431

12. COMMITMENTS

At June 30, 2004, the University was a party to construction and other contracts totaling approximately $51,264,044 of which $29,550,249 has been incurred.

Under a contract between the Board of Visitors of the University and the City of Harrisonburg dated April 12, 1995, the University is committed to city services for steam and chilled water purchases and waste disposal. The city will bill the University for annual debt service for a new resource recovery facility and cost of delivered quantities of steam and chilled water. The contract will expire April 12, 2036. During the years ended June 30, 2004 and 2003, such purchases totaled $3,997,861 and $3,147,860.

The University is committed under various operating leases for equipment and space. In general, the equipment leases are for a two-year term and the space leases are for three-to four-year terms with appropriate renewal options for each type of lease. In most cases, the University expects that in the normal course of business, these leases will be replaced by similar leases. Rental expense was approximately $1,836,611 and $1,954,338 for the years ended June 30, 2004 and 2003.

The University has, as of June 30, 2004, the following future minimum rental payments due under the above leases:

Year Ending June 30,	Operating Lease Obligation
2005	$ 1,506,746
2006	1,393,568
2007	1,226,872
2008	1,169,212
2009	1,152,880
2010-2014	4,507,613
2015-2019	1,082,446
Total	$12,039,337

13. RETIREMENT PLANS

Virginia Retirement System

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

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Therefore, all information relating to this plan is available at the statewide level only and can be found in the Commonwealth's Comprehensive Annual Financial Report (CAFR). The Commonwealth of Virginia, not the University, has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2004. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled $4,515,590 and $2,639,082 for the years ended June 30, 2004 and 2003, respectively. The retirement contribution rate was 8.77% and 5.00% for fiscal years 2004 and 2003. Contributions to VRS were calculated using the base salary amount of approximately $50,742,458 and $51,186,561 for the fiscal years ended June 30, 2004 and 2003. The University's total payroll was approximately $110,909,877 and $109,228,187 for the years ended June 30, 2004 and 2003, respectively.

Optional Retirement Plans

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

Individual contracts issued under the plan provide for full and immediate vesting of both the University's and the employee's contributions. Total pension costs under this plan were approximately $4,131,344 and $3,924,232 for the years ended June 30, 2004 and 2003, respectively. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $39,724,461 and $37,732,999 for fiscal years 2004 and 2003.

Deferred Compensation Plan

Employees of the University are employees of the Commonwealth of Virginia. 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. Employer contributions under the Deferred Compensation Plan were approximately $584,094 and $553,059 for the fiscal years 2004 and 2003, respectively

14. FINANCIAL SERVICES BUILDING FIRE

On November 16, 2003, a fire destroyed the Financial Services Building. The Commonwealth of Virginia Property Risk Management Plan covers the loss of and damage to this building. Insurance recovery funds receivable as of June 30, 2004 were $2,694,624. The net cost of the building (acquisition price and cost of renovations less accumulated depreciation) of $1,979,171 and ongoing renovations in construction in progress of $48,314 were written off. The insurance recovery receivable offset by the asset write-offs resulted in an accounting "gain on disposal of plant assets" of $667,139 related to the fire.

The Financial Services Building has been razed and a new building is planned on the site. The new administrative building will consist of two stories, 37,500 square feet, and will house finance and information technology staff. The project budget is $5,800,000, with funding from insurance recovery proceeds ($2,500,000), educational and general funds ($1,000,000), and auxiliary reserve funds ($2,300,000).

15. POST-EMPLOYMENT BENEFITS

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

16. CONTINGENCIES

Grants and Contracts

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

In addition, the University is required to comply with the various federal regulations issued by the Office of Management and Budget. Failure to comply with certain system requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 2004, the University estimates that no material liabilities will result from such audits or questions.

Litigation

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

17. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

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

JAMES MADISON UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUES AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004

	Food Service	Stores and Shops	Residential Facilities	Parking
Revenues:				
Student fees	$ 19,832,972	$ -	$ 18,469,620	$ -
Sales and services	8,282,311	1,239,238	449,597	2,272,082
Total revenues	28,115,283	1,239,238	18,919,217	2,272,082
Cost of sales	-	(62,044)	-	-
Net revenues	28,115,283	1,177,194	18,919,217	2,272,082
Expenses of operation:				
Personal service	473,854	161,807	1,960,008	499,109
Contractual service	22,751,291	-	6,176,575	1,076,680
Supplies and materials	323,487	21,086	1,415,363	35,116
Current charges and obligations	2,539,714	858,655	2,547,959	264,444
Miscellaneous	36,564	808	65,737	346,203
Equipment	89,367	-	604,159	227,491
Scholarships	42,217	-	118,169	-
Total expenses of operation	26,256,494	1,042,356	12,887,970	2,449,043
Excess (deficiency) of revenues over (under) expenses of operation	1,858,789	134,838	6,031,247	(176,961)
Nonoperating revenues (expenses):				
Private gifts	-	-	-	-
Scholarships	-	-	-	-
Total nonoperating revenue (expenses)	-	-	-	-
Transfers:				
Mandatory:				
Debt service	(915,953)	(17,436)	(4,201,805)	(543,359)
Nonmandatory:				
Allocation of student fees	226,282	-	-	893,385
(To)/From other funds	-	-	-	-
Capital improvements	-	-	-	-
Total transfers	(689,671)	(17,436)	(4,201,805)	350,026
Net revenue increase/(decrease) for the year	$ 1,169,118	$ 117,402	$ 1,829,442	$ 173,065
Fund balance - Beginning of year				
Fund balance - End of year				

Note: This schedule accounts for the purchases of capital assets as expenses and does not include depreciation. Additionally, all revenues are recorded as charged, including student charges and internal activities. Management uses this method of accounting to monitor individual auxiliary enterprises and set rates.

Telecom-munications	Student Health	Student Activities	Recreation	Other	Athletics	Total
$ -	$ -	$ -	$ -	$ 37,935,845	$ -	$ 76,238,437
1,163,395	209,685	97,599	126,578	1,640,346	1,576,341	17,057,172
1,163,395	209,685	97,599	126,578	39,576,191	1,576,341	93,295,609
-	-	-	-	-	-	(62,044)
1,163,395	209,685	97,599	126,578	39,576,191	1,576,341	93,233,565
(46,814)	1,840,802	1,311,452	1,305,780	3,067,086	6,123,649	16,696,733
364,908	208,688	815,460	596,477	2,572,445	3,930,738	38,493,262
(2,655)	141,449	489,097	372,232	393,667	883,866	4,072,708
(3,635)	229,954	102,310	480,142	1,147,403	1,688,833	9,855,779
-	589	8,398	5,606	166,943	139,306	770,154
124,840	58,301	118,925	75,791	512,192	276,263	2,087,329
-	25,398	47,178	41,070	131,180	3,461,591	3,866,803
436,644	2,505,181	2,892,820	2,877,098	7,990,916	16,504,246	75,842,768
726,751	(2,295,496)	(2,795,221)	(2,750,520)	31,585,275	(14,927,905)	17,390,797
-	-	-	-	-	193,769	193,769
-	-	-	-	-	(193,769)	(193,769)
-	-	-	-	-	-	-
-	-	(1,773,190)	(1,362,852)	(12,166)	(241,698)	(9,068,459)
-	2,305,068	4,641,551	4,130,190	(27,143,474)	14,946,998	-
-	-	-	-	259,756	-	259,756
-	-	-	-	(6,409,006)	-	(6,409,006)
-	2,305,068	2,868,361	2,767,338	(33,304,890)	14,705,300	(15,217,709)
$ 726,751	$ 9,572	$ 73,140	$ 16,818	$ (1,719,615)	$ (222,605)	2,173,088
						23,846,737
						$ 26,019,825

Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

April 5, 2005

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
James Madison University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of **James Madison University**, a component unit of the Commonwealth of Virginia, and its discretely presented component unit as of and for the years ended June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the James Madison University Foundation, Inc., a discretely presented component unit, which are discussed in Note 1A. Those statements were audited by another auditor whose report has been furnished to us and our opinion, insofar as it relates to the amounts included in the James Madison University Foundation, Inc., is based solely 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 was audited by another auditor upon whose report 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of James Madison University and its discretely presented component unit as of June 30, 2004 and 2003, and the respective changes in its financial position and cash flows, where applicable, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in the notes to the financial statements, the University has implemented the provisions of GASB Statement 39, *Determining Whether Certain Organizations are Component Units,* which addresses the conditions under which institutions should include associated foundations as component units and how such component units should be displayed in the financial statements.

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

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

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

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

Report Distribution and Exit Conference

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

We discussed this report with management at an exit conference held on May 18, 2005.

AUDITOR OF PUBLIC ACCOUNTS

KKH/kva

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