JAMES MADISON UNIVERSITY

REPORT ON AUDIT

FOR THE YEARS ENDED

JUNE 30, 2005 AND 2004

APA
Auditor of
Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

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

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Overview

This unaudited Management's Discussion and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective, easily read analysis of James Madison University's (University) financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the University's financial condition and results of operations for the fiscal years ended June 30, 2005 and 2004. Comparative numbers, where presented, are for the fiscal years ending June 30, 2004 and 2003. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying financial statements, notes to financial statements, and other supplementary information. University management is responsible for all of the financial information presented, including this discussion and analysis.

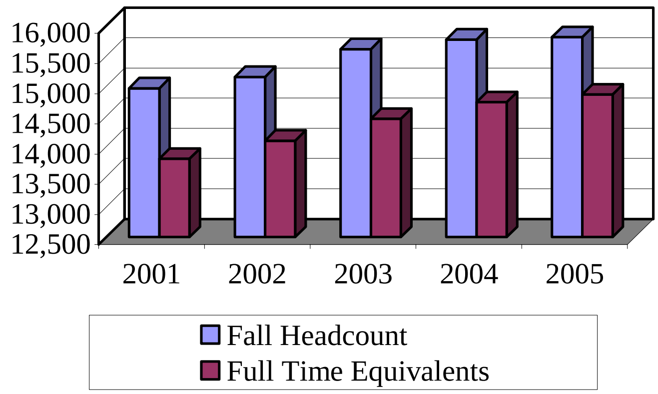
The financial statements referred to above were prepared in accordance with GASB Statement Number 34, *Basic Financial Statements–and Management's Discussion and Analysis–for State and Local Governments*, and GASB Statement Number 35, *Basic Financial Statements–and Management's Discussion and Analysis–for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

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

Enrollment and Admissions Information

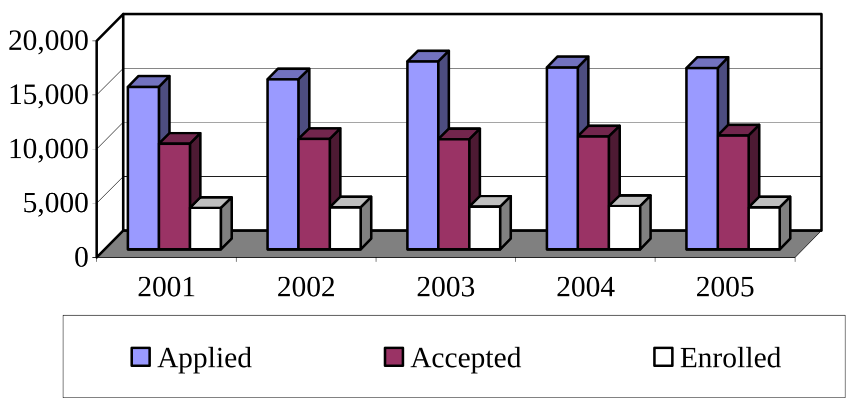
After a period of continuous enrollment growth in the 1990's, the University's enrollment stabilized in 2001-2005 at approximately 15,000 students. However, as further discussed in the "Economic Outlook" section, under the Higher Education Restructuring Act, institutions are required to adhere to goals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

Enrollment Information



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

Applications and Admissions



Statement of Net Assets

The Statement of Net Assets (SNA) presents the University's assets, liabilities, and net assets as of the end of the fiscal year. The purpose of this statement is to present to the financial statement readers a snapshot of the University's financial position at June 30, 2005 and 2004. The data presented in the SNA aids in determining the assets available to continue the University's operations. It also allows readers to determine how much the University owes to vendors and creditors. Finally, the SNA provides a picture of net assets and their availability for expenditure by the University. Sustained increases in net assets are one indicator of an organization's financial health.

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

Statement of Net Assets
(In thousands)

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

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

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

Capital Asset and Debt Administration

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

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

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

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

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

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

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

Statement of Revenues, Expenses, and Changes in Net Assets

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

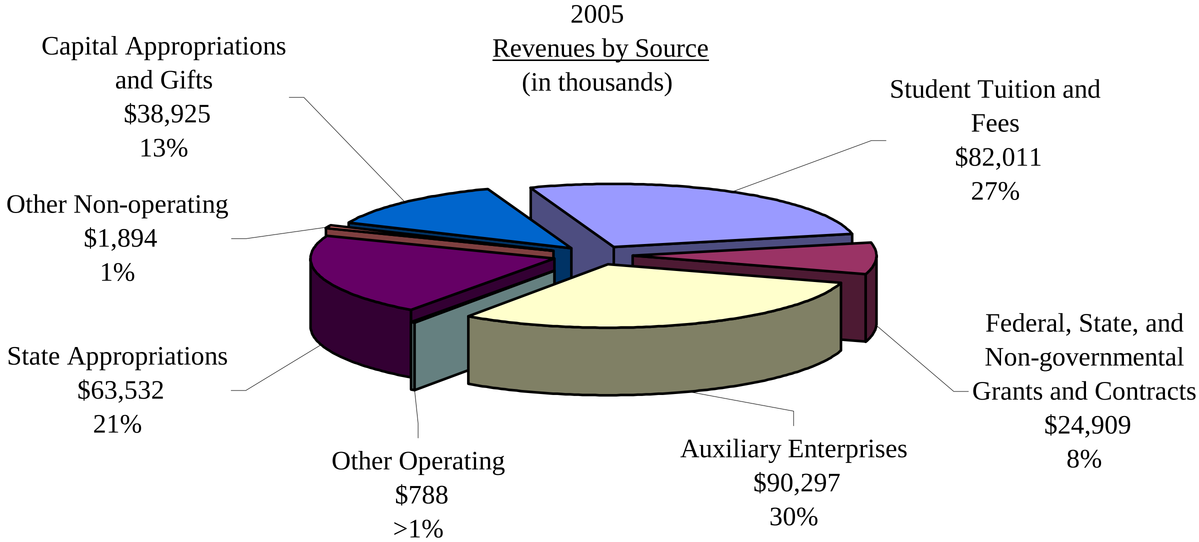
Generally, operating revenues are received for providing goods and services to students and other constituencies of the University. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the University's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

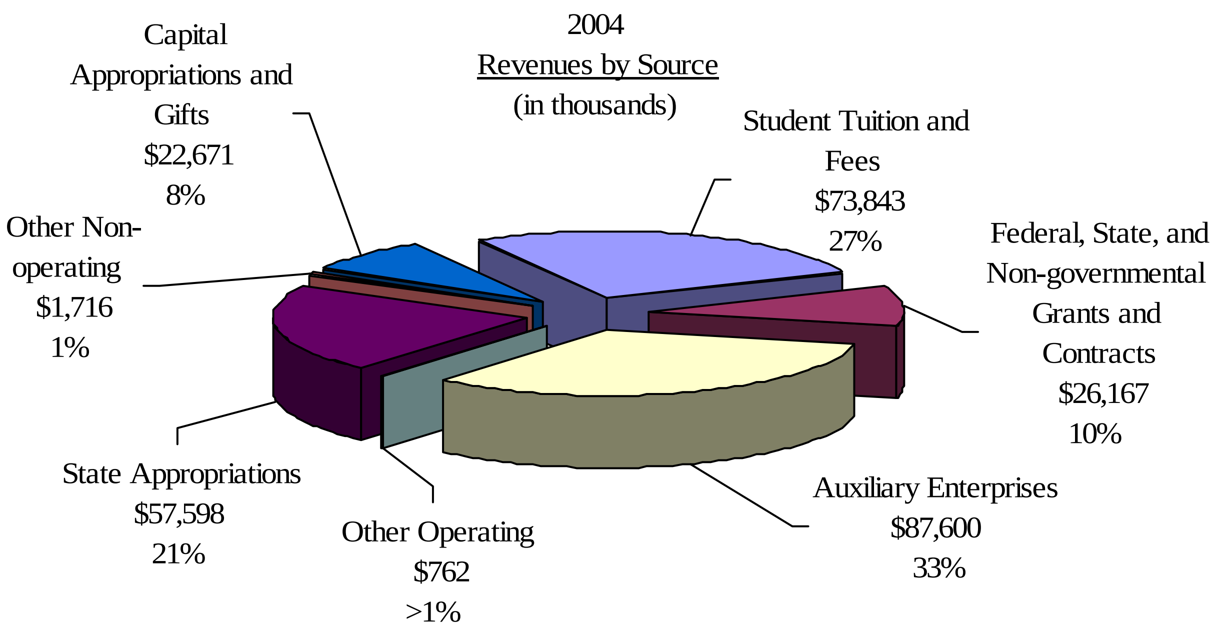
Non-operating revenues are revenues received for which goods and services are not directly provided. State appropriations and gifts are included in this category, but provide substantial support for paying the University's operating expenses. Therefore, the University, like most public institutions,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

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

	2005	2004	2003
Operating revenues	$198,005	$188,372	$169,218
Operating expenses	253,774	232,981	219,063
Operating loss	(55,769)	(44,609)	(49,845)
Non-operating revenues and expenses	61,039	55,676	58,822
Income before other revenues, expenses, gains, or losses	5,270	11,067	8,977
Other revenues, expenses, gains, or losses	38,925	22,671	12,421
Increase in net assets	44,195	33,738	21,398
Net assets - beginning of year	269,682	235,944	214,546
Net assets - end of year	$313,877	$269,682	$235,944

Following is a graphic illustration of revenues by source (both operating and non-operating) used to fund the University's activities for the years ended June 30, 2005 and 2004. As noted above, critical recurring revenue sources such as state and capital appropriations are considered non-operating.

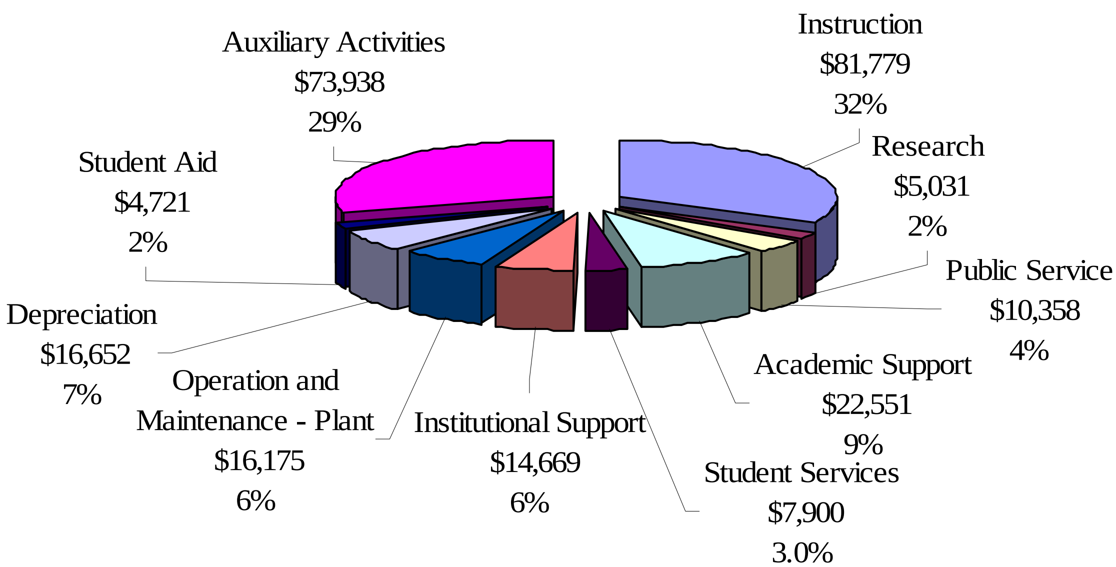




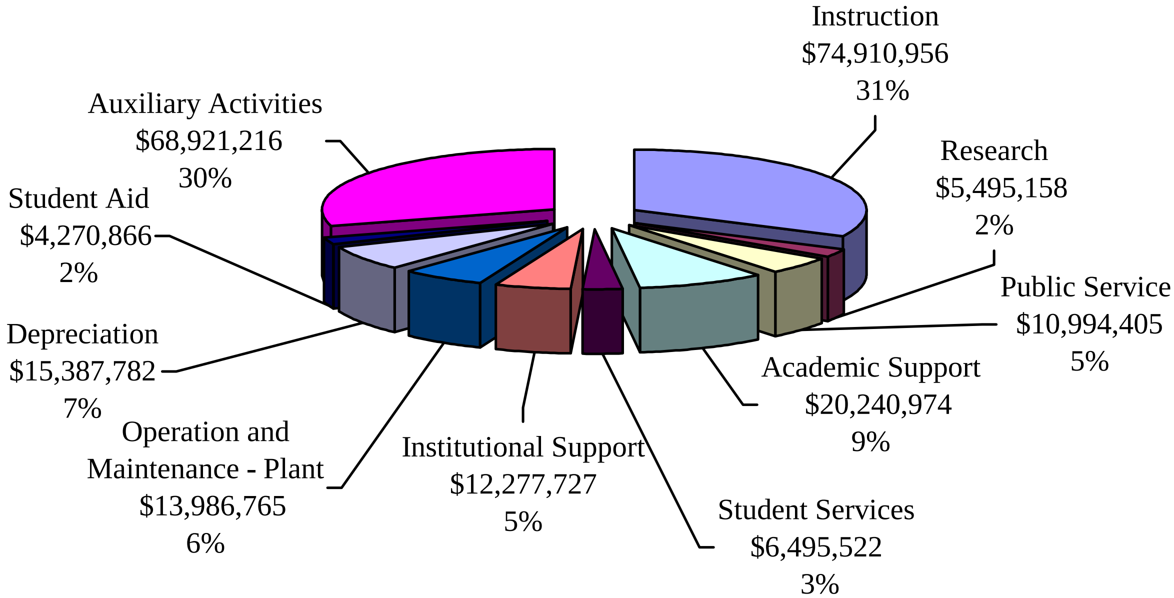
Operating revenues, consisting mostly of tuition and fees, and auxiliary enterprises, increased $9,633,000 or five percent from the prior fiscal year, as compared to a 12 percent increase from 2003 to 2004. Student tuition and fees, net of scholarship allowances, increased by $8,168,000 in fiscal year 2005. Most of this growth was attributable to tuition rate increases averaging 14 percent for state undergraduate, 12 percent for state graduates, and nine percent for out-of-state students. In 2004, the University increased tuition rates averaging 18 percent for state undergraduates, 29 percent for state graduates, and 19 percent for out-of-state students. Those tuition increases were necessary in order to mitigate the state budget reductions in the 2002-2004 budget periods. Auxiliary revenues increased only $2,697,000 or 3.1 percent, as compared to an increase of 2.8 percent from 2003 to 2004. Overall grants and contracts revenue decreased by $1,258,000, reflecting the completion in 2005 of the three year, state funded Commonwealth Technology Research project. Federal and non-governmental grants and contracts remained relatively stable.

The following graph illustration presents total operating expenses for fiscal years 2005 and 2004 by function.

2005
Operating Expenses by Function
(in thousands)



2004
Operating Expenses by Function
(in thousands)



Total operating expenses increased $20,793,000 or 8.9 percent, including an increase of $11,108,000 in compensation expenses, consisting of the natural expense classifications salaries, wages, and fringe benefits. Compensation expenses comprised 56 and 57 percent of the University's total 2005 and 2004 operating expenses, respectively. The Commonwealth provides across-the-board salary increases on a periodic basis. Faculty and staff received 3.0 and 2.25 percent increases in November 2004 and 2003, respectively. Compensation expense increased by 8.4 percent in 2005, after remaining 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. Improving economic conditions reversed this trend in 2005 and allowed the Commonwealth to increase support for higher education budgets in 2005 and 2006.

Net non-operating income increased by $5,363,000 in fiscal year 2005 after decreasing by $3,146,000 in fiscal years 2004. The University's total state appropriations were increased by $5,935,000 (10.3 percent) in 2005 after being reduced by $4,366,000 (7.0 percent) in 2004. Other revenues and gains include capital appropriations, which increased $15,775,000 between fiscal years 2004 and 2005. This increase results from the 21st Century and General Obligation bond funding for the East Campus academic building construction, the Harrison Hall renovation and the Steam Infrastructure projects described above. Capital gifts included $2,877,000 and $2,266,000 for the Athletic Performance Center in 2005 and 2004, respectively.

Statement of Cash Flows

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

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

Statement of Cash Flows
(In thousands)

	2005	2004	2003
Cash provided/(used) by:			
Operating activities	$ (36,353)	$ (26,912)	$ (34,170)
Non-capital financing activities	61,681	57,207	61,060
Capital financing activities	(18,362)	(22,262)	(22,072)
Investing activities	10,981	955	1,806
Net increase in cash	17,947	8,988	6,624
Cash – beginning of the year	58,621	49,633	43,009
Cash – end of year	$ 76,568	$ 58,621	$ 49,633

Major sources of cash from operating activities include student tuition and fees ($84,476,000 in 2005 and $74,748,000 in 2004), auxiliary enterprises receipts ($90,535,000 in 2005 and $87,497,000 in 2004), and grants and contracts ($24,569,000 in 2005 and $25,681,000 in 2004). Major uses of cash include payments for salaries, wages, and fringe benefits ($141,670,000 in 2005 and $130,765,000 in 2004); payments for supplies and services ($64,980,000 in 2005 and $58,833,000 in 2004); and payments for non-capitalized plant improvements and equipment ($13,984,000 in 2005 and $10,637,000 in 2004).

Cash flows from non-capital financing activities include state appropriations for the University's educational and general programs and financial aid of $63,533,000 and $57,595,000 for 2005 and 2004, 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 2005 and 2004 include the conversion of non-cash assets (investments with the State Treasurer of Virginia) into cash ($4,618,000 in 2004)**,** proceeds from the issuance of debt ($2,013,000 in 2004), capital appropriations ($28,023,000 in 2005 and $16,617,000 in 2004), and capital gifts ($3,509,000 in 2005 and $2,128,000 in 2004). Significant cash outflows include $40,418,000 in 2005 and $38,103,000 in 2004 for the purchase and construction of capital assets and $9,499,000 in 2005 and $9,957,000 in 2004 for the repayment of principal and interest on capital related debt.

Economic Outlook

As one of Virginia's comprehensive higher education institutions, the University's economic outlook is closely tied to the Commonwealth. Economic factors related to the Commonwealth can be found in the Commonwealth's Comprehensive Annual Financial Report (CAFR). There is a direct correlation between the amount of state appropriations and establishment of tuition and fee rates. State appropriations currently cover 39 percent of operating expenses, excluding auxiliary activities and depreciation. During 2004-2005, the Commonwealth re-invested in higher education by increasing General Fund allocations and returning to the University's Board of Visitors the authority to establish tuition and fees rates. As a result, 2004-2005 marked the first year since prior to the 2002 budget reductions that the Commonwealth made significant unrestricted investments in higher education. This trend is expected to continue in fiscal year 2006. State General Fund revenues remain strong from the General Assembly enacted tax increases and a strengthening economy.

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

The University also plans to be an active participant in the state's quest to handle the large number of additional college-age students projected for the next several years. As an example of the University's commitment to this projected need, on-campus enrollment headcount is projected to grow to 17,306 students by 2010, an increase of 9.5 percent over fall 2004.

The University's overall financial position remains strong. As in fiscal years 2003 and 2004, the University again generated an overall increase in net assets during 2005. These increases are indicators of the University's sound and prudent uses of financial resources. Management will continue to closely monitor resources to ensure the ability to react to unknown internal and external issues.

FINANCIAL STATEMENTS

JAMES MADISON UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2005 and 2004

	2005		2004	
	James Madison University	Component Unit	James Madison University	Component Unit
ASSETS				
Current assets:				
Cash and cash equivalents (Note 2)	$ 55,780,788	$ 404,455	$ 58,102,212	$ 1,289,858
Securities lending - Cash and cash equivalents (Note 2)	9,480,709	-	-	-
Short-term investments (Note 2)	2,014,591	-	10,944,536	-
Accounts receivable (Net of allowance for doubtful accounts of $279,985 and $439,659 for 2005 and 2004, respectively) (Note 3)	7,727,846	47,595	7,617,647	31,652
Contributions receivable (Net of allowance for doubtful contributions of $38,597 and $62,834 for 2005 and 2004, respectively) (Note 3)	-	1,896,781	-	3,183,099
Due from the Commonwealth (Note 7)	14,768,863	-	8,163,030	-
Prepaid expenses	4,055,028	17,680	3,311,982	296
Inventory	760,408	500	746,643	500
Notes receivable (Net of allowance for doubtful accounts of $48,693 and $50,257 for 2005 and 2004, respectively)	459,805	-	486,822	-
Total current assets	95,048,038	2,367,011	89,372,872	4,505,405
Non-current assets:				
Restricted cash and cash equivalents (Note 2)	11,306,561	-	518,743	-
Endowment investments (Note 2)	237,789	22,235,874	220,469	19,565,339
Other long-term investments (Note 2)	885,148	22,338,409	177,191	21,506,832
Contributions receivable (Net of allowance for doubtful contributions of $71,434 and $78,008 for 2005 and 2004, respectively) (Note 3)	-	3,500,264	-	3,846,185
Notes receivable (Net of allowance for doubtful accounts of $212,081 and $220,743 for 2005 and 2004, respectively)	2,083,090	-	2,293,328	-
Capital assets, net: (Note 4)				
Non-depreciable	35,200,036	287,293	52,075,615	910,739
Depreciable	295,790,116	268,183	253,384,865	43,373
Other assets	-	10,928	-	11,858
Total non-current assets	345,502,740	48,640,951	308,670,211	45,884,326
Total assets	440,550,778	51,007,962	398,043,083	50,389,731
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses (Note 5)	26,243,768	124,015	24,307,273	373,824
Deferred revenue	7,574,049	-	4,942,391	-
Obligations under securities lending	11,495,300	-	10,568,843	-
Deposits held in custody for others	895,122	-	2,725,039	-
Long-term liabilities - current portion (Note 6)	8,117,111	134,026	7,834,186	77,874
Advance from the Treasurer of Virginia	60,500	-	62,800	-
Total current liabilities	54,385,850	258,041	50,440,532	451,698
Non-current liabilities (Note 6)	72,287,484	1,531,175	77,920,931	1,548,015
Total liabilities	126,673,334	1,789,216	128,361,463	1,999,713

JAMES MADISON UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2005 and 2004

	2005		2004	
	James Madison University	Component Unit	James Madison University	Component Unit
NET ASSETS				
Invested in capital assets, Net of related debt	258,925,863	555,476	231,677,905	682,862
Restricted for:				
Non-expendable:				
Scholarships and fellowships	308,888	17,231,899	290,508	16,162,577
Research and public service	-	355,217	-	323,150
Other	-	5,833,705	-	5,701,779
Expendable:				
Scholarships and fellowships	37,480	813,458	37,114	987,729
Research and public service	1,591,176	1,202,171	2,618,615	1,368,384
Debt service	6,985	791,501	2,231	831,389
Capital projects	22,579,014	5,502,327	5,712,311	8,166,840
Loans	341,310	-	341,695	-
Other	-	11,644,021	-	9,035,755
Unrestricted	30,086,728	5,288,971	29,001,241	5,129,553
Total net assets	$ 313,877,444	$ 49,218,746	$ 269,681,620	$ 48,390,018

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, 2005 and 2004

	2005		2004	
	James Madison University	Component Unit	James Madison University	Component Unit
Operating revenues:				
Student tuition and fees (Net of scholarship allowances of $5,179,528 and $4,747,445 for 2005 and 2004, respectively)	$ 82,010,796	$ -	$ 73,842,646	$ -
Gifts and contributions	-	3,888,070	-	6,694,956
Federal grants and contracts	14,749,536	-	15,007,987	-
State grants and contracts	6,822,323	-	7,770,200	-
Non-governmental grants and contracts	3,336,876	-	3,388,905	-
Auxiliary enterprises (Net of scholarship allowances of $4,567,156 and $4,570,696 for 2005 and 2004, respectively) (Note 9)	90,297,115	-	87,599,638	-
Other operating revenues	787,947	153,003	762,289	183,774
Total operating revenues	198,004,593	4,041,073	188,371,665	6,878,730
Operating expenses (Note 10):				
Instruction	81,778,715	435,173	74,910,956	1,624,804
Research	5,030,508	8,621	5,495,158	15,612
Public service	10,358,294	51,069	10,994,405	77,829
Academic support	22,551,221	235,732	20,240,974	295,965
Student services	7,899,551	52,506	6,495,522	30,648
Institutional support	14,669,492	898,462	12,277,727	843,539
Operation and maintenance - plant	16,175,207	3,590,163	13,986,765	2,329,625
Depreciation	16,651,977	35,658	15,387,782	64,779
Student aid	4,721,143	1,280,971	4,270,866	1,092,755
Auxiliary activities (Note 9)	73,937,527	659,768	68,921,216	620,376
Total operating expenses	253,773,635	7,248,123	232,981,371	6,995,932
Operating loss	(55,769,042)	(3,207,050)	(44,609,706)	(117,202)
Non-operating revenues/(expenses):				
State appropriations (Note 11)	63,532,170	-	57,597,656	-
Gifts	567,539	-	533,086	-
Investment income (Net of investment expense of $311,186 and $34,074 for the University and $298,572 and $279,713 for the Foundation for 2005 and 2004, respectively)	1,326,288	2,949,725	1,183,162	5,985,309
Interest on capital asset - related debt	(3,424,474)	(43,634)	(3,441,382)	(54,250)
Gain/(loss) on disposal of plant assets	(197,944)	-	584,593	-
Payment to the Commonwealth	(763,713)	-	(781,186)	-
Net non-operating revenues/(expenses)	61,039,866	2,906,091	55,675,929	5,931,059
Income before other revenues, expenses, gains or losses	5,270,824	(300,959)	11,066,223	5,813,857
Capital appropriations	34,231,477	-	18,456,330	-
Capital gifts	4,693,523	-	4,214,940	-
Additions to permanent endowments	-	1,129,687	174	3,578,231
Net other revenues	38,925,000	1,129,687	22,671,444	3,578,231
Increase in net assets	44,195,824	828,728	33,737,667	9,392,088
Net assets - beginning of year	269,681,620	48,390,018	235,943,953	38,997,930
Net assets - end of year	$ 313,877,444	$ 49,218,746	$ 269,681,620	$ 48,390,018

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, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Student tuition and fees	$ 84,475,794	$ 74,747,965
Grants and contracts	24,568,726	25,680,580
Auxiliary enterprises	90,535,128	87,496,590
Other receipts	731,804	707,908
Payments to employees	(110,140,252)	(101,905,556)
Payments for fringe benefits	(31,530,159)	(28,859,092)
Payments for services and supplies	(64,980,089)	(58,833,275)
Payments for utilities	(11,450,567)	(11,038,249)
Payments for scholarships and fellowships	(4,721,143)	(4,233,169)
Payments for non-capitalized plant improvements and equipment	(13,984,460)	(10,636,617)
Loans issued to students	(517,444)	(601,045)
Collections of loans from students	659,846	561,681
Net cash used by operating activities	(36,352,816)	(26,912,279)
Cash flows from noncapital financing activities:		
State appropriations	63,532,672	57,594,765
Payment to the Commonwealth	(763,713)	(781,186)
Gifts and grants for other than capital purposes	567,539	533,086
Loans issued to students and employees	(8,974)	(163,983)
Collections of loans from students and employees	140,609	68,436
Agency receipts	3,766,453	8,150,553
Agency payments	(5,553,664)	(8,195,192)
Net cash provided by noncapital financing activities	61,680,922	57,206,479
Cash flows from capital financing activities:		
Proceeds from investments	-	4,617,592
Proceeds from capital debt	-	2,012,995
Capital appropriations	28,023,392	16,616,664
Capital gifts	3,509,119	2,128,405
Proceeds from sale of capital assets	22,297	23,022
Purchase of capital assets	(40,418,161)	(38,103,475)
Principal paid on capital debt, leases, and installments	(5,997,991)	(5,919,656)
Interest paid on capital debt, leases, and installments	(3,501,037)	(3,637,553)
Net cash used by capital financing activities	(18,362,381)	(22,262,006)
Cash flows from investing activities:		
Interest on investments	185,539	64,895
Interest on cash management pools	1,315,130	890,674
Net cash provided by investing activities	1,500,669	955,569
Net increase in cash	8,466,394	8,987,763
Cash and cash equivalents - beginning of the year	58,620,955	49,633,192
Cash and cash equivalents - end of the year	$ 67,087,349	$ 58,620,955

JAMES MADISON UNIVERSITY
STATEMENT OF CASH FLOWS
For the years ended June 30, 2005 and 2004

	2005	2004
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (55,769,042)	$ (44,609,706)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	16,651,977	15,387,782
Changes in assets and liabilities:		
Receivables, net	(361,744)	(567,186)
Due from the Commonwealth	(397,748)	(2,892)
Prepaid expenses	(743,046)	411,122
Inventory	(13,765)	7,929
Notes receivable, net	109,115	(40,008)
Accounts payable and accrued expenses	2,038,250	2,332,555
Deferred revenue	2,631,658	868,893
Advance from the Treasurer of Virginia	(2,300)	3,800
Accrued compensated absences	(15,658)	(22,089)
Accrued retirement plan	(480,758)	(670,927)
Federal loan programs contributions refundable	245	(11,552)
Net cash used by operating activities	$ (36,352,816)	$ (26,912,279)
NON-CASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS:		
Gift of capital assets	$ (1,080,297)	$ (1,905,755)
Capitalization of interest revenue and expense, net	(76,562)	(142,993)
Change in fair value of investments recognized as a component of interest income	39,323	67,067

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

NOTES TO FINANCIAL STATEMENTS

JAMES MADISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

In accordance with GASB Statement 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement 14, *The Financial Reporting Entity*, the James Madison University Foundation, Inc. meets the criteria which qualifies 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, 2005 and 2004, the Foundation distributed $5,474,492 and $3,266,523, 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*.

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

C. Basis of Accounting

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

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

D. Cash Equivalents and Investments

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

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

E. Capital Assets

Capital assets 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. Non-current Cash and Investments

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

H. Deferred Revenue

Deferred revenue 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's sick leave payout policy. The applicable share of employer-related taxes payable on the eventual termination payments is also included.

J. Federal Financial Assistance Programs

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

K. Net Assets

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

L. Revenue and Expense Classifications

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

Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts, and other revenue sources that are defined as non-operating revenues by GASB Statement 9 and GASB Statement 34, such as state appropriations and investment and interest income.

Non-operating 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

GASB Statement 40, *Deposit and Investment Risk Disclosures*, became effective for the fiscal year ending June 30, 2005. It amends GASB Statement 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.* GASB Statement 40 eliminates the custodial credit risk disclosures for Category 1 and 2 deposits and investments. However, this statement does not change the disclosure requirements for Category 3 deposits and investments. The University has no Category 3 deposits or investments for 2005 and 2004. The following risk disclosures are required by GASB Statement 40:

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

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

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

- Foreign Currency Risk – The risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University had foreign deposits of $1,517,963 and $336,162 in 2005 and 2004, respectively.

A. Cash and Cash Equivalents

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

B. Investments

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

	2005	2004
Cash and cash equivalents:		
Cash with the Treasurer of Virginia	$61,833,006	$49,011,474
Cash on hand and deposits with financial institutions (including money market and certificates of deposit)	5,200,303	8,741,034
Collateral held for securities lending	9,480,709	-
State non-arbitrage program (SNAP)	-	813,954
Cash equivalents not with the Treasurer of Virginia	54,040	54,493
Total	$76,568,058	$58,620,955
Investments:		
Collateral held for securities lending (short-term)	$ 2,014,591	$10,568,843
Investments with the Treasurer of Virginia	6,985	2,232
Investments not with the Treasurer of Virginia	1,115,952	771,121
Total	$ 3,137,528	$11,342,196

For 2005, investments not with Treasurer of Virginia include $1,103,955 in mutual funds with maturity less than one year. $458,317 of this amount carries an AAA rating from Moody's, with the remainder unrated. The balance of investments not with the Treasurer consists of $11,997 in common stock.

For 2004, all investments with the Treasurer of Virginia were in mutual funds with maturity less than one year. $166,132 of that amount carried an AAA rating from Moody's, with the remainder unrated.

C. <u>James Madison University Foundation Cash and Investments</u>

The following information is provided with respect to the Foundation's cash and cash equivalents and investments at June 30, 2005 and 2004. 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 the 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:

	2005		2004	
	Fair Value	Cost	Fair Value	Cost
Cash and cash equivalents	$ 1,731,021	$ 1,731,021	$ 1,402,663	$ 1,402,663
Common stock	12,668,819	9,361,415	10,818,278	7,709,742
Mutual funds	23,123,182	18,243,996	18,550,822	15,029,549
Corporate bonds	3,856,844	3,712,036	7,009,644	6,960,532
U.S. government securities	2,867,520	2,867,520	2,989,744	2,989,744
Life insurance policies	326,897	-	301,020	-
Total	$44,574,283	$35,915,988	$41,072,171	$34,092,230

D. <u>Securities Lending Transactions</u>

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

The investments under securities lending (reported as either "cash equivalents" or "short-term investments") and the securities lending transactions reported on the financial statements represent the University's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide basis in the Commonwealth of Virginia's CAFR.

3. ACCOUNTS AND CONTRIBUTIONS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2005 and 2004:

	2005	2004
Student tuition and fees	$ 422,859	$ 429,564
Auxiliary enterprises	728,861	1,080,199
Federal, state, and non-governmental grants and contracts	3,774,936	3,442,942
Insurance settlement for Financial Services Building fire	2,552,676	2,694,624
Other activities	528,499	409,977
Total	8,007,831	8,057,306
Less: allowance for doubtful accounts	279,985	439,659
Net accounts receivable	$7,727,846	$7,617,647

The Foundation's contributions receivable at June 30, 2005 and 2004 is summarized below:

	2005	2004
Due in less than one year	$1,935,378	$3,245,933
Due between one and five years	3,049,561	3,753,573
Due in more than five years	1,001,079	645,131
Total	5,986,018	7,644,637
Less: present value discount (three percent - six percent)	478,942	474,511
Less: allowance for doubtful accounts	110,031	140,842
Net contributions receivable	$5,397,045	$7,029,284

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the years ending June 30, 2005 and 2004 is presented as follows:

	2005			
	Beginning Balance	Additions	Reductions	Ending Balance
Non-depreciable capital assets:				
Land	$ 13,918,779	$ 1,619,134	$ -	$ 15,537,913
Inexhaustible artwork and historical treasures	901,845	98,989	-	1,000,834
Construction-in-progress	37,254,991	35,525,738	54,119,440	18,661,289
Total non-depreciable capital assets	52,075,615	37,243,861	54,119,440	35,200,036
Depreciable capital assets:				
Buildings	313,193,505	41,546,243	290,831	354,448,917
Infrastructure	28,446,165	5,666,345	-	34,112,510
Equipment	38,315,790	5,983,599	2,192,170	42,107,219
Other improvements	12,814,833	3,609,090	310,000	16,113,923
Library materials	31,434,490	2,539,353	407,036	33,566,807
Total depreciable capital assets	424,204,783	59,344,630	3,200,037	480,349,376
Less accumulated depreciation for:				
Buildings	103,555,717	8,724,136	283,291	111,996,562
Infrastructure	11,423,610	1,405,501	-	12,829,111
Equipment	24,894,699	4,474,357	1,912,308	27,456,748
Other improvements	3,916,759	700,441	310,000	4,307,200
Library materials	27,029,133	1,347,542	407,036	27,969,639
Total accumulated depreciation	170,819,918	16,651,977	2,912,635	184,559,260
Depreciable capital assets, net	253,384,865	42,692,653	287,402	295,790,116
Total capital assets, net	$305,460,480	$79,936,514	$54,406,842	$330,990,152

	2004			
	Beginning Balance	Additions	Reductions	Ending Balance
Non-depreciable 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 non-depreciable 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

The Foundation's net capital assets consist of $454,885 and $853,521 in property and equipment, and $100,591 and $100,591 in collections of historical artifacts for the years ending June 30, 2005 and 2004, respectively. During fiscal year 2005, the Foundation transferred land, valued at $522,700 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 "operation and maintenance – plant" operating expenses. The Foundation also sold another piece of land, valued at $344,913 to the University. 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, 2005 and 2004:

	2005	2004
Employee salaries, wages, and fringe benefits payable	$18,484,609	$16,926,328
Vendors and suppliers accounts payable	3,171,931	2,691,962
Capital projects accounts and retainage payable	4,587,228	4,688,983
Total accounts payable and accrued expenses	$26,243,768	$24,307,273

6. NON-CURRENT LIABILITIES

The University's non-current liabilities consist of long-term debt (further described in Note 7), accrued supplemental retirement plan (further described in Note 8), and other non-current liabilities. A summary of changes in non-current liabilities for the years ending June 30, 2005 and 2004 is presented as follows:

	2005				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds	$41,495,000	$12,465,000	$15,060,000	$38,900,000	$2,740,000
General obligation bonds	35,299,194	15,461,958	18,298,400	32,462,752	2,635,560
Installment purchases	142,230	730,250	153,159	719,321	251,764
Total long-term debt	76,936,424	28,657,208	33,511,559	72,082,073	5,627,324
Accrued retirement plan	1,939,245	408,519	889,277	1,458,487	-
Accrued compensated absences	4,487,936	2,299,616	2,315,274	4,472,278	2,489,787
Federal loan program contributions	2,391,512	245	-	2,391,757	-
Total long-term liabilities	$85,755,117	$31,365,588	$36,716,110	$80,404,595	$8,117,111

	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

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

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

Description	Interest Rates (%)	Maturity	2005	2004
Revenue bonds:				
Dormitory, Series 1993A	4.55 - 5.375	2006	$ 117,975	$ 302,975
Dormitory, Series 2003A	2.92	2009	769,725	787,050
Dormitory, Series 1998A	3.50 - 4.80	2019	9,730,000	11,980,000
Dormitory, Series 2004B	5.00	2014	1,610,000	-
Parking, Series 1999A	4.50 - 6.00	2010	1,350,000	5,660,000
Parking, Series 2004B	3.00 – 5.00	2020	4,280,000	-
Student center, Series 1999A	4.50 - 6.00	2010	2,070,000	8,685,000
Student center, Series 2004B	3.00 – 5.00	2020	6,575,000	-
Recreation, Series 1993A	4.55 - 5.375	2006	597,025	1,522,025
Recreation, Series 2003A	2.92	2013	8,955,275	9,042,950
Property acquisition, Series 2002A	3.00 - 5.00	2013	1,775,000	1,955,000
Athletics, Series 2003A	2.00 – 5.00	2014	1,740,000	1,865,000
Total revenue bonds			39,570,000	41,800,000
Deferred loss on refinancing			(670,000)	(305,000)
Revenue bonds payable			38,900,000	41,495,000
General obligation revenue bonds:				
Dormitory and dining hall:				
Series 1979	3.00	2009	715,000	880,000
Series 2002	2.50 - 5.00	2013	2,737,392	3,021,173
Series 2003A	2.50 - 5.50	2008	861,531	1,121,535
Series 2003A	2.50 - 5.50	2010	978,394	1,149,032
Series 1997	5.00	2007	1,760,000	14,445,000
Series 1998	5.50	2008	145,000	845,000
Series 2001	4.00	2021	1,910,000	5,220,000
Series 2004B	2.00 – 5.00	2020	15,143,820	-
Series 2002	2.50 - 5.00	2022	3,690,000	3,835,000

Student center:				
Series 2002	2.50 - 4.00	2005	-	322,252
Series 1998	3.75 - 5.00	2013	3,971,943	4,376,872
Total general obligation revenue bonds			31,913,080	35,215,864
Deferred gain on refinancing			549,672	83,330
General obligation bonds payable			32,462,752	35,299,194
Total bonds payable			71,362,752	76,794,194
Installment purchases payable	Various	2006-2008	719,321	142,230
Total			$72,082,073	$76,936,424

Long-term debt as of June 30, 2005 matures as follows:

	Principal	Interest
2006	$ 5,627,324	$ 3,145,837
2007	5,865,807	2,895,250
2008	6,111,727	2,639,567
2009	5,846,709	2,398,595
2010	5,675,585	2,155,273
2011-2015	25,764,921	6,964,806
2016-2020	16,175,000	1,885,151
2021-2022	1,015,000	59,131
Total	$72,082,073	$22,143,610

A. 2005 Defeasance of Debt

In November 2004, the Commonwealth, on behalf of the University, issued $15,462,048 of Section 9(c) General Obligation bonds, Series 2004B, with interest rates of 2.0 percent – 5.0 percent to refund $15,620,000 of outstanding General Obligation bonds, Series 1997, Series 1998, and Series 2001, with interest rates of 4.0 percent – 5.5 percent. The net proceeds were deposited into an irrevocable trust with an escrow agent to pay interest, redemption premium and maturity value of the refunded bonds to their call date. The advance refunding resulted in the recognition of a deferred accounting gain of $157,952 in fiscal year 2005, which is being amortized to interest expense over the life of the new debt. Current year amortization of the accounting gain resulting from the defeasance actually increased interest expense by $318,228. The advance refunding resulted in the recognition of an accounting gain and the University in effect reduced its aggregate debt service obligation by $888,678 over the next 14 years and obtained an economic gain (equal to the difference between the present values of the old and new debt service payments) of $735,608.

In October 2004, the VCBA, on behalf of the University, issued $12,465,000 of Section 9(d) Educational Facilities Revenue Refunding bonds, Series 2004B, with interest rates of 3.0 percent – 5.0 percent to refund $11,995,000 of outstanding Revenue bonds, Series 1998A, and Series 1999A, with interest rates of 3.5 percent – 6.0 percent. The net proceeds were deposited into an irrevocable trust with an escrow agent to pay interest, redemption premium and maturity value of the refunded bonds to their call date. The advance refunding resulted in the recognition of a deferred accounting loss of $470,000 in fiscal year 2005, which is being amortized to interest expense over the life of the new debt. Though advance refunding resulted in the recognition of an accounting loss, the University in effect reduced its aggregate debt service obligation by $1,341,870 over the next 15 years and obtained an economic gain (equal to the difference between the present values of the old and new debt service payments) of $845,412.

B. <u>2003 Defeasance of Debt</u>

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 refunding, 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 $105,000 and $100,000 for fiscal years 2005 and 2004. 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, 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 $29,117 and $6,013 for fiscal years 2005 and 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, 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 $(19,278) and $168,527 for fiscal years 2005 and 2004, 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 non-current liabilities line in the Statement of Net Assets. Any related assets in escrow have similarly been excluded.

C. Prior Year Defeasance of Debt

In prior years, the University and the Commonwealth, 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, 2005 and 2004, $830,000 and $1,005,000, respectively, of the bonds outstanding were considered defeased.

D. 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 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 $2,014,291 and $1,616,040 at June 30, 2005 and 2004, respectively, which 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.

E. 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, 2006. At both June 30, 2005 and 2004, no balance was outstanding on the line of credit. The Foundation's long-term debt primarily consists of $721,454 and $778,328 outstanding at June 30, 2005 and 2004, in Series 1999 Industrial Development Authority Revenue bonds, interest at 5.32 percent, and maturing through 2014. Other debt for 2004 included $271,250 in notes payable.

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, 112 faculty members have elected to enroll in the plan. As of June 30, 2005, 44 participants remain, including three new participants who retired under this plan during fiscal year 2005. 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 2006-plan contribution of $885,277 in 2005. The plan payment schedule is as follows:

Year Ending June 30,	Supplemental Plan Obligations
2007	$ 703,078
2008	475,930
2009	192,894
2010	86,585
Total	$1,458,487

9. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expenses consisted of the following at June 30, 2005 and 2004. The University used auxiliary revenues to pay debt service and capital improvements of $8,606,661 and $11,000,470 in 2005 and $9,068,459 and $6,409,006 in 2004, respectively. Those amounts are not included in the auxiliary operating expenses below.

	2005	2004
Revenues:		
Room contracts, net of scholarship allowances of $1,052,416 in 2005 and $1,122,067 in 2004	$16,952,404	$17,347,553
Food service contracts, net of scholarship allowances of $1,248,293 in 2005 and $1,204,894 in 2004	19,924,121	18,628,078
Comprehensive fee, net of scholarship allowances of $2,266,447 in 2005 and $2,243,735 in 2004	36,980,324	35,692,110
Other student fees and sales and services	16,440,266	15,931,897
Total auxiliary enterprises revenues	$90,297,115	$87,599,638
Expenses:		
Residential facilities	$12,714,210	$12,165,725
Dining operations	27,214,956	26,182,977
Athletics	14,555,504	12,211,375
Other auxiliary activities	19,452,857	18,361,139
Total auxiliary activities expenses	$73,937,527	$68,921,216

10. EXPENSES BY NATURAL CLASSIFICATIONS

The following table shows a classification of expenses for the years ended June 30, 2005 and 2004 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.

	2005							
	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholarships and Fellowships	Utilities	Plant and Equipment	Depreciation	Total
Instruction	$ 57,950,943	$15,643,773	$ 6,809,813	$ -	$ 33,741	$ 1,340,445	$ -	$ 81,778,715
Research	2,761,554	430,945	1,467,458	-	-	370,551	-	5,030,508
Public service	4,797,168	1,190,299	4,246,054	-	2,231	122,542	-	10,358,294
Academic support	11,274,392	3,042,832	2,546,674	-	520	5,686,803	-	22,551,221
Student services	4,792,526	1,307,535	1,553,334	-	-	246,156	-	7,899,551
Institutional support	6,828,841	2,447,211	4,496,713	-	5,181	891,546	-	14,669,492
Operation and maintenance of plant	4,882,914	1,835,538	2,357,170	-	5,361,847	1,737,738	-	16,175,207
Depreciation expense	-	-	-	-	-	-	16,651,977	16,651,977
Scholarship and related expenses	-	-	-	4,721,143	-		-	4,721,143
Auxiliary activities	18,055,213	5,807,788	40,273,753	-	6,064,752	3,736,021	-	73,937,527
Total	$111,343,551	$31,705,921	$63,750,969	$4,721,143	$11,468,272	$14,131,802	$16,651,977	$253,773,635

	2004							
	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholarships and Fellowships	Utilities	Plant and Equipment	Depreciation	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

11. STATE APPROPRIATIONS

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that such unexpended appropriations that remain on the last day of the current year, ending June 30, 2005, shall be re-appropriated for expenditure in the first month of the next year, beginning on July 1, 2005, except as may be specifically provided otherwise by the General Assembly. The governor may, at his discretion, un-allot funds from the re-appropriated balances that relate to unexpended appropriations.

During the years ending June 30, 2005 and 2004, the following adjustments were made to the University's original appropriations:

Original legislative appropriation:	2005	2004
Educational and general programs	$57,931,606	$51,608,921
Student financial assistance	4,736,949	4,179,157
Supplemental adjustments:		
Central Fund appropriation transfers:		
Additional student financial assistance	-	292,218
Seed funding to strengthen higher education research	304,500	-
Reappropriation of 2003 voluntary budget reduction	-	235,000
Faculty and staff salary increases	181,085	582,804
Health insurance premium	504,484	1,123,045
Other miscellaneous increases	190,818	-
Retirement plans, group life insurance rate reduction, and other miscellaneous reversions to the Central Fund	(316,419)	(422,747)
Reversion to the General Fund of the Commonwealth	(853)	(742)
Adjusted appropriation	$63,532,170	$57,597,656

12. COMMITMENTS

At June 30, 2005, the University was a party to construction and other contracts totaling approximately $62,723,414 of which $44,557,736 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, 2005 and 2004, such purchases totaled $4,270,541 and $3,997,861.

The University is committed under various operating leases for equipment and space. In general, the equipment leases are for a two-year term and the space leases are for three-to four-year terms with appropriate renewal options for each type of lease. In most cases, the University expects that in the normal course of business, these leases will be replaced by similar leases. Rental expense was approximately $2,692,782 and $1,836,611 for the years ended June 30, 2005 and 2004.

The University has, as of June 30, 2005, the following future minimum rental payments due under the above leases:

Year Ending June 30,	Operating Lease Obligation
2006	$ 1,601,199
2007	2,807,900
2008	2,671,628
2009	2,579,809
2010	5,004,528
2011-2015	4,620,486
2016-2020	527,478
Total	$19,813,028

13. RETIREMENT PLANS

A. Virginia Retirement System

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

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Information relating to this plan is available at the statewide level only and can be found in the CAFR. The Commonwealth, not the University, has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2005. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled $5,001,125 and $4,515,590 for the years ended June 30, 2005 and 2004, respectively. The retirement contribution rate was 8.91 percent and 8.77 percent for fiscal years 2005 and 2004. Contributions to VRS were calculated using the base salary amount of approximately $55,114,457 and $50,742,458 for the fiscal years ended June 30, 2005 and 2004. The University's total payroll was approximately $110,140,252 and $101,905,556 for the years ended June 30, 2005 and 2004, respectively.

B. Optional Retirement Plans

Full-time faculty and certain administrative staff participate in a defined contribution plan administered by two different providers other than the VRS. Effective July 1, 2004, the previous five providers were reduced to TIAA/CREF Insurance Companies and Fidelity Investments Tax-Exempt Services. 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 $4,502,403 and $4,131,344 for the years ended June 30, 2005 and 2004, respectively. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $43,292,340 and $39,724,461 for fiscal years 2005 and 2004.

C. Deferred Compensation Plan

Employees of the University are employees of the Commonwealth. State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to $20 per pay period. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. The University's expense for contributions under the Deferred Compensation Plan, which is an amount assessed by the Commonwealth, was approximately $620,842 and $584,094 for the fiscal years 2005 and 2004, 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, 2005 and 2004 were $2,552,676 and $2,694,624, respectively. In 2004, the net cost of the building (acquisition price and cost of renovations less accumulated depreciation) of $1,979,171 and on-going renovations in construction in progress of $48,314 were written off. The insurance recovery receivable in 2004 offset the asset write-offs and resulted in an accounting "gain on disposal of plant assets" in 2004 of $667,139 related to the fire.

The Financial Services Building was razed and a new building is being constructed on the site. The new administrative building will consist of three stories, 40,000 square feet, and will house finance, procurement, and information technology staff. The building is scheduled to be substantially completed in April 2006, with staff move-in scheduled for May and June 2006. The project budget is $6,800,000, with funding from insurance recovery proceeds ($2,694,624), Educational and General Funds ($1,500,000), and auxiliary reserve funds ($2,605,376).

15. POST-EMPLOYMENT BENEFITS

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

16. GRANTS AND CONTRACTS CONTINGENCIES

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

In addition, the University is required to comply with the various federal regulations issued by the Office of Management and Budget. Failure to comply with certain system requirements of these regulations may result in questions concerning the allowance of related direct and indirect charges pursuant to such agreements. As of June 30, 2005, the University estimates that no material liabilities will result from such audits or questions.

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. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The University pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the CAFR.

SUPPLEMENTARY INFORMATION

JAMES MADISON UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUES AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005

	Food Service	Stores and Shops	Residential Facilities	Parking
Revenues:				
Student fees	$ 21,172,414	$ -	$ 18,004,819	$ -
Sales and services	8,368,848	1,320,481	414,954	2,364,902
Total revenues	29,541,262	1,320,481	18,419,773	2,364,902
Cost of sales	-	(66,104)	-	-
Net revenues	29,541,262	1,254,377	18,419,773	2,364,902
Expenses of operation:				
Personal service	371,131	135,362	2,113,703	542,136
Contractual service	23,998,514	-	6,623,918	1,156,732
Supplies and materials	353,536	23,559	1,629,354	43,670
Current charges and obligations	2,507,595	849,239	2,604,379	254,422
Miscellaneous	38,127	295	107,998	697,548
Equipment	211,587	501	523,898	-
Scholarships	43,277	-	130,543	-
Total expenses of operation	27,523,767	1,008,956	13,733,793	2,694,508
Excess/(deficiency) of revenues over/(under) expenses of operation	2,017,495	245,421	4,685,980	(329,606)
Non-operating revenues/(expenses):				
Private gifts	-	-	-	-
Scholarships	-	-	-	-
Total non-operating revenue/(expenses)	-	-	-	-
Transfers:				
Mandatory:				
Debt service	(908,401)	(1,453)	(3,943,952)	(492,903)
Non-mandatory:				
Allocation of student fees	234,369	-	245,248	1,251,277
Capital improvements	-	-	-	-
Total transfers	(674,032)	(1,453)	(3,698,704)	758,374
Net revenue increase/(decrease) for the year	$ 1,343,463	$ 243,968	$ 987,276	$ 428,768
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
$ -	$ -	$ -	$ -	$ 39,246,771	$ -	$ 78,424,004
935,826	240,759	72,016	114,791	2,272,360	2,534,119	18,639,056
935,826	240,759	72,016	114,791	41,519,131	2,534,119	97,063,060
-	-	-	-	-	-	(66,104)
935,826	240,759	72,016	114,791	41,519,131	2,534,119	96,996,956
-	1,926,048	1,406,682	1,333,433	2,949,197	6,982,863	17,760,555
326,886	298,633	745,146	622,760	3,621,382	5,488,334	42,882,305
-	134,351	332,509	430,890	573,627	1,036,993	4,558,489
-	252,284	-	522,420	962,503	1,877,855	9,830,697
-	2,733	14,652	3,368	400,398	189,830	1,454,949
1,385,494	37,987	163,678	208,146	427,159	1,598,335	4,556,785
-	27,828	51,588	47,490	375,146	3,372,905	4,048,777
1,712,380	2,679,864	2,714,255	3,168,507	9,309,412	20,547,115	85,092,557
(776,554)	(2,439,105)	(2,642,239)	(3,053,716)	32,209,719	(18,012,996)	11,904,399
-	-	-	-	-	192,141	192,141
-	-	-	-	-	(192,141)	(192,141)
-	-	-	-	-	-	-
-	-	(1,693,345)	(1,365,074)	-	(201,533)	(8,606,661)
-	2,453,140	4,347,713	4,280,105	(31,177,051)	18,365,199	-
-	-	-	-	(11,000,470)	-	(11,000,470)
-	2,453,140	2,654,368	2,915,031	(42,177,521)	18,163,666	(19,607,131)
$ (776,554)	$ 14,035	$ 12,129	$ (138,685)	$ (9,967,802)	$ 150,670	(7,702,732)
						26,019,825
						$ 18,317,093

Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

April 27, 2006

The Honorable Timothy M. Kaine
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, 2005 and 2004, 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 James Madison University Foundation, Inc., a discretely presented component unit, which is discussed in Note 1. Those statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the accounts included in the James Madison Foundation, Inc. is based upon the report of the other auditors.

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 and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of James Madison University and its discretely presented component unit as of June 30, 2005 and 2004, 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.

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

Our audit was conducted for the purpose of forming opinions on the basic financial statements of the University. 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, such information is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON 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 controls 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, non-compliance 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 non-compliance 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.

AUDITOR OF PUBLIC ACCOUNTS

WHC:sks
sks:

JAMES MADISON UNIVERSITY

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