JAMES MADISON UNIVERSITY

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2007

APA

Auditor of Public Accounts

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of James Madison University for the years ended June 30, 2007 and 2006, found:

- the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles;

- no internal control matters that we consider to be material weaknesses; and

- an instance of non-compliance that is required to be reported under Government Auditing Standards.

-TABLE OF CONTENTS-

COMPLIANCE FINDING AND RECOMMENDATION

Improve Employment Eligibility Verification Process

The University is not properly completing Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the US Citizenship and Immigration Services of the US Department of Homeland Security in its Handbook for Employers. The guidance requires the employee to complete, sign, and date Section 1 of the I-9 on or before the first day of employment. Additionally, the employer or designated representative must complete, sign, and date Section 2 of the I-9 within three days of employment.

Within our sample of 15 I-9 forms, auditors found one or more errors on four of the 15 forms as follows:

- The employee did not complete the I-9 form prior to begin work date, and
- The employer did not complete, sign, and date Section 2 of the I-9 within three days of the employee's begin work date.

The Human Resources Division should review the process to complete the I-9 forms, train human resources staff on the requirements of completing these forms, and develop procedures to continuously review all or a sample of forms for compliance with federal regulations. The federal government has increased its enforcement efforts requiring employers to ensure that all new employees are legally entitled to work in the United States. This increased enforcement makes it critical for the University to have a good process in place to complete I-9 forms. Furthermore, we encourage the University to continue to be cautious in the amount of documents it requests from each employee because employers requesting more than the minimum amount of documentation from employees could be subject to fines and penalties, as the US Department of Homeland Security considers it a form of harassment.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Overview

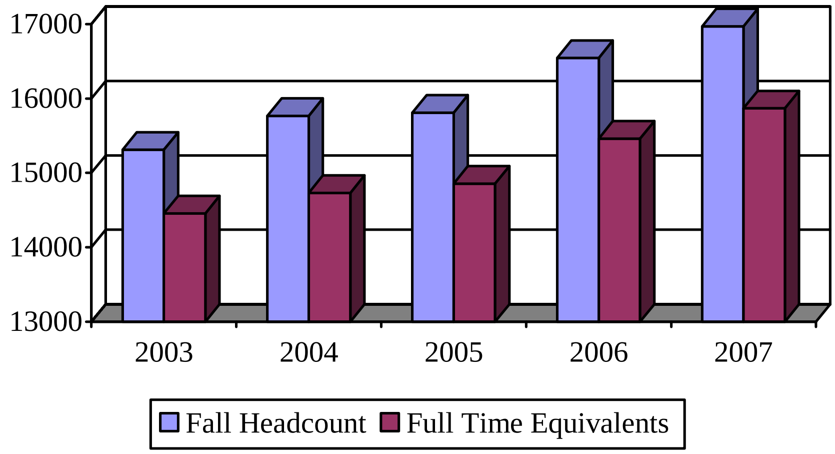
This Management's Discussion and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective, easily read analysis of James 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, 2007 and 2006. Comparative numbers, where presented, are for the fiscal years ending June 30, 2006 and 2005. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying financial statements, and notes to financial statements. 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.

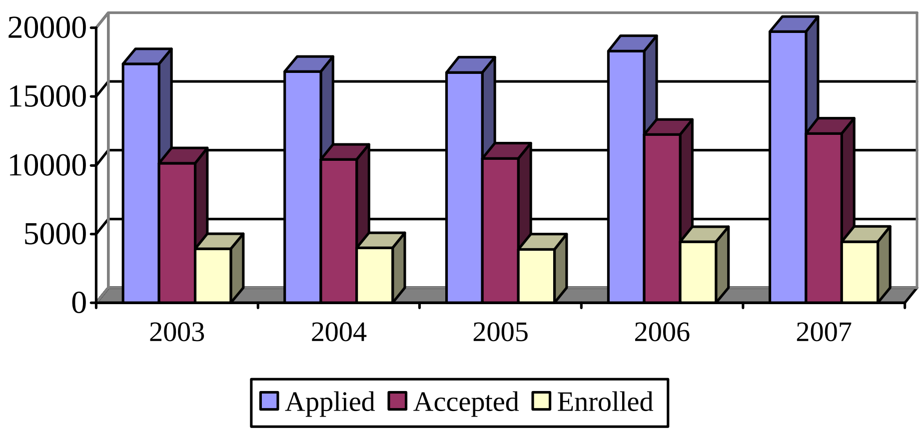
The three basic financial statements are the Statement of Net Assets (balance sheet), the Statement of Revenues, Expenses, and Changes in Net Assets (operating statement), and the Statement of Cash Flows. The following analysis discusses elements from each of these statements, as well as an overview 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 nearly 20,000 students by 2012. The beginning of this enrollment increase is reflected in the growth of the on-campus headcount from 15,800 in fall 2004 to 17,000 in fall 2006.



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.



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, 2007 and 2006. 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)

	2007	2006	2005
Assets:			
Current assets	$ 114,374	$ 85,268	$ 95,048
Capital assets, net	438,882	398,936	330,990
Other non-current assets	24,968	5,334	14,513
Total assets	578,224	489,538	440,551
Liabilities:			
Current liabilities	82,208	59,866	54,386
Non-current liabilities	95,794	93,351	72,288
Total liabilities	178,002	153,217	126,674
Net assets:			
Invested in capital assets, net of related debt	338,600	289,590	258,926
Restricted – expendable	16,136	6,928	24,555
Restricted – non-expendable	357	325	309
Unrestricted	45,129	39,478	30,087
Total net assets	$ 400,222	$336,321	$313,877

In 2007, the University's total assets increased by $88,686,000, including $39,946,000 directly related to the net increase in capital assets. Much of this increase was in construction-in-progress due to continuing work on the East Campus Library ($10,649,000) and Miller Hall renovation ($8,828,000). The increase in capital assets is further discussed in the next section of this analysis. The $29,106,000 increase in current assets includes an increase of $22,528,000 in cash and cash equivalents, including $13,656,000 representing increases in auxiliary system funds and reserves. After restatement of prior year amounts (see Note 1 O) related to the Department of Treasury's reimbursement programs, the balance reported as "Due from the Commonwealth" increased $3,837,000. That increase includes an increase of $2,917,000 primarily for unreimbursed construction expenses for General Obligation Bond funded capital projects (East Campus Library and Miller Hall renovation). Other non-current assets increased by $19,634,000, mostly due to an increase of $19,667,000 in restricted cash and cash equivalents due to growth in capital appropriations and unspent bond proceeds for capital projects. Major projects with unspent capital appropriations included in noncurrent cash and cash equivalents include the East Campus Library ($4,730,000), Miller Hall ($3,309,000), and Maintenance Reserve funds ($1,481,000). Unspent bond proceeds include $6,045,000 for the Hoffman Hall renovation project. Finally, the University set aside $6,474,000 for support of the Center for Performing Arts and Music Recital Hall capital project. Current liabilities increased $22,342,000, including an increase of $9,767,000 in accrued employee salaries, wages, and fringe benefits payable attributable to the accrual of the July 1, 2007, payroll. In the previous fiscal year, the first payroll normally paid in July was actually paid in June by the direction of an Executive Order from the Governor. Capital project accounts and retainage payable increased by $4,412,000. Fiscal year 2007 included large balances in payables and retainage for the East Campus Library, Miller Hall, and South Main Tunnel projects, all in progress at the end of 2007. Finally, obligations under securities lending increased by $2,225,000. 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.

In 2006, the University's total assets increased by $48,987,000. 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 $9,780,000 decrease in current assets includes a $7,497,000 decrease in amounts due from the Commonwealth (prior to the restatement of the previously reported 2006 balance) 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, the University 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. The retainage on each of these projects was paid 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.

Capital Asset and Debt Administration

A critical factor in ensuring quality University academic, research, and residential life functions is the development and renewal of its capital assets. The University continues to maintain and upgrade current facilities as well as pursue opportunities for additional facilities. Investment in new and upgrading current structures serves to enrich high-quality instructional programs, research activities, and residential lifestyles.

Note 5 of the Notes to Financial Statements describes the University's significant investment in capital assets with total depreciable capital asset additions of $31,368,000 and $77,553,350 (excludes land, artwork and construction-in-progress) in fiscal years 2007 and 2006. Additions in fiscal year 2007 included completion of the Warsaw Street Parking Deck ($10,978,000 in buildings and $500,000 in infrastructure), Storm/Sewer Systems infrastructure ($1,055,000), and over $6.8 million in numerous building, infrastructure, and other improvements for non-capital project renovations and improvements funded by University operating funds. Significant additions in fiscal year 2006 included completion of the Harrison Hall renovation ($11,714,000) and Financial Services Building ($6,512,000) projects. 2006 additions related to the Rockingham Memorial installment purchase totaled $35,271,000 for buildings and infrastructure, and $11,203,000 for land. The Warsaw Street Parking Deck was funded by debt proceeds and auxiliary reserve funds. The Storm/Sewer Systems project was funded by the state's 21st Century bond program. The Harrison Hall renovation was funded through the state's 21st Century bond Program, general obligation bonds, and state General Funds. The Financial Services Building was funded by auxiliary reserve funds and insurance recovery proceeds. The University only incurred debt on the Parking Deck project. Non-depreciable additions for 2007 include $4,016,000 for land (playing fields and stadium) at the Memorial Hall site. Non-depreciable additions for 2006 include $11,203,000 for land associated with the hospital purchase. In 2006, 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. Depreciation expense was $20,990,000 and $19,530,000 in 2007 and 2006, with net retirements of $1,496,000 and $560,000 resulting in a net increase of depreciable capital assets of $8,882,000 and $57,464,000 for 2007 and 2006, respectively.

Major projects still under construction at June 30, 2007, include the Center for Performing Arts and Music Recital Hall ($4,842,000), Miller Hall renovation ($10,582,000), East Campus Library ($13,540,000), and the Hoffman Hall renovation ($1,576,000). Miller Hall and the East Library are funded by state general obligation bonds and state general funds. The Performing Arts and Music Hall is primarily funded by state general obligation bonds, but also includes state general fund, gift, and auxiliary reserve funding. Hoffman Hall is funded through debt proceeds. Major projects still under construction at June 30, 2006, included the Center for Performing Arts and Music Recital Hall, Miller Hall renovation and the East Campus Library.

The University's total long-term debt increased to $106,500,000 in 2007 from $104,464,000 and $72,082,000 in fiscal years 2006 and 2005. The slight increase is the result of new debt in 2007 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, offset by debt principal payments. The increase in 2006 was solely due to the University's installment agreement with Rockingham Memorial Hospital to purchase the hospital's premises. That 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. An additional installment of $12,000,000 was made in December 2006, and another $12,000,000 was due in December 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 participated in the Commonwealth's fall 2007 bond sales, incurring debt of $10,535,000 for the purchase of Memorial Hall, $20,840,000 for construction of an East Campus dining hall, and an additional $2,280,000 for renovation of Hoffman residence hall.

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 2007 ratio was 2.8 percent, as compared to 3.2 percent for 2006 and 3.6 percent for 2005.

Overall, unpaid construction and other related contractual commitments increased from $18,166,000 in 2005 to $19,526,000 in 2006, and $36,400,000 in 2007. Unpaid commitments at June 30, 2007 primarily reflect construction on the East Campus Library and Hoffman Hall renovation projects. Unpaid commitments at June 30, 2006 primarily reflected the architectural and engineering contract for the Performing Arts Center and Music Recital Hall projects, and construction on the Warsaw Street Parking Deck project. June 30, 2005 unpaid commitments primarily reflected the contracts on the Performing Arts Center and Music Recital Hall and the Financial Services Building. Further information relating to capital assets, construction, and capital debt is included in the Notes to Financial Statements in Notes 5 and 8.

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, not the University. The University has or will receive $99.9 million in funds for construction, renovation, and infrastructure work. As planned, these bond projects have or will be used to meet the needs of the current student body, not the expanded enrollment projected through 2012. 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. Bond funding for projects currently under construction include $29.8 million for the Performing Arts Center, $20.9 million for the Music Recital Hall, $19.8 million for the East Campus Library, and $13.9 million for the Miller Hall renovation. In addition to the bond funds authorized, each of the projects under construction has been supplemented significantly with state general funds. The University is also supplementing the Performing Arts and Music Recital projects with auxiliary reserve and private gift funding.

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.

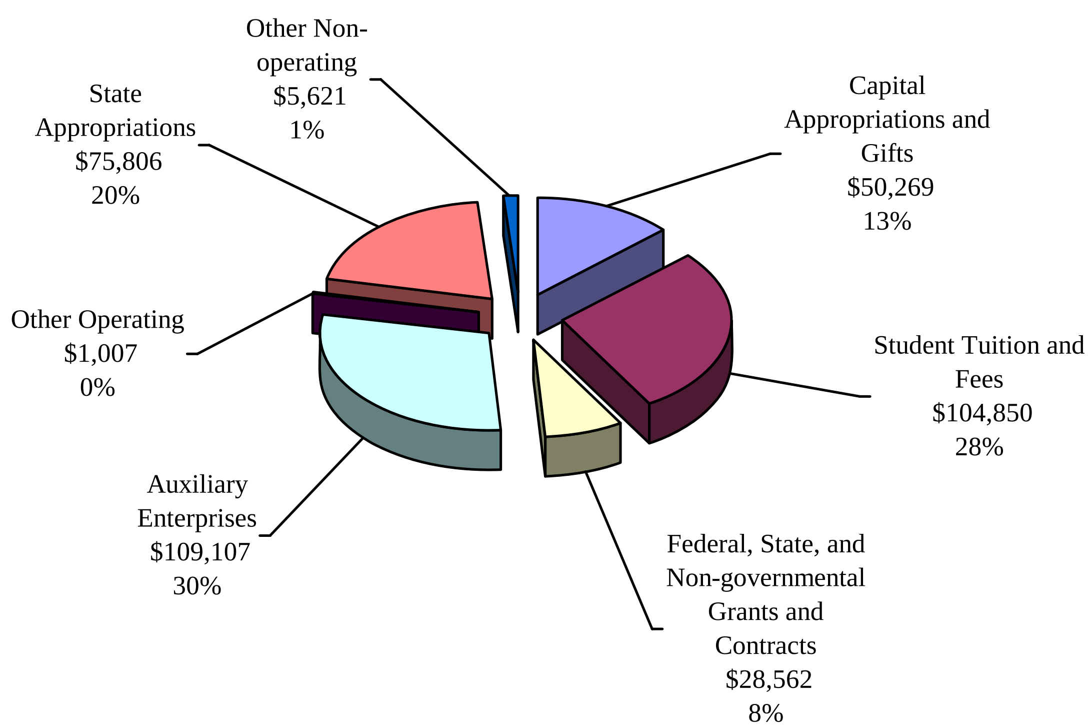
Non-operating revenues are revenues received for which goods and services are not directly provided. State appropriations and gifts are included in this category, but provide substantial support for paying the University's operating expenses. Therefore, the University, like most public institutions,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

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

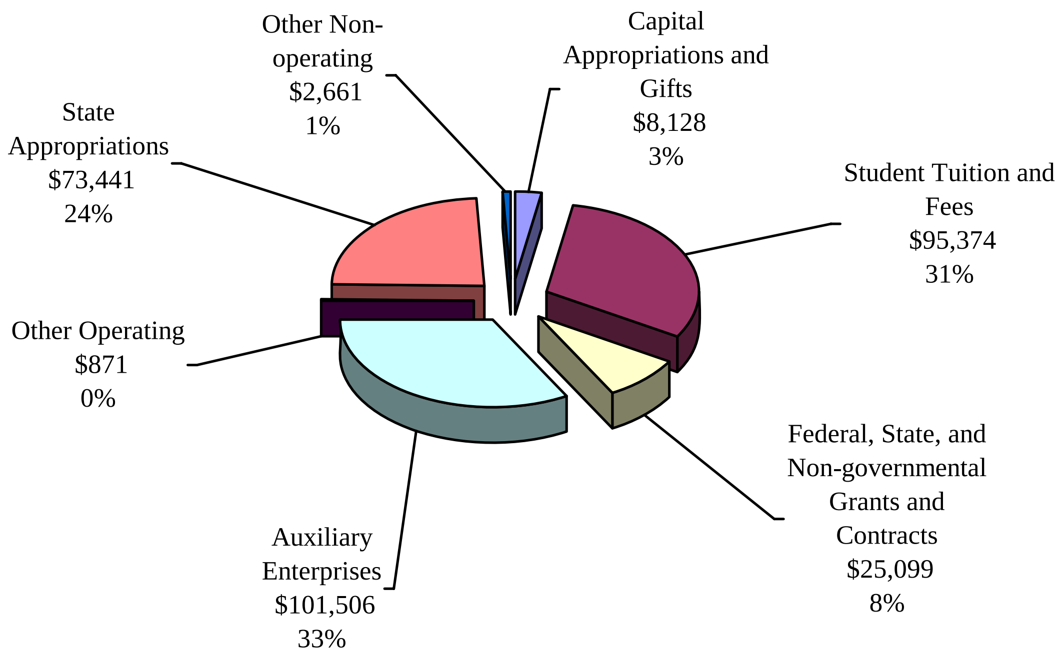
	2007	2006	2005
Operating revenues	$243,526	$222,850	$198,005
Operating expenses	306,460	279,789	253,774
Operating loss	(62,934)	(56,939)	(55,769)
Non-operating revenues and expenses	76,574	71,255	61,039
Income before other revenues, expenses, gains, or losses	13,640	14,316	5,270
Other net revenues	50,261	8,128	38,925
Increase in net assets	63,901	22,444	44,195
Net assets - beginning of year	336,321	313,877	269,682
Net assets - end of year	$400,222	$336,321	$313,877

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, 2007 and 2006. As noted above, critical recurring revenue sources such as state and capital appropriations are considered non-operating.

2007
Revenues by Source
(in thousands)



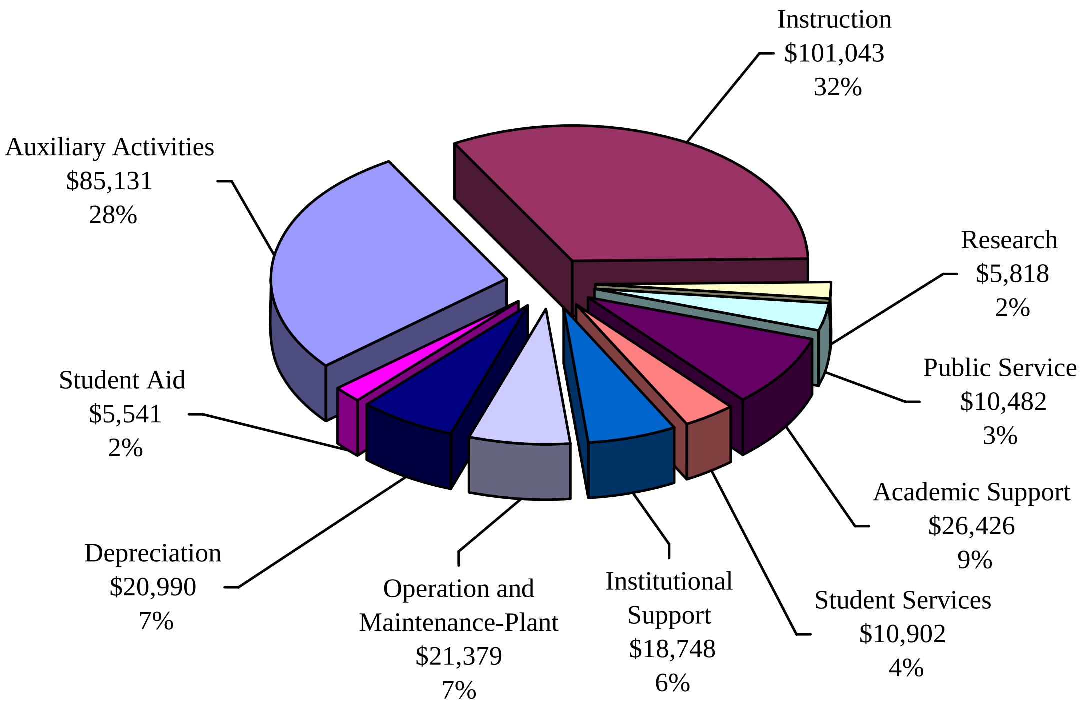
2006
Revenues by Source
(in thousands)



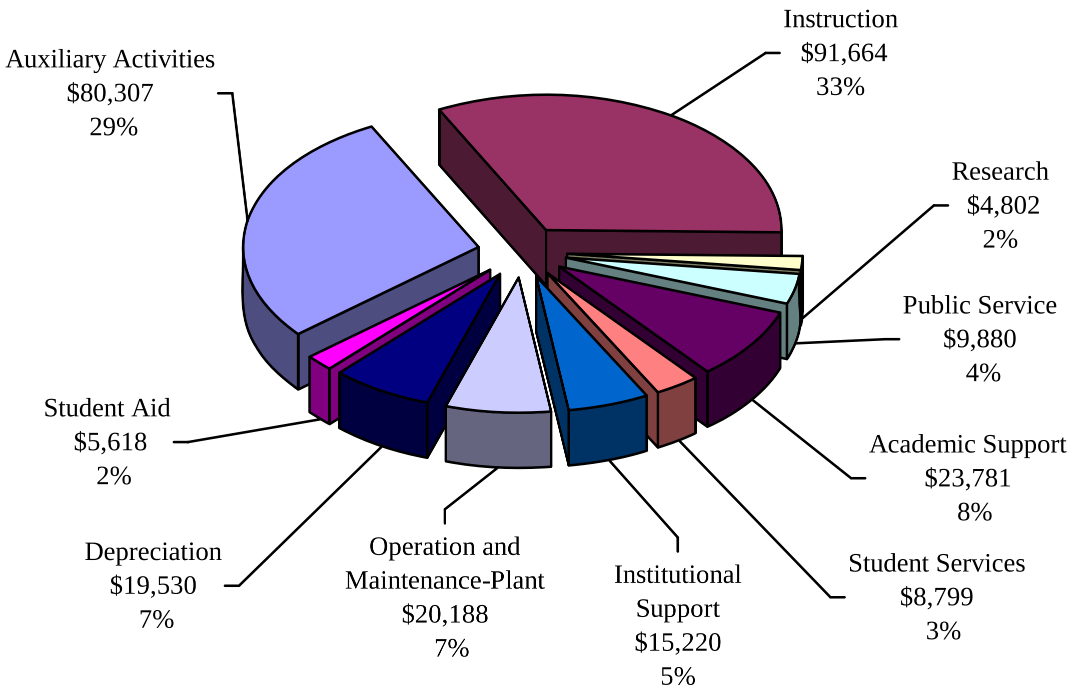
Operating revenues, consisting mostly of tuition and fees, and auxiliary enterprises, increased $20,676,000 or nine percent from the prior fiscal year, as compared to a 13 percent increase from 2005 to 2006. Student tuition and fees, net of scholarship allowances, increased by $9,476,000 in fiscal year 2007 and $13,363,000 in fiscal year 2006. The 2007 tuition increase was mostly due to an approximate seven percent rate increase. 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. Auxiliary revenues increased by $7,601,000, or seven percent, as compared to an $11,209,000, or 12 percent increase from 2005 to 2006. The 2007 increase was primarily due to an approximate six percent rate increase in room, board, and comprehensive fees. 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.

The following graphical illustration presents total operating expenses for fiscal years 2007 and 2006 by function.

2007
Operating Expenses by Function
(in thousands)



2006
Operating Expenses by Function
(in thousands)



Total 2007 operating expenses increased $26,671,000 or ten percent, as compared to an increase of $26,015,000 or ten percent, from 2005 to 2006. Compensation expenses, consisting of the natural expense classifications salaries, wages, and fringe benefits, were the largest factor, increasing $15,425,000 and $14,260,000 in 2007 and 2006, respectively. Compensation expenses comprised 56 percent of the University's total operating expenses in both 2007 and 2006. The Commonwealth provides across-the-board salary increases on a periodic basis. Faculty and staff received four and three percent increases in November 2006 and 2005, respectively. Compensation expense increased by ten percent in both 2007 and 2006. The increase in operating expenses was reflected in almost all the functional categories. Increased student tuition and fees and restored state appropriations funded new initiatives and reinvestment in the educational and general programs.

Net non-operating income increased by $5,319,000 and $10,216,000 in fiscal years 2007 and 2006. The University's total state appropriations were increased by $2,365,000 (three percent) and $9,909,000 (16 percent) in 2007 and 2006, respectively. Also, in 2007, investment income increased by $2,493,000, mostly from increases in interest on funds held by the state, including auxiliary reserve interest which increased by $1,080,000. Starting in 2007, the University was able to earn interest on educational and general cash balances, resulting in $854,000 in interest income. Other revenues and gains include capital appropriations and contributions, which increased by $44,693,000 (after 2006 restatement). This increase includes state general funding for the Rockingham Memorial Hospital installment payment and supplements to the East Campus Library and Miller Hall renovation projects. Increases also resulted from the reimbursement timing and construction progress for projects funded from the 21st Century and General Obligation programs as described above. In 2006, capital gifts included $2,747,000 for renovations and equipment for the Top Dog Cafeteria.

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)

	2007	2006	2005
Cash provided/(used) by:			
Operating activities	$ (28,368)	$ (42,447)	$(36,353)
Non-capital financing activities	77,139	74,781	61,681
Capital financing activities	(9,915)	(40,483)	(18,362)
Investing activities	3,340	2,015	1,507
Net increase/(decrease) in cash	42,196	(6,134)	8,473
Cash – beginning of the year	60,960	67,094	58,621
Cash – end of year	$103,156	$ 60,960	$ 67,094

Major sources of cash from operating activities include student tuition and fees ($105,784,000 in 2007 and $95,753,000 in 2006), auxiliary enterprises receipts ($109,446,000 in 2007 and $101,569,000 in 2006), and grants and contracts ($28,799,000 in 2007 and 25,517,000 in 2006). Major uses of cash include payments for salaries, wages, and fringe benefits ($162,874,000 in 2007 and $163,188,000 in 2006); payments for supplies and services ($78,398,000 in 2007 and $71,085,000 in 2006); and payments for non-capitalized plant improvements and equipment ($14,775,000 in 2007 and $14,071,000 in 2006).

Cash flows from non-capital financing activities include state appropriations for the University's educational and general programs and financial aid of $75,805,000 and $73,443,000 for 2007 and 2006, 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 2007 and 2006 include capital appropriations and contributions ($46,097,000 in 2007 and $14,889,000 in 2006), proceeds from issuance of capital related debt of $19,451,000 in 2007, and capital gifts ($742,000 in 2007 and $1,399,000 in 2006). Significant cash outflows include $55,068,000 in 2007 and $39,119,000 in 2006 for the purchase and construction of capital assets and $21,158,000 in 2007 and $17,693,000 in 2006 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 38 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, 2007 marked the third year since the 2002 budget reductions that the Commonwealth made significant unrestricted investments in higher education. That trend continued in the 2008 budget development, but reductions in state revenue projections reversed a portion of this unrestricted gain in operating support. The University will continue to monitor its use of state appropriations and related operating expenses.

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 19,994 students by 2012, an increase of 18 percent over fall 2006.

The University's overall financial position remains strong. As in fiscal years 2005 and 2006, the University again generated an overall increase in net assets during 2007. These increases are indicators of the University's sound and prudent uses of financial resources. Management continues to maintain a close watch over resources to ensure the ability to react to unknown internal and external issues and sustain the University's current sound financial position.

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FINANCIAL STATEMENTS

JAMES MADISON UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2007 and 2006

	2007		2006	
	James Madison University	Component Unit	James Madison University (as restated)	Component Unit
ASSETS				
Current assets:				
Cash and cash equivalents (Note 2)	$ 81,160,624	$ 903,594	$ 58,632,243	$ 1,510,551
Securities lending - Cash and cash equivalents (Note 2)	3,271,599	-	7,003,823	-
Short-term investments (Note 2)	12,888,692	-	6,931,087	-
Accounts receivable (Net of allowance for doubtful accounts of $323,797 and $319,757 for 2007 and 2006, respectively) (Note 3)	5,168,060	43,529	4,416,603	78,825
Contributions receivable (Net of allowance for doubtful contributions of $64,205 and $62,910 for 2007 and 2006, respectively) (Note 3)	-	3,146,032	-	1,967,274
Due from the Commonwealth (Note 4)	5,957,514	-	2,120,958	-
Prepaid expenses	4,633,978	23,546	4,935,432	4,324
Inventory	764,031	-	772,653	500
Notes receivable (Net of allowance for doubtful accounts of $49,012 and $53,015 for 2007 and 2006, respectively)	530,018	-	455,435	-
Total current assets	114,374,516	4,116,701	85,268,234	3,561,474
Non-current assets:				
Restricted cash and cash equivalents (Note 2)	21,994,881	-	2,327,911	-
Endowment investments (Note 2)	280,170	31,303,086	251,338	25,259,824
Other long-term investments (Note 2)	776,612	32,171,671	915,868	26,122,870
Contributions receivable (Net of allowance for doubtful contributions of $76,082 and $99,523 for 2007 and 2006, respectively) (Note 3)	-	3,728,016	-	4,876,622
Notes receivable (Net of allowance for doubtful accounts of $181,941 and $212,401 for 2007 and 2006, respectively)	1,916,402	-	1,839,268	-
Capital assets, net: (Note 5)				
Non-depreciable	76,745,984	1,572,591	45,681,781	287,293
Depreciable	362,135,615	9,462,804	353,253,825	243,411
Other assets	-	9,070	-	9,998
Total non-current assets	463,849,664	78,247,238	404,269,991	56,800,018
Total assets	578,224,180	82,363,939	489,538,225	60,361,492
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses (Note 6)	32,039,552	197,663	15,979,217	121,169
Deferred revenue	10,878,290	735,000	8,042,316	-
Obligations under securities lending	16,160,291	-	13,934,910	-
Deposits held in custody for others	3,008,992	-	2,328,034	-
Demand note payable	-	6,765,000	-	-
Long-term liabilities - current portion (Note 7)	20,057,002	143,470	19,519,308	139,272
Advance from the Treasurer of Virginia	64,000	-	62,500	-
Total current liabilities	82,208,127	7,841,133	59,866,285	260,441
Non-current liabilities (Note 7)	95,793,641	1,404,876	93,350,446	1,479,999
Total liabilities	178,001,768	9,246,009	153,216,731	1,740,440

JAMES MADISON UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2007 and 2006

	2007		2006	
	James Madison University	Component Unit	James Madison University (as restated)	Component Unit
NET ASSETS				
Invested in capital assets, Net of related debt	338,599,975	4,270,395	289,590,317	530,704
Restricted for:				
Non-expendable:				
Scholarships and fellowships	356,768	24,345,685	325,596	21,208,438
Research and public service	-	1,825,933	-	357,217
Other	-	9,327,476	-	6,886,466
Expendable:				
Scholarships and fellowships	47,924	10,212,772	40,174	1,298,329
Research and public service	2,695,347	1,099,235	1,590,930	1,076,209
Debt service	216,136	780,580	11,338	760,946
Capital projects	12,834,458	5,757,855	4,945,501	6,216,657
Loans	342,234	-	339,947	-
Other	-	9,952,782	-	13,776,329
Unrestricted	45,129,570	5,545,217	39,477,691	6,509,757
Total net assets	$ 400,222,412	$ 73,117,930	$ 336,321,494	$ 58,621,052

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

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JAMES MADISON UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the years ended June 30, 2007 and 2006

	2007		2006	
	James Madison University	Component Unit	James Madison University (as restated)	Component Unit
Operating revenues:				
Student tuition and fees (Net of scholarship allowances of $6,059,923 and $5,455,055 for 2007 and 2006, respectively)	$ 104,849,675	$ -	$ 95,374,085	$ -
Gifts and contributions	-	4,660,749	-	5,789,668
Federal grants and contracts	16,749,065	-	15,821,067	-
State grants and contracts	6,872,375	-	5,372,128	-
Non-governmental grants and contracts	4,940,994	-	3,905,622	-
Auxiliary enterprises (Net of scholarship allowances of $5,132,688 and $4,670,974 for 2007 and 2006, respectively) (Note 10)	109,106,915	-	101,505,935	-
Other operating revenues	1,007,192	495,552	871,228	136,227
Total operating revenues	243,526,216	5,156,301	222,850,065	5,925,895
Operating expenses (Note 11):				
Instruction	101,043,095	486,263	91,663,964	503,049
Research	5,818,110	9,817	4,801,752	9,120
Public service	10,482,013	48,310	9,879,601	46,003
Academic support	26,425,889	410,667	23,781,135	329,239
Student services	10,901,736	70,563	8,798,994	63,891
Institutional support	18,748,446	2,883,350	15,220,675	667,253
Operation and maintenance - plant	21,379,314	909,143	20,188,146	1,436,707
Depreciation	20,989,921	204,457	19,529,873	27,097
Student aid	5,540,929	1,686,516	5,618,439	1,414,434
Auxiliary activities (Note 10)	85,130,925	713,078	80,306,853	711,289
Total operating expenses	306,460,378	7,422,164	279,789,432	5,208,082
Operating gain/(loss)	(62,934,162)	(2,265,863)	(56,939,367)	717,813
Non-operating revenues/(expenses):				
State appropriations (Note 12)	75,806,060	-	73,440,683	-
Gifts	1,138,200	-	670,385	-
Investment income (Net of investment expense of $1,089,647 and $414,999 for the University and $389,582 and $337,197 for the Foundation for 2007 and 2006, respectively)	4,483,134	8,079,843	1,990,436	3,787,088
In-Kind support from James Madison University		2,162,752		
Interest on capital asset - related debt	(3,518,375)	(383,759)	(3,374,989)	(36,933)
Gain/(loss) on disposal of plant assets	(860,881)	-	(565,002)	-
Payment to the Commonwealth	(473,734)	-	(906,593)	-
Net non-operating revenues/(expenses)	76,574,404	9,858,836	71,254,920	3,750,155
Income before other revenues, expenses, gains or losses	13,640,242	7,592,973	14,315,553	4,467,968
Capital appropriations and contributions (Note 13)	48,950,077	-	4,257,504	-
Capital gifts	1,318,743	-	3,870,993	-
Additions/(reductions) to permanent endowments	(8,144)	6,903,905	-	4,934,338
Net other revenues	50,260,676	6,903,905	8,128,497	4,934,338
Increase in net assets	63,900,918	14,496,878	22,444,050	9,402,306
Net assets - beginning of year (Note 1 O.)	336,321,494	58,621,052	313,877,444	49,218,746
Net assets - end of year	$ 400,222,412	$ 73,117,930	$ 336,321,494	$ 58,621,052

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, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Student tuition and fees	$ 105,784,154	$ 95,753,083
Grants and contracts	28,799,081	25,516,917
Auxiliary enterprises	109,446,473	101,569,390
Other receipts	797,731	839,802
Payments to employees	(125,240,566)	(123,961,829)
Payments for fringe benefits	(37,632,999)	(39,226,344)
Payments for services and supplies	(78,398,330)	(71,084,970)
Payments for utilities	(11,452,168)	(12,473,553)
Payments for scholarships and fellowships	(5,540,929)	(5,632,521)
Payments for non-capitalized plant improvements and equipment	(14,774,921)	(14,071,225)
Loans issued to students	(775,688)	(395,187)
Collections of loans from students	619,891	719,473
Net cash used by operating activities	(28,368,271)	(42,446,964)
Cash flows from noncapital financing activities:		
State appropriations	75,805,089	73,443,072
Payment to the Commonwealth	(473,734)	(906,593)
Gifts and grants for other than capital purposes	1,138,200	670,385
Loans issued to students and employees	(5,827)	(6,782)
Collections of loans from students and employees	6,465	7,426
Agency receipts	8,500,775	7,407,981
Agency payments	(7,824,255)	(5,833,897)
Reductions to permanent endowment	(8,144)	-
Net cash provided by noncapital financing activities	77,138,569	74,781,592
Cash flows from capital financing activities:		
Capital appropriations and contributions	46,097,377	14,888,729
Proceeds from capital debt	19,450,526	-
Capital gifts	741,597	1,398,895
Proceeds from sale of capital assets	22,005	40,296
Purchase of capital assets	(55,067,734)	(39,118,911)
Principal paid on capital debt, leases, and installments	(17,581,852)	(14,317,511)
Interest paid on capital debt, leases, and installments	(3,577,123)	(3,374,989)
Net cash used by capital financing activities	(9,915,204)	(40,483,491)
Cash flows from investing activities:		
Interest on investments	594,058	347,791
Interest on cash management pools	2,746,199	1,666,892
Net cash provided by investing activities	3,340,257	2,014,683
Net increase in cash	42,195,351	(6,134,180)
Cash and cash equivalents - beginning of the year	60,960,154	67,094,334
Cash and cash equivalents - end of the year	$ 103,155,505	$ 60,960,154

JAMES MADISON UNIVERSITY
STATEMENT OF CASH FLOWS
For the years ended June 30, 2007 and 2006

	2007	2006
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (62,934,162)	$ (56,939,367)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	20,989,921	19,529,873
Changes in assets and liabilities:		
Receivables, net	(751,457)	473,679
Due from the Commonwealth	(128,606)	1,321,383
Prepaid expenses	301,454	(880,404)
Inventory	8,622	(12,245)
Notes receivable, net	(152,276)	247,089
Accounts payable and accrued expenses	10,515,981	(6,740,210)
Deferred revenue	2,835,974	468,267
Advance from the Treasurer of Virginia	1,500	2,000
Accrued compensated absences	340,961	282,075
Accrued retirement plan	589,713	(190,818)
Federal loan programs contributions refundable	14,104	(8,286)
Net cash used by operating activities	$ (28,368,271)	$ (42,446,964)
NON-CASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS:		
Gift of capital assets	$ 577,146	$ 3,167,396
Amortization of bond premium/discount and gain/loss on debt refinancing	103,273	225,589
Capitalization of interest revenue and expense, net	(162,020)	-
Change in fair value of investments recognized as a component of interest income	96,053	(24,246)
Loss on disposal of capital assets	(882,050)	(605,299)

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

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NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

In accordance with Governmental Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement 14, *The Financial Reporting Entity*, the James Madison University Foundation, Inc. meets the criteria which qualifies it as a component unit of the University. The Foundation is a legally separate, tax-exempt organization formed to promote the achievements and further the aims and purposes of the University. The Foundation accomplishes its purposes through fundraising and funds management efforts that benefit the University and its programs. The 20-member board of the Foundation is self-perpetuating and consists of friends and supporters of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is discretely presented in the financial statements.

During the years ended June 30, 2007 and 2006, the Foundation distributed $3,826,286 and $4,131,503, 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 represents revenues collected but not earned as of June 30. This consists primarily of revenue for student tuition and certain auxiliary activities accrued in advance of the semester, and advance payments on grants and contracts.

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.

N. Commonwealth Equipment and Capital Project Reimbursement Programs

The Commonwealth has established several programs to provide state-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment and facilities. During fiscal years 2007 and 2006, funding has been provided to the University from three programs; general obligation bonds 9(b), and two programs (21st Century and Equipment Trust Fund) managed by the Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the University and other institutions of higher education for expenses incurred in the acquisition of equipment and facilities.

The Statement of Net Assets line item "Due from the Commonwealth" includes pending reimbursements at year-end from these programs, as further described in Note 4. The Statement of Revenue, Expenses, and Changes in Net Assets line item "Capital appropriations and contributions" includes reimbursements during the year for the acquisition of equipment and facilities under these programs, as further described in Note 13.

O. Restatement of Prior Year Amounts

Adjustments were made to the July 1, 2006, net asset balance. The adjustments reflect a change in reporting guidelines for the Department of Treasury's reimbursement programs. Applicable programs for the University include the Virginia College Building Authority's 21st Century and Equipment Trust Fund programs and state General Obligation Bonds. The Department of Accounts prescribed both the prior and current reporting guidelines. Financial statement lines restated include "Due from the Commonwealth" and "Capital appropriations and contributions."

Net assets, June 30, 2006	$ 341,220,307
Reporting guideline changes for Treasury's reimbursement programs	(4,898,813)
Net assets, July 1, 2007	$ 336,321,494

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

GASB Statement 40, *Deposit and Investment Risk Disclosures*, amended 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 2007 and 2006. 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 $2,360,789 and $1,724,187 in 2007 and 2006, 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 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.

	2007	2006
Cash and cash equivalents:		
Cash with the Treasurer of Virginia	$ 87,153,637	$53,513,852
Cash on hand and deposits with financial institutions (including money market and certificates of deposit)	9,699,823	7,434,964
Collateral held for securities lending	3,271,599	7,003,823
Cash equivalents with the Treasurer of Virginia	6,045,552	5,755
Cash equivalents with the Bank of New York	256,493	5,583
Total	$106,427,104	$67,963,977
Investments:		
Collateral held for securities lending (short-term)	$ 12,888,692	$ 6,931,087
Investments not with the Treasurer of Virginia	1,056,782	1,167,206
Total	$ 13,945,474	$ 8,098,293

For 2007, investments not with Treasurer of Virginia include $1,056,782 in mutual funds with maturity less than one year. $251,811 of this amount carries an AAA rating from Moody's, with the remainder unrated.

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.

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, 2007 and 2006. 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:

	2007		2006	
	Fair Value	Cost	Fair Value	Cost
Cash and cash equivalents	$ 4,740,280	$ 4,740,280	$ 1,187,320	$ 1,187,320
Common stock	18,531,986	13,325,055	14,638,323	11,216,914
Mutual funds	36,070,881	24,833,288	28,661,019	21,693,262
Corporate bonds	2,835,723	2,836,892	2,115,344	2,158,266
U.S. government securities	680,079	680,079	4,444,369	4,444,369
Life insurance policies	341,244	-	336,319	-
Real estate	274,564	-	-	-
Total	$63,474,757	$46,415,594	$51,382,694	$40,700,131

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 Comprehensive Annual Financial Report.

3. ACCOUNTS AND CONTRIBUTIONS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2007 and 2006:

	2007	2006
Student tuition and fees	$ 942,176	$ 408,495
Auxiliary enterprises	698,326	784,621
Federal, state, and non-governmental grants and contracts	3,640,481	3,356,836
Other activities	210,874	186,408
Total	5,491,857	4,736,360
Less: allowance for doubtful accounts	323,797	319,757
Net accounts receivable	$5,168,060	$4,416,603

The Foundation's contributions receivable at June 30, 2007 and 2006 is summarized below:

	2007	2006
Due in less than one year	$3,210,237	$2,030,184
Due between one and five years	3,337,246	3,902,708
Due in more than five years	1,027,969	1,805,770
Total	7,575,452	7,738,662
Less: present value discount (three percent - six percent)	561,117	732,333
Less: allowance for doubtful accounts	140,287	162,433
Net contributions receivable	$6,874,048	$6,843,896

4. DUE FROM THE COMMONWEALTH

Due from the Commonwealth consisted of the following at June 30, 2007 and 2006:

	2007	2006
Treasury programs reimbursement due:		
Equipment Trust Fund	$ 2,021,357	$ 2,014,291
21st Century Bond Program	243	71,427
General Obligation Bonds	2,952,058	35,240
Interest on Educational and General funds and Small Purchase Credit Card rebate	982,885	-
Appropriations available – Financial aid programs	971	-
Total	$ 5,957,514	$ 2,120,958

5. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the years ending June 30, 2007 and 2006 is presented as follows:

	2007			
	Beginning Balance	Additions	Reductions	Ending Balance
Non-depreciable capital assets:				
Land	$ 33,033,860	$ 5,183,059	$ -	$ 38,216,919
Inexhaustible artwork and historical treasures	1,000,834	2,000	-	1,002,834
Construction-in-progress	11,647,087	51,953,060	26,073,916	37,526,231
Total non-depreciable capital assets	45,681,781	57,138,119	26,073,916	76,745,984
Depreciable capital assets:				
Buildings	415,809,654	16,884,657	2,289,239	430,405,072
Infrastructure	36,650,223	1,743,875	323,626	38,070,472
Equipment	46,293,136	6,915,306	2,150,404	51,058,038
Other improvements	17,956,819	2,632,590	19,320	20,570,089
Library materials	36,213,486	3,191,539	522,714	38,882,311
Total depreciable capital assets	552,923,318	31,367,967	5,305,303	578,985,982
Less accumulated depreciation for:				
Buildings	122,153,774	11,625,374	1,261,790	132,517,358
Infrastructure	14,547,054	1,715,755	110,360	16,152,449
Equipment	28,797,822	4,757,615	1,906,455	31,648,982
Other improvements	4,962,603	956,849	7,728	5,911,724
Library materials	29,208,240	1,934,328	522,714	30,619,854
Total accumulated depreciation	199,669,493	20,989,921	3,809,047	216,850,367
Depreciable capital assets, net	353,253,825	10,378,046	1,496,256	362,135,615
Total capital assets, net	$398,935,606	$ 67,516,165	$27,570,172	$438,881,599

	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

The Foundation's net capital assets consist of $10,934,804 and $430,113 in property and equipment, and $100,591 and $100,591 in collections of historical artifacts for the years ending June 30, 2007 and 2006, respectively.

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2007 and 2006:

	2007	2006
Employee salaries, wages, and fringe benefits payable	$22,173,660	$12,406,893
Vendors and suppliers accounts payable	4,390,628	2,509,437
Capital projects accounts and retainage payable	5,475,264	1,062,887
Total accounts payable and accrued expenses	$32,039,552	$15,979,217

7. NON-CURRENT LIABILITIES

The University's non-current liabilities consist of long-term debt (further described in Note 8), accrued supplemental retirement plan (further described in Note 9), and other non-current liabilities. A summary of changes in non-current liabilities for the years ending June 30, 2007 and 2006 is presented as follows:

	2007				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds	$ 36,160,000	$12,903,797	$ 2,870,000	$ 46,193,797	$ 3,408,720
General obligation bonds	29,827,191	6,588,906	3,068,966	33,347,131	3,089,983
Installment purchases	38,477,070	-	11,517,626	26,959,444	11,028,000
Total long-term debt	104,464,261	19,492,703	17,456,592	106,500,372	17,526,703
Accrued retirement plan	1,267,669	1,577,135	987,422	1,857,382	-
Accrued compensated absences	4,754,353	2,594,237	2,253,276	5,095,314	2,530,299
Federal loan program contributions	2,383,471	14,104	-	2,397,575	-
Total long-term liabilities	$112,869,754	$23,678,179	$20,697,290	$115,850,643	$20,057,002

	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

8. LONG-TERM DEBT

The University has issued two categories of bonds pursuant to Section 9 of Article X of the Constitution of Virginia. Section 9(d) bonds are revenue bonds, which are limited obligations of the University payable exclusively from pledged general revenues and are not debt of the Commonwealth, legally, morally, or otherwise. Pledged general 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	2007	2006
Revenue bonds:				
Dormitory, Series 2003A	2.92	2009	$ 458,700	$ 677,325
Dormitory, Series 1998A	3.50 - 4.80	2019	8,495,000	9,125,000
Dormitory, Series 2004B	5.00	2014	1,610,000	1,610,000
Parking, Series 1999A	4.50 - 6.00	2010	850,000	1,105,000
Parking, Series 2004B	3.00 – 5.00	2020	4,210,000	4,230,000
Parking, Series 2006A	3.54 – 5.00	2027	8,585,000	-
Student center, Series 1999A	4.50 - 6.00	2010	1,300,000	1,695,000
Student center, Series 2004B	3.00 – 5.00	2020	6,470,000	6,495,000
Recreation, Series 2003A	2.92	2013	7,381,300	8,487,675
Recreation, Series, 2006A	3.54 – 5.00	2027	3,960,000	-
Property acquisition, Series 2002A	3.00 - 5.00	2013	1,395,000	1,590,000
Athletics, Series 2003A	2.00 – 5.00	2014	1,405,000	1,575,000
Total revenue bonds			46,120,000	36,590,000
Bond premium			358,797	-
Deferred loss on refinancing			(285,000)	(430,000)
Revenue bonds payable			46,193,797	36,160,000
General obligation revenue bonds:				
Dormitory and dining hall:				
Series 1979	3.00	2009	365,000	545,000
Series 2002	2.50 - 5.00	2013	2,140,368	2,444,807
Series 2003A	2.50 - 5.50	2008	301,813	587,699
Series 2003A	2.50 - 5.50	2010	610,779	799,808
Series 1997	5.00	2007	-	900,000
Series 1998	5.50	2008	50,000	100,000
Series 2001	4.00	2021	1,455,000	1,685,000
Series 2004B	2.00 – 5.00	2020	15,143,820	15,143,820
Series 2002	2.50 - 5.00	2022	3,385,000	3,540,000
Series 2006B	4.0 – 5.0	2026	5,915,000	-
Student center:				
Series 1998	3.75 - 5.00	2013	3,105,925	3,545,797
Total general obligation revenue bonds			32,472,705	29,291,931
Bond premium			358,906	-
Deferred gain on refinancing			515,520	535,260
General obligation bonds payable			33,347,131	29,827,191
Total bonds payable			79,540,928	65,987,191
Installment purchases payable	Various	2008-2010	26,959,444	38,477,070
Total			$106,500,372	$104,464,261

Long-term debt as of June 30, 2007 matures as follows:

	Principal	Interest
2008	$ 17,526,703	$ 4,454,089
2009	14,043,068	4,263,790
2010	14,721,056	4,569,807
2011	6,429,654	2,667,254
2012	6,741,337	2,381,418
2013-2017	26,532,780	7,738,594
2018-2022	14,293,464	2,622,473
2023-2027	6,212,310	581,062
Total	$106,500,372	$29,278,487

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 and another made during 2007 of $12,000,000. Additional installments are due as follows: $12,000,000 in December 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 percent. The value of the $30,600,000 liability (net of imputed interest) at June 30, 2007, was $26,959,444. 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 and $12,000,000 in fiscal year 2007 for the next installment payment. Another General fund appropriation of $12,000,000 was made for fiscal year 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 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 $45,000 and $130,000 for fiscal years 2007 and 2006.

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 $100,000 and $110,000 for fiscal years 2007 and 2006.

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 $29,179 and $26,995 for fiscal years 2007 and 2006.

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 $9,439 and $12,584 for fiscal years 2007 and 2006.

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, 2007, bonds payable considered defeased in previous years have all been called and paid, resulting in no balances considered defeased.

D. 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, 2008. At both June 30, 2007 and 2006, no balance was outstanding on the line of credit. The Foundation’s long-term debt consists of $598,236 and $661,840 outstanding at June 30, 2007 and 2006, in Series 1999 Industrial Development Authority Revenue bonds, interest at 5.32 percent, and maturing through 2014. During 2007, the Foundation incurred a note payable that is due on demand. The note is secured by an assignment of rents and leases executed by the James Madison Real Estate Foundation (a subsidiary of the James Madison University Foundation, Inc.). Interest is due monthly at a rate of 5.81 percent fixed for the term of the loan. The balance of the note is $6,765,000 at June 30, 2007.

9. 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, 128 faculty members have elected to enroll in the plan. As of June 30, 2007, 39 participants remain, including 11 new participants who retired under this plan during fiscal year 2007. 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 2008-plan contribution of $902,422 in 2007. The plan payment schedule is as follows:

Year Ending June 30,	Supplemental Plan Obligations
2009	$ 619,386
2010	513,077
2011	426,492
2012	298,427
Total	$1,857,382

10. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expenses consisted of the following at June 30, 2007 and 2006. The University used auxiliary revenues to pay debt service and capital improvements of $8,875,805 and $10,881,952 in 2007 and $8,450,937 and $8,589,879 in 2006, respectively. Those amounts are not included in the auxiliary operating expenses below.

	2007	2006
Revenues:		
Room contracts, net of scholarship allowances of $1,142,438 in 2007 and $1,064,692 in 2006	$ 19,750,003	$ 18,737,507
Food service contracts, net of scholarship allowances of $1,480,975 in 2007 and $1,343,820 in 2006	25,613,692	23,340,001
Comprehensive fee, net of scholarship allowances of $2,509,275 in 2007 and $2,262,462 in 2006	43,385,777	39,833,066
Other student fees and sales and services	20,357,443	19,595,361
Total auxiliary enterprises revenues	$109,106,915	$101,505,935
Expenses:		
Residential facilities	$ 15,247,327	$ 14,721,310
Dining operations	33,188,175	31,418,662
Athletics	16,448,483	15,736,008
Other auxiliary activities	20,246,940	18,430,873
Total auxiliary activities expenses	$ 85,130,925	$ 80,306,853

11. EXPENSES BY NATURAL CLASSIFICATIONS

The following table shows a classification of expenses for the years ended June 30, 2007 and 2006 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.

	2007							
	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholarships and Fellowships	Utilities	Plant and Equipment	Depreciation	Total
Instruction	$ 69,290,765	$20,029,562	$ 8,161,902	$ -	$ 20,277	$ 3,540,589	$ -	$101,043,095
Research	3,083,056	565,518	1,946,354	-	-	223,182	-	5,818,110
Public service	5,759,473	1,371,373	3,123,027	-	-	228,140	-	10,482,013
Academic support	12,698,076	3,840,845	3,230,883	-	-	6,656,085	-	26,425,889
Student services	5,911,306	1,809,545	2,897,174	-	-	283,711	-	10,901,736
Institutional support	8,658,319	3,655,875	5,202,182	-	5,868	1,226,202	-	18,748,446
Operation and maintenance of plant	5,982,422	2,494,708	6,844,104	-	4,995,803	1,062,277	-	21,379,314
Depreciation expense	-	-	-	-	-	-	20,989,921	20,989,921
Scholarship and related expenses	-	-	-	5,540,929	-		-	5,540,929
Auxiliary activities	20,323,810	7,259,216	48,487,323	-	6,393,598	2,666,978	-	85,130,925
Total	$131,707,227	$41,026,642	$79,892,949	$5,540,929	$11,415,546	$15,887,164	$20,989,921	$306,460,378

	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	$ 2,455,324	$ -	$ 91,663,964
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	$14,764,682	$19,529,873	$279,789,432

12. 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, 2007, shall be re-appropriated for expenditure in the first month of the next year, beginning on July 1, 2007, 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. The 2007 reversion amount includes $770,000 designated for re-appropriation in 2008.

During the years ending June 30, 2007 and 2006, the following adjustments were made to the University's original appropriations:

Original legislative appropriation:	2007	2006
Educational and general programs	$72,343,681	$64,077,290
Student financial assistance	5,456,181	5,041,220
Supplemental adjustments:		
Central Fund appropriation transfers:		
Seed funding to strengthen higher education research	-	(304,500)
Faculty and staff salary increases	519,652	651,686
Health insurance premium	777,115	1,023,895
Other miscellaneous increases	88,632	205,500
Retirement plans, group life insurance rate, and retiree health care credit transfer (to)/from the Central Fund	473,305	(332,660)
Advancement of July 3, 2006 pay date to June 30, 2006	(3,080,958)	3,080,958
Reversion to the General Fund of the Commonwealth	(771,548)	(2,706)
Adjusted appropriation	$75,806,060	$73,440,683

13. CAPITAL APPROPRIATIONS AND CONTRIBUTIONS

Following are the capital appropriations and contributions recognized by the University from the Commonwealth for the years ending June 30, 2007 and 2006.

	2007	2006
Treasury reimbursement programs:		
VCBA 21st Century	$ 1,462,733	$ (1,386,182)
VCBA Equipment Trust Fund	2,021,357	2,014,291
General Obligation Bonds	21,288,339	3,269,395
Capital project general fund appropriations	24,177,648	360,000
Total capital appropriations and contributions	$48,950,077	$ 4,257,504

14. COMMITMENTS

At June 30, 2007, the University was a party to construction and other contracts totaling approximately $76,155,202 of which $39,755,455 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, 2007 and 2006, such purchases totaled $4,408,815 and $5,273,384.

The University is committed under various operating leases for equipment and space. In general, the equipment leases are for two-year term and the space leases are for three- to four-year terms with appropriate renewal options for each type of lease. In most cases, the University expects that in the normal course of business, these leases will be replaced by similar leases. Rental expense was approximately $3,355,709 and $3,034,928 for the years ended June 30, 2007 and 2006.

The University has, as of June 30, 2007, the following future minimum rental payments due under the above leases:

Year Ending June 30,	Operating Lease Obligation
2008	$ 2,580,590
2009	3,866,001
2010	3,684,204
2011	1,776,669
2012	1,493,708
2013-2017	4,456,200
2018-2022	341,082
Total	$18,198,454

15. 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 Commonwealth's *Comprehensive Annual Financial Report* (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, 2007. 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 $6,800,731 and $5,710,253 for the years ended June 30, 2007 and 2006, respectively. The retirement contribution rate was 10.74 percent and 8.91 percent for fiscal years 2007 and 2006. Contributions to VRS were calculated using the base salary amount of approximately $62,585,785 and $62,877,840 for the fiscal years ended June 30, 2007 and 2006. The University's total payroll was approximately $125,240,566 and $123,961,829 for the years ended June 30, 2007 and 2006, 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, 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 $5,039,727 and $5,062,450 for the years ended June 30, 2007 and 2006, respectively. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $48,458,913 and $48,677,404 for fiscal years 2007 and 2006.

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 $692,653 and $698,970 for the fiscal years 2007 and 2006, respectively

16. 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.

17. 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, 2007, the University estimates that no material liabilities will result from such audits or questions.

18. 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.

Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

April 4, 2008

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 financial statements of the business-type activity and aggregate discretely presented component unit of **James Madison University**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2007 and 2006, 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 for the James Madison University 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 opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position, the business –type activities, and discretely presented component unit of James Madison University as of June 30, 2007 and 2006, 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 on pages two through thirteen 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.

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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 an instance of noncompliance that is required to be reported under Government

Auditing Standards. The instance of noncompliance, entitled "Improve Employment Eligibility Verification Process" is described in the section of the report entitled "Compliance Finding and Recommendation"

The University's response to the finding identified in our audit is included in the section titled "University Response." We did not audit the University's response and, accordingly, we express no opinion on it.

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 April 23, 2008.

AUDITOR OF PUBLIC ACCOUNTS

AWP/wdh

April 23, 2008

Mr. Walter J. Kucharski
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218-1295

Dear Mr. Kucharski:

James Madison University has reviewed the internal control finding and recommendation provided by the Auditor of Public Accounts for the fiscal year ending June 30, 2007. The University agrees with your office's finding and has already taken action to address the issues. The finding is listed below followed by the University's corrective action plan.

Finding: Improve Employment Eligibility Verification Process

James Madison University Management Response:

Management concurs with the finding. In December 2007, Human Resources completed a self-study to address compliance with the Immigration Reform and Control Act (IRCA), specifically including the management of I-9 forms. As a result of the study, corrective action has already begun as outlined below.

1. Effective January 2008, Human Resources began a procedure of individually inspecting all I-9 forms immediately upon receipt.

2. Effective February 2008, Human Resources began delivering campus-wide education and training to both departmental hiring managers and staff members responsible for completing I-9 forms.

3. Effective February 2008, Human Resources implemented a new process for tracking timely completion of I-9 forms.

4. Effective March 2008, University Policy 1326 "Immigration Reform & Control Act" was revised in order to heighten the level of awareness on the part of hiring supervisors for strict compliance with the IRCA. One important change was to add a provision that hiring supervisors do not have access to use the three-day post-start grace period for submitting appropriate documents without direct senior vice-president approval. The intended effect is that hiring supervisors will be more cognizant of completing the I-9 forms within required timeframes.

5. New employees who do not submit the appropriate documentation within the federally mandated three-day timeframe are terminated automatically by Human Resources, unless the employee produces a receipt within three days proving that appropriate application has been made to obtain documents that were lost, stolen or destroyed.

Please contact me if additional information is needed. On behalf of James Madison University, please extend my appreciation to all of your staff for their professional audit work and recommendation.

Sincerely,

John F. Knight

John F. Knight
Assistant Vice President for Finance

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JAMES MADISON UNIVERSITY

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