JAMES MADISON UNIVERSITY

REPORT ON AUDIT

FOR THE YEARS ENDED

JUNE 30, 2006 AND 2005

APA

Auditor of
Public Accounts

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of James Madison University for the years ended June 30, 2006 and 2005 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, 2006 and 2005. Comparative numbers, where presented, are for the fiscal years ending June 30, 2005 and 2004. 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.

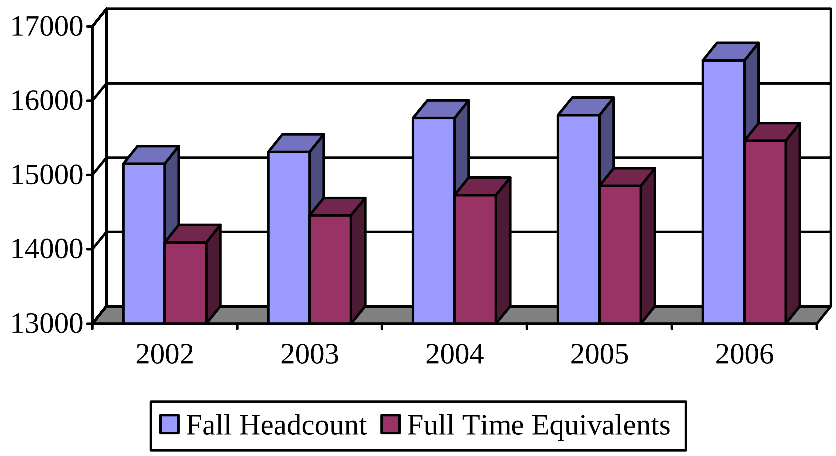
The financial statements referred to above were prepared in accordance with GASB Statement Number 34, *Basic Financial Statements–and Management's Discussion and Analysis–for State and Local Governments*, and GASB Statement Number 35, *Basic Financial Statements–and Management's Discussion and Analysis–for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

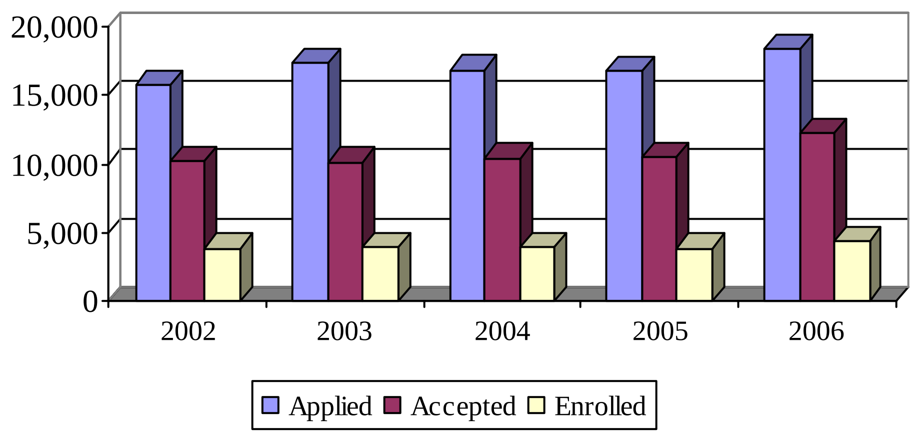
After a period of continuous enrollment growth in the 1990's, the University's enrollment stabilized in 2001-2005 between 15,000 – 15,800 students. However, as discussed in the "Economic Outlook" section, under the Higher Education Restructuring Act, institutions are required to adhere to goals that increase student access. Successful efforts in this area will result in increased enrollment, now projected at over 17,300 students by 2011. The beginning of this enrollment increase is reflected in the growth of the on-campus headcount from 15,800 in fall 2004 to 16,500 in fall 2005.

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, 2006 and 2005. 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)

	2006	2005	2004
Assets:			
Current assets	$ 90,167	$ 95,048	$ 89,373
Capital assets, net	398,936	330,990	305,460
Other non-current assets	5,334	14,513	3,210
Total assets	494,437	440,551	398,043
Liabilities:			
Current liabilities	59,866	54,386	50,440
Non-current liabilities	93,351	72,288	77,921
Total liabilities	153,217	126,674	128,361
Net assets:			
Invested in capital assets, net of related debt	294,489	258,926	231,678
Restricted – expendable	6,928	24,555	8,712
Restricted – non-expendable	325	309	291
Unrestricted	39,478	30,087	29,001
Total net assets	$341,220	$313,877	$269,682

In 2006, the University's total assets increased by $53,886,000. The majority of this growth is directly related to the net increase of $67,946,000 in capital assets, including $46,474,000 for the purchase of Rockingham Memorial Hospital's property and facilities. The increase in capital assets is further discussed in the next section of this analysis. The $4,881,000 decrease in current assets includes a $7,497,000 decrease in amounts due from the Commonwealth related to construction cost reimbursements due for capital projects being funded by the state's 21st Century bond program. Other non-current assets decreased by $9,179,000, mostly due to the decrease of $8,986,000 in restricted cash and cash equivalents. In 2005, that balance included $8,000,000 in state General Fund capital appropriations received in June 2005 to begin the purchase of hospital's property and facilities. In December 2005, we used the $8,000,000 as the initial payment on the installment purchase of the hospital. Current liabilities increased $5,480,000. The current portion of long-term liabilities increased by $11,402,000, including $11,515,000 due in 2007 for the next payment on the hospital installment purchase. Offsetting that increase was a $10,265,000 decrease in accounts payable and accrued expenses. Capital project accounts and retainage payable decreased by $3,524,000. Fiscal year 2005 included large balances in payables and retainage for the third East Campus Academic building, Harrison Hall, and Athletic Performance Center projects, all of which were completed or nearly completed. We paid the retainage on each of these projects in 2006. Accrued expenses decreased by $6,078,000 and can be attributed to the Governor's executive order to pay the July 3, 2006 payroll in June 2006. The expenses for this payroll, $8,335,000, would normally have been included in the accrued expenses liability. The cash basis funding for this unanticipated accelerated payment came from an advance of state General Fund appropriations of $3,081,000 and other University operating funds. Finally, obligations under securities lending increased by $2,440,000. This obligation is offset by a like amount reported as either cash equivalents or short-term investments. The balances are allocated by the Commonwealth, and changes in the balances from one year to the next have no impact on the University's net assets. Non-current liabilities increased $21,063,000, attributable to the long-term portion of the hospital installment purchase, and offset by payments on bond.

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.

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 $77,553,000 and $59,345,000 (excludes land, artwork and construction-in-progress) in fiscal years 2006 and 2005. Additions in fiscal year 2006 included completion of the Harrison Hall renovation ($11,714,000) and Financial Services Building ($6,512,000) projects. Additions related to the Rockingham Memorial installment purchase totaled $35,271,000 for buildings and infrastructure, and $11,203,000 for land. Significant 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). The Harrison Hall renovation and the East Campus Academic buildings were funded through the state's 21st Century bond Program, general obligation bonds, and state General Funds. The University incurred no debt for these projects. The Financial Services Building was funded by auxiliary reserve funds and insurance recovery proceeds. 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. Non-depreciable additions for 2006 include $11,203,000 for land associated with the hospital purchase. The University also purchased land along South Main Street for $5,708,000. This site was needed for the Performing Arts Center planned for this campus area. 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. Depreciation expense was $19,530,000 and $16,652,000 in 2006 and 2005, with net retirements of $560,000 and $287,000 resulting in a net increase of depreciable capital assets of $57,464,000 and $42,405,000 for 2006 and 2005, respectively.

Major projects still under construction at June 30, 2006 include the Center for Performing Arts and Music Recital Hall ($2,781,000), Miller Hall renovation ($1,753,000), and the East Campus Library ($1,331,000). Each of these projects are in the early stages of planning or construction, and all are primarily funded by state general obligation bonds. Major projects under construction at June 30, 2005, included the Harrison Hall renovation and Financial Services Building projects.

The University's total long-term debt increased to $104,464,000 in 2006 from $72,082,000 and $76,936,000 in fiscal years 2005 and 2004. The increase is solely due to the University's installment agreement with Rockingham Memorial Hospital to purchase the hospital's premises. This purchase included land, buildings, parking lots and two parking garages. The total purchase price was $50,600,000, with the initial installment of $8,000,000 made at the December 2005 settlement. Additional installments of $12,000,000 are due in December 2006 and 2007, $8,600,000 is due in December 2008, and the final installment of $10,000,000 is due in December 2009. Funding sources for the purchase include $40,600,000 from state General Fund appropriations and $10,000,000 from debt to be incurred by the University. The University did not incur any new bond indebtedness in the past two years; however, we did participate in the Commonwealth's fall 2006 bond sales. We incurred debt of $8,585,000 for construction of the Warsaw Street parking deck, $6,230,000 for renovation of Hoffman residence hall, and $3,960,000 for purchase of the City of Harrisonburg's Memorial Stadium and recreational fields.

During 2006, the University's Board of Visitors approved new "Debt Management Guidelines and Procedures." These guidelines established that the maximum annual debt service costs as a percentage of total operating revenues shall not exceed ten percent for non-revenue producing capital projects. The University's 2006 ratio was 3.2 percent, as compared to 3.9 percent for 2005 and 3.2 percent for 2004.

Overall, unpaid construction and other related contractual commitments decreased from $21,714,000 in 2004 to $18,166,000 in 2005, and then increased to $19,526,000 in 2006. Unpaid commitments at June 30, 2006 primarily reflect the Architectural and Engineering contract for the Performing Arts Center and Music Recital Hall projects, and construction on the Warsaw Street Parking Deck project. Unpaid commitments at June 30, 2005 primarily reflected the contracts on the Performing Arts Center and Music Recital Hall and the Financial Services Building. June 30, 2004 unpaid commitments included 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. That referendum provides over $900 million in debt-financed capital projects at higher education facilities. The bond projects will be spread out over the years 2003 – 2009 and the bond debt will be the obligation of the Commonwealth. The University has or 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 have or 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 $9.7 million Harrison Hall renovation, completed prior to the fall 2005 semester. A second project that began in 2004 and was completed in 2005 was the $4.3 million renovation of steam utility lines. Other projects currently in the planning phase include a $29.8 million Performing Arts Center 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. Projects currently under construction include a $19.8 million library for the east campus and $13.9 million in renovations for Miller Hall. One final project for improvements for handicapped accessibility has not yet begun.

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.

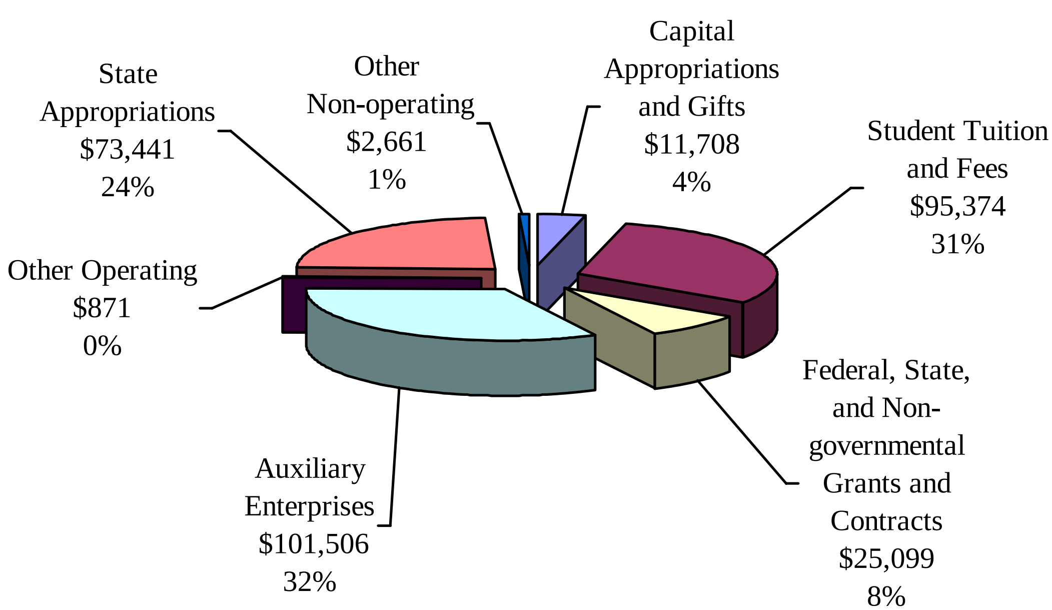
Non-operating revenues are revenues received for which goods and services are not directly provided. State appropriations and gifts are included in this category, but provide substantial support for paying the University's operating expenses. Therefore, the University, like most public institutions,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

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

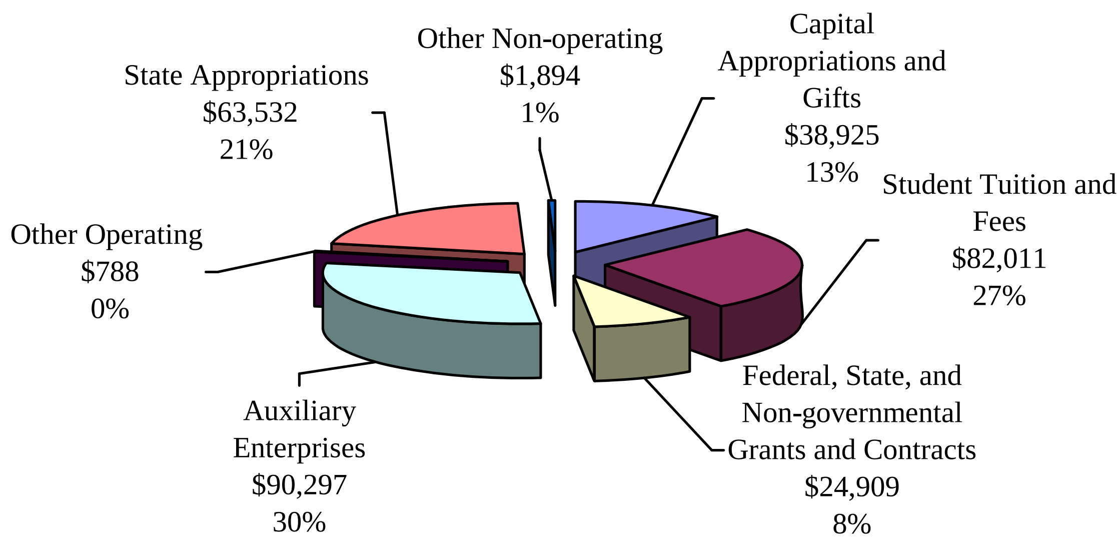
	2006	2005	2004
Operating revenues	$222,850	$198,005	$188,372
Operating expenses	278,470	253,774	232,981
Operating loss	(55,620)	(55,769)	(44,609)
Non-operating revenues and expenses	71,255	61,039	55,676
Income before other revenues, expenses, gains, or losses	15,635	5,270	11,067
Other net revenues	11,708	38,925	22,671
Increase in net assets	27,343	44,195	33,738
Net assets - beginning of year	313,877	269,682	235,944
Net assets - end of year	$341,220	$313,877	$269,682

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, 2006 and 2005. As noted above, critical recurring revenue sources such as state and capital appropriations are considered non-operating.

2006
Revenues by Source
(in thousands)



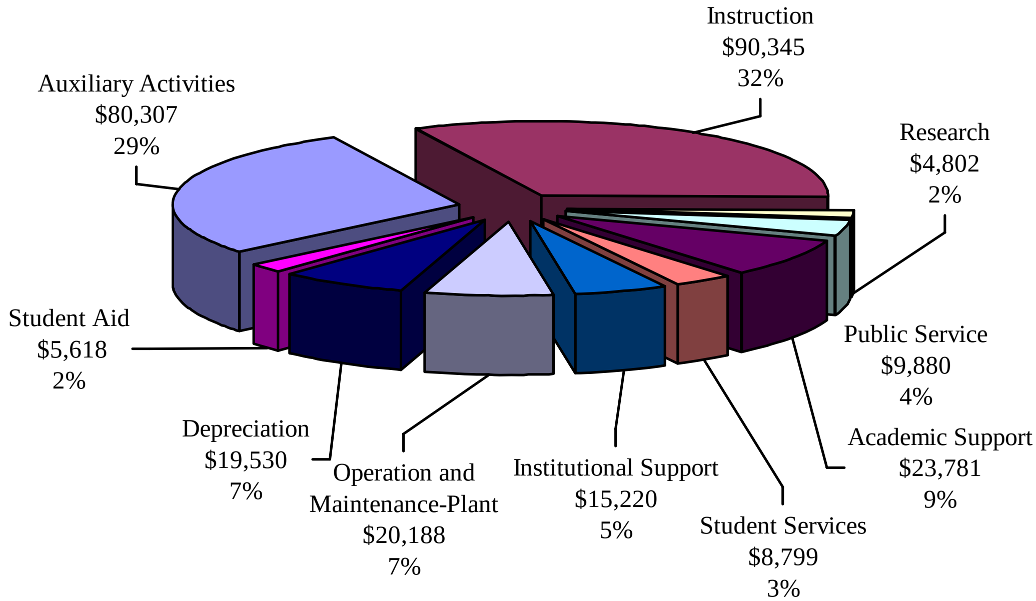
2005
Revenues by Source
(in thousands)



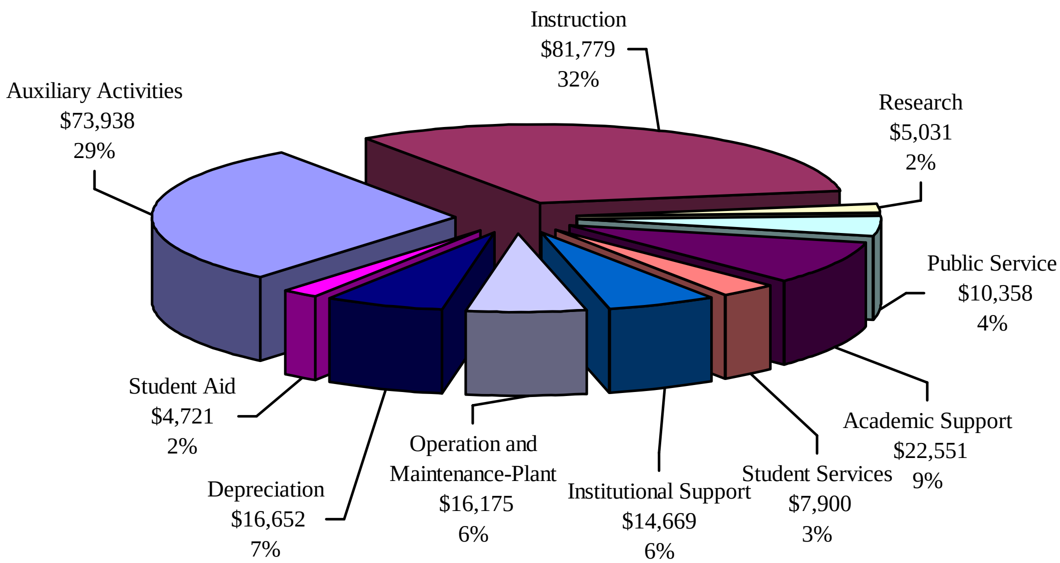
Operating revenues, consisting mostly of tuition and fees, and auxiliary enterprises, increased $24,845,000 or 13 percent from the prior fiscal year, as compared to a five percent increase from 2004 to 2005. Student tuition and fees, net of scholarship allowances, increased by $13,363,000 in fiscal year 2006 and $8,168,000 in fiscal year 2005. The 2006 tuition increase was due to a combination of an approximate four percent increase in undergraduate headcount and rate increases averaging nine percent for state undergraduate and six percent for out-of-state students. The growth in 2005 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. Auxiliary revenues increased by $11,209,000, or 12 percent, as compared to an increase of three percent from 2004 to 2005. The 2006 increase was due to a combination of over four percent increase in undergraduate on-campus headcount, a four percent room and board rate increase, and a six percent increase in the comprehensive auxiliary fee. Overall grants and contracts revenue remained relatively stable, only increasing $190,000 after decreasing by $1,258,000 from 2004 to 2005. That decrease reflected the completion in 2005 of the three year, state funded Commonwealth Technology Research project.

The following graphical illustration presents total operating expenses for fiscal years 2006 and 2005 by function.

2006
<u>Operating Expenses by Function</u>
(in thousands)



2005
<u>Operating Expenses by Function</u>
(in thousands)



Total 2006 operating expenses increased $24,696,000 or ten percent, as compared to an increase of $20,793,000 or nine percent, from 2004 to 2005. Compensation expenses, consisting of the natural expense classifications salaries, wages, and fringe benefits, were the largest factor, increasing $14,260,000 and $11,108,000 in 2006 and 2005, respectively. Compensation expenses comprised 56 percent of the University's total operating expenses in both 2006 and 2005. The Commonwealth provides across-the-board salary increases on a periodic basis. Faculty and staff received three percent increases in November 2005 and 2004, respectively. Compensation expense increased by ten and eight percent in 2006 and 2005, after remaining relatively stable in 2003 and 2004. Due to statewide budget shortfalls in fiscal years 2002 and 2003, the Commonwealth significantly reduced General Fund state appropriation support to higher education operating budgets in 2003 and 2004. 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 $10,216,000 and $5,363,000 in fiscal years 2006 and 2005. The University's total state appropriations were increased by $9,909,000 (16 percent) and $5,935,000 (ten percent) in 2006 and 2005, respectively, after being reduced in 2003 and 2004. Other revenues and gains include capital appropriations, which decreased by $27,089,000, after increasing by $15,775,000 between fiscal years 2004 and 2005. These changes result from the reimbursement timing and construction progress for projects funded from the 21st Century and General Obligation programs as described above. Capital gifts included $2,747,000 for renovations and equipment for the Top Dog Cafeteria in 2006 and $2,877,000 for the Athletic Performance Center in 2005, 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)

	2006	2005	2004
Cash provided/(used) by:			
Operating activities	$(42,447)	$(36,353)	$(26,912)
Non-capital financing activities	74,781	61,681	57,207
Capital financing activities	(40,483)	(18,362)	(22,262)
Investing activities	2,015	1,507	955
Net increase/(decrease) in cash	(6,134)	8,473	8,988
Cash – beginning of the year	67,094	58,621	49,633
Cash – end of year	$ 60,960	$ 67,094	$ 58,621

Major sources of cash from operating activities include student tuition and fees ($95,753,000 in 2006 and $84,476,000 in 2005), auxiliary enterprises receipts ($101,569,000 in 2006 and $90,535,000 in 2005), and grants and contracts ($25,517,000 in 2006 and $24,569,000 in 2005). Major uses of cash include payments for salaries, wages, and fringe benefits ($163,188,000 in 2006 and $141,670,000 in 2005); payments for supplies and services ($71,085,000 in 2006 and $64,980,000 in 2005); and payments for non-capitalized plant improvements and equipment ($14,071,000 in 2006 and $13,984,000 in 2005).

Cash flows from non-capital financing activities include state appropriations for the University's educational and general programs and financial aid of $73,443,000 and $63,533,000 for 2006 and 2005, 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 2006 and 2005 include capital appropriations ($14,889,000 in 2006 and $28,023,000 in 2005), and capital gifts ($1,399,000 in 2006 and $3,509,000 in 2005). Significant cash outflows include $39,119,000 in 2006 and $40,418,000 in 2005 for the purchase and construction of capital assets and $17,693,000 in 2006 and $9,499,000 in 2005 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. As a public institution, the University receives significant Commonwealth support from operating and capital appropriations. State operating appropriations currently cover 41 percent of operating expenses, excluding auxiliary activities and depreciation. Beginning in 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, 2004-06 marked the first biennium since prior to the 2002 budget reductions that the Commonwealth made significant unrestricted investments in higher education. The Commonwealth's 2006-08 budget reflects the continued strength of the national and state economies. The University benefited from this budget as the General Assembly allocated incremental support for faculty and staff salaries, nursing faculty salary increases in order to address recruitment and retention issues, base adequacy and enrollment growth funding, and student financial aid.

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 17,374 students by 2011, an increase of 5 percent over fall 2005.

The University's overall financial position remains strong. As in fiscal years 2004 and 2005, the University again generated an overall increase in net assets during 2006. 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, 2006 and 2005

	2006		2005	
	James Madison University	Component Unit	James Madison University	Component Unit
ASSETS				
Current assets:				
Cash and cash equivalents (Note 2)	$ 58,632,243	$ 1,510,551	$ 55,780,788	$ 404,455
Securities lending - Cash and cash equivalents (Note 2)	7,003,823	-	9,480,709	-
Short-term investments (Note 2)	6,931,087	-	2,014,591	-
Accounts receivable (Net of allowance for doubtful accounts of $319,757 and $279,985 for 2006 and 2005, respectively) (Note 3)	4,416,603	78,825	7,727,846	47,595
Contributions receivable (Net of allowance for doubtful contributions of $62,910 and $38,597 for 2006 and 2005, respectively) (Note 3)	-	1,967,274	-	1,896,781
Due from the Commonwealth (Note 7)	7,019,771	-	14,768,863	-
Prepaid expenses	4,935,432	4,324	4,055,028	17,680
Inventory	772,653	500	760,408	500
Notes receivable (Net of allowance for doubtful accounts of $53,015 and $48,693 for 2006 and 2005, respectively)	455,435	-	459,805	-
Total current assets	90,167,047	3,561,474	95,048,038	2,367,011
Non-current assets:				
Restricted cash and cash equivalents (Note 2)	2,327,911	-	11,313,546	-
Endowment investments (Note 2)	251,338	25,259,824	237,789	22,235,874
Other long-term investments (Note 2)	915,868	26,122,870	878,163	22,338,409
Contributions receivable (Net of allowance for doubtful contributions of $99,523 and $71,434 for 2006 and 2005, respectively) (Note 3)	-	4,876,622	-	3,500,264
Notes receivable (Net of allowance for doubtful accounts of $212,401 and $212,081 for 2006 and 2005, respectively)	1,839,268	-	2,083,090	-
Capital assets, net: (Note 4)				
Non-depreciable	45,681,781	287,293	35,200,036	287,293
Depreciable	353,253,825	243,411	295,790,116	268,183
Other assets	-	9,998	-	10,928
Total non-current assets	404,269,991	56,800,018	345,502,740	48,640,951
Total assets	494,437,038	60,361,492	440,550,778	51,007,962
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses (Note 5)	15,979,217	121,169	26,243,768	124,015
Deferred revenue	8,042,316	-	7,574,049	-
Obligations under securities lending	13,934,910	-	11,495,300	-
Deposits held in custody for others	2,328,034	-	895,122	-
Long-term liabilities - current portion (Note 6)	19,519,308	139,272	8,117,111	134,026
Advance from the Treasurer of Virginia	62,500	-	60,500	-
Total current liabilities	59,866,285	260,441	54,385,850	258,041
Non-current liabilities (Note 6)	93,350,446	1,479,999	72,287,484	1,531,175
Total liabilities	153,216,731	1,740,440	126,673,334	1,789,216

JAMES MADISON UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2006 and 2005

	2006		2005	
	James Madison University	Component Unit	James Madison University	Component Unit
NET ASSETS				
Invested in capital assets, Net of related debt	294,489,130	530,704	258,925,863	555,476
Restricted for:				
Non-expendable:				
Scholarships and fellowships	325,596	21,208,438	308,888	17,231,899
Research and public service	-	357,217	-	355,217
Other	-	6,886,466	-	5,833,705
Expendable:				
Scholarships and fellowships	40,174	1,298,329	37,480	813,458
Research and public service	1,590,930	1,076,209	1,591,176	1,202,171
Debt service	11,338	760,946	6,985	791,501
Capital projects	4,945,501	6,216,657	22,579,014	5,502,327
Loans	339,947	-	341,310	-
Other	-	13,776,329	-	11,644,021
Unrestricted	39,477,691	6,509,757	30,086,728	5,288,971
Total net assets	$ 341,220,307	$58,621,052	$ 313,877,444	$ 49,218,746

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, 2006 and 2005

	2006		2005	
	James Madison University	Component Unit	James Madison University	Component Unit
Operating revenues:				
Student tuition and fees (Net of scholarship allowances of $5,455,055 and $5,179,528 for 2006 and 2005, respectively)	$ 95,374,085	$ -	$ 82,010,796	$ -
Gifts and contributions	-	5,789,668	-	3,888,070
Federal grants and contracts	15,821,067	-	14,749,536	-
State grants and contracts	5,372,128	-	6,822,323	-
Non-governmental grants and contracts	3,905,622	-	3,336,876	-
Auxiliary enterprises (Net of scholarship allowances of $4,670,974 and $4,567,156 for 2006 and 2005, respectively) (Note 9)	101,505,935	-	90,297,115	-
Other operating revenues	871,228	136,227	787,947	153,003
Total operating revenues	222,850,065	5,925,895	198,004,593	4,041,073
Operating expenses (Note 10):				
Instruction	90,344,970	503,049	81,778,715	435,173
Research	4,801,752	9,120	5,030,508	8,621
Public service	9,879,601	46,003	10,358,294	51,069
Academic support	23,781,135	329,239	22,551,221	235,732
Student services	8,798,994	63,891	7,899,551	52,506
Institutional support	15,220,675	667,253	14,669,492	898,462
Operation and maintenance - plant	20,188,146	1,436,707	16,175,207	3,590,163
Depreciation	19,529,873	27,097	16,651,977	35,658
Student aid	5,618,439	1,414,434	4,721,143	1,280,971
Auxiliary activities (Note 9)	80,306,853	711,289	73,937,527	659,768
Total operating expenses	278,470,438	5,208,082	253,773,635	7,248,123
Operating gain/(loss)	(55,620,373)	717,813	(55,769,042)	(3,207,050)
Non-operating revenues/(expenses):				
State appropriations (Note 11)	73,440,683	-	63,532,170	-
Gifts	670,385	-	567,539	-
Investment income (Net of investment expense of $414,999 and $311,186 for the University and $337,197 and $298,572 for the Foundation for 2006 and 2005, respectively)	1,990,436	3,787,088	1,326,288	2,949,725
Interest on capital asset - related debt	(3,374,989)	(36,933)	(3,424,474)	(43,634)
Gain/(loss) on disposal of plant assets	(565,002)	-	(197,944)	-
Payment to the Commonwealth	(906,593)	-	(763,713)	-
Net non-operating revenues/(expenses)	71,254,920	3,750,155	61,039,866	2,906,091
Income before other revenues, expenses, gains or losses	15,634,547	4,467,968	5,270,824	(300,959)
Capital appropriations	7,142,026	-	34,231,477	-
Capital gifts	4,566,290	-	4,693,523	-
Additions to permanent endowments	-	4,934,338	-	1,129,687
Net other revenues	11,708,316	4,934,338	38,925,000	1,129,687
Increase in net assets	27,342,863	9,402,306	44,195,824	828,728
Net assets - beginning of year	313,877,444	49,218,746	269,681,620	48,390,018
Net assets - end of year	$ 341,220,307	$ 58,621,052	$ 313,877,444	$ 49,218,746

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, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Student tuition and fees	$ 95,753,083	$ 84,475,794
Grants and contracts	25,516,917	24,568,726
Auxiliary enterprises	101,569,390	90,535,128
Other receipts	839,802	731,804
Payments to employees	(123,961,829)	(110,140,252)
Payments for fringe benefits	(39,226,344)	(31,530,159)
Payments for services and supplies	(71,084,970)	(64,980,089)
Payments for utilities	(12,473,553)	(11,450,567)
Payments for scholarships and fellowships	(5,632,521)	(4,721,143)
Payments for non-capitalized plant improvements and equipment	(14,071,225)	(13,984,460)
Loans issued to students	(395,187)	(517,444)
Collections of loans from students	719,473	659,846
Net cash used by operating activities	(42,446,964)	(36,352,816)
Cash flows from noncapital financing activities:		
State appropriations	73,443,072	63,532,672
Payment to the Commonwealth	(906,593)	(763,713)
Gifts and grants for other than capital purposes	670,385	567,539
Loans issued to students and employees	(6,782)	(8,974)
Collections of loans from students and employees	7,426	140,609
Agency receipts	7,407,981	3,766,453
Agency payments	(5,833,897)	(5,553,664)
Net cash provided by noncapital financing activities	74,781,592	61,680,922
Cash flows from capital financing activities:		
Capital appropriations	14,888,729	28,023,392
Capital gifts	1,398,895	3,509,119
Proceeds from sale of capital assets	40,296	22,297
Purchase of capital assets	(39,118,911)	(40,418,161)
Principal paid on capital debt, leases, and installments	(14,317,511)	(5,997,991)
Interest paid on capital debt, leases, and installments	(3,374,989)	(3,501,037)
Net cash used by capital financing activities	(40,483,491)	(18,362,381)
Cash flows from investing activities:		
Interest on investments	347,791	192,524
Interest on cash management pools	1,666,892	1,315,130
Net cash provided by investing activities	2,014,683	1,507,654
Net increase/(decrease) in cash	(6,134,180)	8,473,379
Cash and cash equivalents - beginning of the year	67,094,334	58,620,955
Cash and cash equivalents - end of the year	$ 60,960,154	$ 67,094,334

JAMES MADISON UNIVERSITY
STATEMENT OF CASH FLOWS
For the years ended June 30, 2006 and 2005

	2006	2005
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (55,620,373)	$ (55,769,042)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	19,529,873	16,651,977
Changes in assets and liabilities:		
Receivables, net	473,679	(361,744)
Due from the Commonwealth	2,389	(397,748)
Prepaid expenses	(880,404)	(743,046)
Inventory	(12,245)	(13,765)
Notes receivable, net	247,089	109,115
Accounts payable and accrued expenses	(6,740,210)	2,038,250
Deferred revenue	468,267	2,631,658
Advance from the Treasurer of Virginia	2,000	(2,300)
Accrued compensated absences	282,075	(15,658)
Accrued retirement plan	(190,818)	(480,758)
Federal loan programs contributions refundable	(8,286)	245
Net cash used by operating activities	$ (42,446,964)	$ (36,352,816)
NON-CASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS:		
Gift of capital assets	$ (3,167,396)	$ (1,080,297)
Capitalization of interest revenue and expense, net	-	(76,562)
Change in fair value of investments recognized as a component of interest income	(24,246)	39,323

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, 2006 AND 2005

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 is 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, 2006 and 2005, the Foundation distributed $4,131,503 and $5,474,492, 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 material	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 2006 and 2005. 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 $1,724,187 and $1,517,963 in 2006 and 2005, 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.

	2006	2005
Cash and cash equivalents:		
Cash with the Treasurer of Virginia	$53,513,852	$61,833,006
Cash on hand and deposits with financial institutions (including money market and certificates of deposit)	7,434,964	5,200,303
Collateral held for securities lending	7,003,823	9,480,709
Cash equivalents with the Treasurer of Virginia	11,338	6,985
Cash equivalents not with the Treasurer of Virginia	-	54,040
Total	$67,963,977	$76,575,043
Investments:		
Collateral held for securities lending (short-term)	$ 6,931,087	$ 2,014,591
Investments not with the Treasurer of Virginia	1,167,206	1,115,952
Total	$ 8,098,293	$ 3,130,543

For 2006, investments not with Treasurer of Virginia include $1,167,206 in mutual funds with maturity less than one year. $382,062 of this amount carries an Aaa rating from Moody's, with the remainder unrated.

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.

C. James Madison University Foundation Cash and Investments

The following information is provided with respect to the Foundation's cash and cash equivalents and investments at June 30, 2006 and 2005. 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:

	2006		2005	
	Fair Value	Cost	Fair Value	Cost
Cash and cash equivalents	$ 1,187,320	$ 1,187,320	$ 1,731,021	$ 1,731,021
Common stock	14,638,323	11,216,914	12,668,819	9,361,415
Mutual funds	28,661,019	21,693,262	23,123,182	18,243,996
Corporate bonds	2,115,344	2,158,266	3,856,844	3,712,036
U.S. government securities	4,444,369	4,444,369	2,867,520	2,867,520
Life insurance policies	336,319	-	326,897	-
Total	$51,382,694	$40,700,131	$44,574,283	$35,915,988

D. Securities Lending Transactions

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, 2006 and 2005:

	2006	2005
Student tuition and fees	$ 408,495	$ 422,859
Auxiliary enterprises	784,621	728,861
Federal, state, and non-governmental grants and contracts	3,356,836	3,774,936
Insurance settlement for Financial Services Building fire	-	2,552,676
Other activities	186,408	528,499
Total	4,736,360	8,007,831
Less: allowance for doubtful accounts	319,757	279,985
Net accounts receivable	$4,416,603	$7,727,846

The Foundation's contributions receivable at June 30, 2006 and 2005 is summarized below:

	2006	2005
Due in less than one year	$2,030,184	$1,935,378
Due between one and five years	3,902,708	3,049,561
Due in more than five years	1,805,770	1,001,079
Total	7,738,662	5,986,018
Less: present value discount (three percent - six percent)	732,333	478,942
Less: allowance for doubtful accounts	162,433	110,031
Net contributions receivable	$6,843,896	$5,397,045

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the years ending June 30, 2006 and 2005 is presented as follows:

	2006			
	Beginning Balance	Additions	Reductions	Ending Balance
Non-depreciable capital assets:				
Land	$ 15,537,913	$ 17,495,947	$ -	$ 33,033,860
Inexhaustible artwork and historical treasures	1,000,834	-	-	1,000,834
Construction-in-progress	18,661,289	26,241,809	33,256,011	11,647,087
Total non-depreciable capital assets	35,200,036	43,737,756	33,256,011	45,681,781
Depreciable capital assets:				
Buildings	354,448,917	62,569,199	1,208,462	415,809,654
Infrastructure	34,112,510	2,537,713	-	36,650,223
Equipment	42,107,219	7,439,237	3,253,320	46,293,136
Other improvements	16,113,923	2,016,366	173,470	17,956,819
Library materials	33,566,807	2,990,835	344,156	36,213,486
Total depreciable capital assets	480,349,376	77,553,350	4,979,408	552,923,318
Less accumulated depreciation for:				
Buildings	111,996,562	10,923,029	765,817	122,153,774
Infrastructure	12,829,111	1,717,943	-	14,547,054
Equipment	27,456,748	4,477,270	3,136,196	28,797,822
Other improvements	4,307,200	828,873	173,470	4,962,603
Library materials	27,969,639	1,582,757	344,156	29,208,240
Total accumulated depreciation	184,559,260	19,529,872	4,419,639	199,669,493
Depreciable capital assets, net	295,790,116	58,023,478	559,769	353,253,825
Total capital assets, net	$330,990,152	$101,761,234	$33,815,780	$398,935,606

	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

The Foundation's net capital assets consist of $430,113 and $454,885 in property and equipment, and $100,591 and $100,591 in collections of historical artifacts for the years ending June 30, 2006 and 2005, 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.

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2006 and 2005:

	2006	2005
Employee salaries, wages, and fringe benefits payable	$12,406,893	$18,484,609
Vendors and suppliers accounts payable	2,509,437	3,171,931
Capital projects accounts and retainage payable	1,062,887	4,587,228
Total accounts payable and accrued expenses	$15,979,217	$26,243,768

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, 2006 and 2005 is presented as follows:

	2006				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds	$38,900,000	$ -	$ 2,740,000	$ 36,160,000	$ 2,870,000
General obligation bonds	32,462,752	-	2,635,561	29,827,191	2,753,966
Installment purchases	719,321	46,474,112	8,716,363	38,477,070	11,517,624
Total long-term debt	72,082,073	46,474,112	14,091,924	104,464,261	17,141,590
Accrued retirement plan	1,458,487	676,325	867,143	1,267,669	-
Accrued compensated absences	4,472,278	2,421,110	2,139,035	4,754,353	2,377,718
Federal loan program contributions	2,391,757	-	8,286	2,383,471	-
Total long-term liabilities	$80,404,595	$49,571,547	$17,106,388	$112,869,754	$19,519,308

	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

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	2006	2005
Revenue bonds:				
Dormitory, Series 1993A	4.55 - 5.375	2006	$ -	$ 117,975
Dormitory, Series 2003A	2.92	2009	677,325	769,725
Dormitory, Series 1998A	3.50 - 4.80	2019	9,125,000	9,730,000
Dormitory, Series 2004B	5.00	2014	1,610,000	1,610,000
Parking, Series 1999A	4.50 - 6.00	2010	1,105,000	1,350,000
Parking, Series 2004B	3.00 – 5.00	2020	4,230,000	4,280,000
Student center, Series 1999A	4.50 - 6.00	2010	1,695,000	2,070,000
Student center, Series 2004B	3.00 – 5.00	2020	6,495,000	6,575,000
Recreation, Series 1993A	4.55 - 5.375	2006	-	597,025
Recreation, Series 2003A	2.92	2013	8,487,675	8,955,275
Property acquisition, Series 2002A	3.00 - 5.00	2013	1,590,000	1,775,000
Athletics, Series 2003A	2.00 – 5.00	2014	1,575,000	1,740,000
Total revenue bonds			36,590,000	39,570,000
Deferred loss on refinancing			(430,000)	(670,000)
Revenue bonds payable			36,160,000	38,900,000
General obligation revenue bonds:				
Dormitory and dining hall:				
Series 1979	3.00	2009	545,000	715,000
Series 2002	2.50 - 5.00	2013	2,444,807	2,737,392
Series 2003A	2.50 - 5.50	2008	587,699	861,531
Series 2003A	2.50 - 5.50	2010	799,808	978,394
Series 1997	5.00	2007	900,000	1,760,000
Series 1998	5.50	2008	100,000	145,000
Series 2001	4.00	2021	1,685,000	1,910,000
Series 2004B	2.00 – 5.00	2020	15,143,820	15,143,820
Series 2002	2.50 - 5.00	2022	3,540,000	3,690,000
Student center:				
Series 1998	3.75 - 5.00	2013	3,545,797	3,971,943
Total general obligation revenue bonds			29,291,931	31,913,080
Deferred gain on refinancing			535,260	549,672
General obligation bonds payable			29,827,191	32,462,752
Total bonds payable			65,987,191	71,362,752
Installment purchases payable	Various	2007-2010	38,477,070	719,321
Total			$104,464,261	$72,082,073

Long-term debt as of June 30, 2006 matures as follows:

	Principal	Interest
2007	$ 17,141,590	$ 3,369,312
2008	16,914,010	3,607,976
2009	13,400,376	3,444,928
2010	14,053,363	3,777,495
2011	5,726,962	1,904,991
2012-2016	24,062,960	5,787,306
2017-2021	12,870,000	1,203,885
2022	295,000	12,906
Total	$104,464,261	$23,108,799

A. Installment Purchases Payable

In December 2005, the University entered into an installment purchase agreement with Rockingham Memorial Hospital for purchase of the hospital's premises primarily located at 235 Cantrell Avenue, Harrisonburg, Virginia. This purchase included seven buildings containing approximately 623,000 square feet, six paved parking lots, 2 multi-story parking decks, and two converted residences to offices, all situated on approximately 15.9 acres of land. The total purchase price was $50,600,000, with the initial installment payment of $8,000,000 made at settlement. The additional installments are due as follows: $12,000,000 in December 2006 and 2007, $8,600,000 in December 2008, and concluding with a final payment of $10,000,000 in December 2009.

The interest expense obligation has been estimated using an imputed rate of 4.0%. The value of the $42,600,000 liability (net of imputed interest) at June 30, 2006 was $38,474,112. Funding sources for the purchase include $40,600,000 from state general funds and $10,000,000 from bond proceeds. The state appropriated $8,000,000 in General Funds for the initial payment in fiscal year 2005. General fund appropriations of $12,000,000 were made for fiscal years 2007 and 2008.

B. Deferral on Debt Defeasance

In accordance with GASB Statement 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, for current refundings and advance refundings resulting in defeasance of debt, the difference between the new and old debt (accounting gain or loss) is deferred and amortized as a component of interest expense. For each of the current or advance refundings noted below, the accounting gain or loss is amortized to interest expense over the life of the new debt.

The November 2004 9(c) issue was considered an advance refunding and resulted in the recognition of a deferred accounting gain of $157,952 in fiscal year 2005. Amortization of the accounting gain resulting from the defeasance was $0 and $318,228 for fiscal years 2006 and 2005.

The October 2004 9(d) issue was considered an advance refunding and resulted in the recognition of a deferred accounting loss of $470,000 in fiscal year 2005. Amortization of the accounting loss resulting from the defeasance was $130,000 and $0 for fiscal years 2006 and 2005.

The March 2003 9(d) issue was considered a current refunding and resulted in the recognition of a deferred accounting loss of $475,000 in fiscal year 2003. Amortization of the accounting loss resulting from the defeasance was $110,000 and $105,000 for fiscal years 2006 and 2005.

The June 2003 9(c) issue was considered a current refunding and resulted in the recognition of a deferred accounting gain of $151,013 in fiscal year 2003. Amortization of the accounting gain resulting from defeasance was $26,995 and $29,117 for fiscal years 2006 and 2005.

The October 2002 9(c) issue was considered a current refunding and resulted in the recognition of a deferred accounting gain of $140,555 in fiscal year 2003. Amortization of the accounting gain resulting from the defeasance was $12,584 and $19,278 for fiscal years 2006 and 2005.

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. Long-term Debt Defeasance

In prior years, in accordance with GASB Statement 7, *Advance Refundings Resulting in the Defeasance of Debt*, the University excluded from its financial statements the assets in escrow and the Section 9(c) or 9(d) bonds payable that were defeased "in-substance." For the year ended June 30, 2006, bonds payable considered defeased in previous years have all been called and paid, resulting in no balances 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 $2,014,291 at June 30, 2006 and 2005, 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, 2007. At both June 30, 2006 and 2005, no balance was outstanding on the line of credit. The Foundation's long-term debt consists of $661,480 and $721,454 outstanding at June 30, 2006 and 2005, in Series 1999 Industrial Development Authority Revenue bonds, interest at 5.32 percent, and maturing through 2014.

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, 117 faculty members have elected to enroll in the plan. As of June 30, 2006, 39 participants remain, including five new participants who retired under this plan during fiscal year 2006. 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 2007-plan contribution of $831,143 in 2006. The plan payment schedule is as follows:

Year Ending June 30,	Supplemental Plan Obligations
2008	$ 603,995
2009	320,959
2010	214,650
2011	128,065
Total	$1,267,669

9. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expenses consisted of the following at June 30, 2006 and 2005. The University used auxiliary revenues to pay debt service and capital improvements of $8,450,937 and $8,589,879 in 2006 and $8,606,661 and $11,000,470 in 2005, respectively. Those amounts are not included in the auxiliary operating expenses below.

Revenues:	2006	2005
Room contracts, net of scholarship allowances of $1,064,692 in 2006 and $1,052,416 in 2005	$ 18,737,507	$16,952,404
Food service contracts, net of scholarship allowances of $1,343,820 in 2006 and $1,248,293 in 2005	23,340,001	19,924,121
Comprehensive fee, net of scholarship allowances of $2,262,462 in 2006 and $2,266,447 in 2005	39,833,066	36,980,324
Other student fees and sales and services	19,595,361	16,440,266
Total auxiliary enterprises revenues	$101,505,935	$90,297,115

Expenses:		
Residential facilities	$14,721,310	$12,714,210
Dining operations	31,418,662	27,214,956
Athletics	15,736,008	14,555,504
Other auxiliary activities	18,430,873	19,452,857
Total auxiliary activities expenses	$80,306,853	$73,937,527

10. EXPENSES BY NATURAL CLASSIFICATIONS

The following table shows a classification of expenses for the years ended June 30, 2006 and 2005 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.

	2006							
	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholarships and Fellowships	Utilities	Plant and Equipment	Depreciation	Total
Instruction	$ 62,755,134	$18,996,700	$ 7,440,216	$ -	$ 16,590	$ 1,136,330	$ -	$ 90,344,970
Research	2,644,590	438,838	1,573,266	-	-	145,058	-	4,801,752
Public service	4,947,826	1,318,720	3,388,537	-	501	224,017	-	9,879,601
Academic support	11,692,777	3,695,201	2,873,391	11,148	-	5,508,618	-	23,781,135
Student services	5,187,594	1,587,231	1,830,480	-	174	193,515	-	8,798,994
Institutional support	7,415,274	2,952,841	3,792,387	-	4,792	1,055,381	-	15,220,675
Operation and maintenance of plant	5,421,354	2,276,642	4,317,554	-	5,541,311	2,631,285	-	20,188,146
Depreciation expense	-	-	-	-	-	-	19,529,873	19,529,873
Scholarship and related expenses	-	-	-	5,618,439	-	-	-	5,618,439
Auxiliary activities	19,211,228	6,767,248	44,860,026	-	6,916,867	2,551,484	-	80,306,853
Total	$119,275,777	$38,033,421	$70,075,857	$5,629,587	$12,480,235	$13,445,688	$19,529,873	$278,470,438

	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

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, 2006, shall be re-appropriated for expenditure in the first month of the next year, beginning on July 1, 2006, except as may be specifically provided otherwise by the General Assembly. The governor may, at his discretion, unallot funds from the re-appropriated balances that relate to unexpended appropriations.

During the years ending June 30, 2006 and 2005, the following adjustments were made to the University's original appropriations:

	2006	2005
Original legislative appropriation:		
Educational and general programs	$64,077,290	$57,931,606
Student financial assistance	5,041,220	4,736,949
Supplemental adjustments:		
Central Fund appropriation transfers:		
Seed funding to strengthen higher education research	(304,500)	304,500
Faculty and staff salary increases	651,686	181,085
Health insurance premium	1,023,895	504,484
Other miscellaneous increases	205,500	190,818
Retirement plans, group life insurance rate reduction, and other miscellaneous reversions to the Central Fund	(332,660)	(316,419)
Advancement of July 3, 2006 pay date to June 30, 2006	3,080,958	-
Reversion to the General Fund of the Commonwealth	(2,706)	(853)
Adjusted appropriation	$73,440,683	$63,532,170

12. COMMITMENTS

At June 30, 2006, the University was a party to construction and other contracts totaling approximately $29,924,713 of which $10,398,424 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, 2006 and 2005, such purchases totaled $5,273,384 and $4,270,541.

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 $3,034,928 and $2,692,782 for the years ended June 30, 2006 and 2005.

The University has, as of June 30, 2006, the following future minimum rental payments due under the above leases:

Year Ending June 30,	Operating Lease Obligation
2007	$ 1,605,602
2008	3,058,057
2009	2,945,723
2010	5,307,707
2011	1,680,014
2012-2016	5,026,272
Total	$19,623,375

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, 2006. 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 $5,710,253 and $5,001,125 for the years ended June 30, 2006 and 2005, respectively. The retirement contribution rate was 8.91 percent and 8.91 percent for fiscal years 2006 and 2005. Contributions to VRS were calculated using the base salary amount of approximately $62,877,840 and $55,114,457 for the fiscal years ended June 30, 2006 and 2005. The University's total payroll was approximately $123,961,829 and $110,140,252 for the years ended June 30, 2006 and 2005, 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 $5,062,450 and $4,502,403 for the years ended June 30, 2006 and 2005, respectively. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $48,677,404 and $43,292,340 for fiscal years 2006 and 2005.

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 $698,970 and $620,842 for the fiscal years 2006 and 2005, 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 covered the loss of and damage to this building. The Financial Services Building was razed and a new building was constructed on the site. Insurance recovery funds receivable of $2,552,676 as of June 30, 2005 were received and used for construction during fiscal year 2006. In May 2006, the new building was substantially completed and occupied. The new administrative building, named Massanutten Hall, consists of three stories, 40,000 square feet, and houses finance, procurement, and information technology staff. The total project budget was $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, 2006, 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, 2006

	Food Service	Stores and Shops	Residential Facilities	Parking
Revenues:				
Student fees	$ 24,683,561	$ -	$ 19,802,200	$ -
Sales and services	9,771,667	1,336,981	565,194	2,480,638
Total revenues	34,455,228	1,336,981	20,367,394	2,480,638
Cost of sales	-	(72,047)	-	-
Net revenues	34,455,228	1,264,934	20,367,394	2,480,638
Expenses of operation:				
Personal service	532,597	134,891	2,218,562	569,947
Contractual service	27,823,598	-	7,939,962	1,243,826
Supplies and materials	565,354	41,686	1,908,041	31,574
Current charges and obligations	2,541,574	824,744	2,876,824	250,312
Miscellaneous	38,665	87	48,504	98,444
Equipment	186,715	287	634,658	-
Scholarships	45,542	-	145,861	-
Total expenses of operation	31,734,045	1,001,695	15,772,412	2,194,103
Excess/(deficiency) of revenues over/(under) expenses of operation	2,721,183	263,239	4,594,982	286,535
Non-operating revenues/(expenses):				
Private gifts	-	-	-	-
Scholarships	-	-	-	-
Total non-operating revenue/(expenses)	-	-	-	-
Transfers:				
Mandatory:				
Debt service	(903,168)	-	(3,943,784)	(552,601)
Non-mandatory:				
Allocation of student fees	262,818	-	295,949	1,338,869
Plant funds for prior year capital projects	-	-	-	-
Capital improvements	(434,382)	-	(705,623)	-
Total transfers	(1,074,732)	-	(4,353,458)	786,268
Net revenue increase/(decrease) for the year	$ 1,646,451	$ 263,239	$ 241,524	$ 1,072,803
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
$ -	$ -	$ -	$ -	$ 43,601,223	$ -	$ 88,086,984
860,273	269,389	79,319	133,213	2,787,668	1,887,255	20,171,597
860,273	269,389	79,319	133,213	46,388,891	1,887,255	108,258,581
-	-	-	-	-	-	(72,047)
860,273	269,389	79,319	133,213	46,388,891	1,887,255	108,186,534
61,668	1,976,960	1,528,445	1,390,029	2,951,663	7,401,928	18,766,690
496,746	261,462	840,987	679,421	3,018,201	4,877,959	47,182,162
11,950	149,174	445,370	425,478	778,369	1,193,272	5,550,268
3,052	276,168	99,834	554,940	2,045,227	2,199,188	11,671,863
5,872	4,175	22,006	531,614	433,028	748,127	1,930,522
-	53,739	140,247	162,133	500,487	446,032	2,124,298
-	25,902	38,520	66,081	527,622	3,783,401	4,632,929
579,288	2,747,580	3,115,409	3,809,696	10,254,597	20,649,907	91,858,732
280,985	(2,478,191)	(3,036,090)	(3,676,483)	36,134,294	(18,762,652)	16,327,802
-	-	-	-	1,222,685	293,900	1,516,585
-	-	-	-	-	(293,900)	(293,900)
-	-	-	-	1,222,685	-	1,222,685
-	-	(1,456,056)	(1,358,177)	-	(237,151)	(8,450,937)
-	2,536,920	4,507,173	5,250,737	(33,025,015)	18,832,549	-
1,146,301	-	-	-	-	-	1,146,301
-	-	-	-	(9,093,989)	-	(10,233,994)
1,146,301	2,536,920	3,051,117	3,892,560	(42,119,004)	18,595,398	(17,538,630)
$ 1,427,286	$ 58,729	$ 15,027	$ 216,077	$ (4,762,025)	$ (167,254)	11,857
						18,317,093
						$ 18,328,950

Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

May 31, 2007

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
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 aggregate discretely presented component unit as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the James Madison University Foundation, Inc., a discretely presented component unit, which is discussed in Note 1. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the accounts included in the James Madison Foundation, Inc., is based on 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 were audited by other auditors 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 opinion.

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, 2006 and 2005, and the respective changes in financial position and cash flows, where applicable, thereof 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 an opinion on the basic financial statements of James Madison 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 stated in all material respects in relation to the basic financial statements taken as a whole.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion in 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 error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

REPORT DISTRIBUTION AND EXIT CONFERENCE

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

We discussed this report with management at an exit conference held on June 7, 2007.

AUDITOR OF PUBLIC ACCOUNTS

KKH/sks