JAMES MADISON UNIVERSITY®

AUDITED FINANCIAL REPORT

FOR THE YEAR ENDED

JUNE 30, 2008

JAMES MADISON UNIVERSITY

FINANCIAL REPORT 2007 - 2008

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Overview

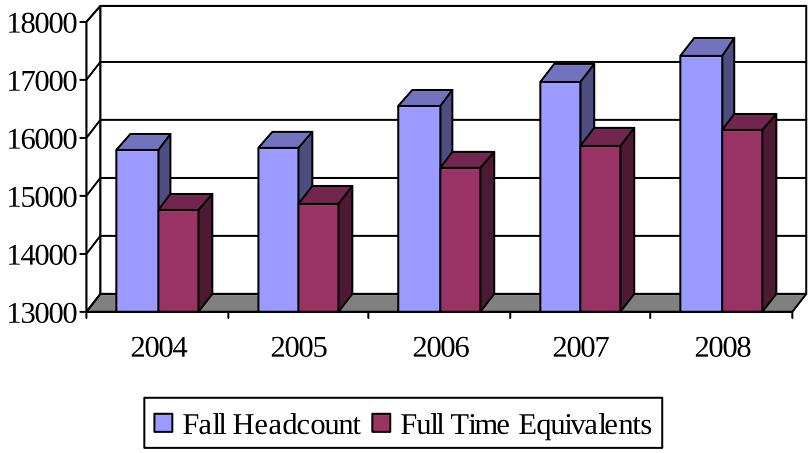
This Management's Discussion and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective, easily read analysis of James 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, 2008 and 2007. Comparative numbers, where presented, are for the fiscal years ending June 30, 2007 and 2006. 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.

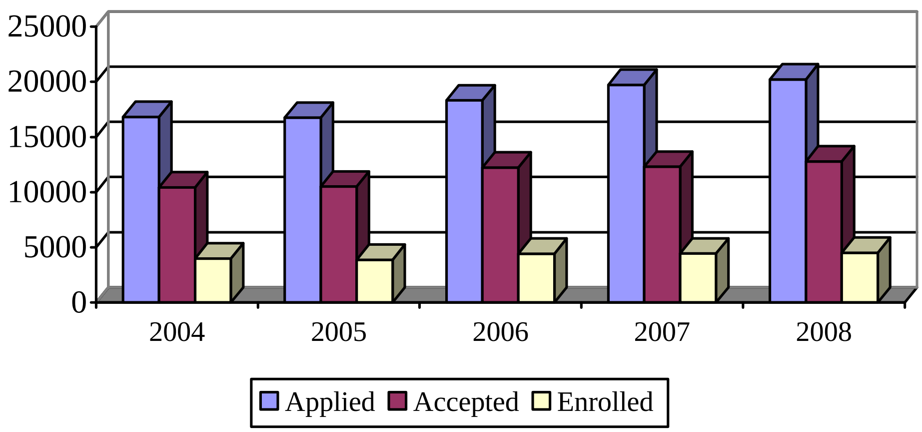
The three basic financial statements are the Statement of Net Assets (balance sheet), the Statement of Revenues, Expenses, and Changes in Net Assets (operating statement), and the Statement of Cash Flows. The following analysis discusses elements from each of these statements, as well as an overview 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 20,500 students by 2013. The beginning of this enrollment increase is reflected in the growth of the on-campus headcount from 15,800 in fall 2004 to 17,400 in fall 2007.



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, 2008 and 2007. 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)

	2008	2007	2006
Assets:			
Current assets	$ 121,765	$ 114,374	$ 85,268
Capital assets, net	502,955	438,882	398,936
Other non-current assets	43,313	24,968	5,334
Total assets	668,033	578,224	489,538
Liabilities:			
Current liabilities	89,171	82,208	59,866
Non-current liabilities	114,507	95,794	93,351
Total liabilities	203,678	178,002	153,217
Net assets:			
Invested in capital assets, net of related debt	402,361	338,600	289,590
Restricted – expendable	13,698	16,136	6,928
Restricted – non-expendable	317	357	325
Unrestricted	47,979	45,129	39,478
Total net assets	$ 464,355	$ 400,222	$336,321

In 2008, the University's total assets increased by $89,809,000, including $64,073,000 directly related to the net increase in capital assets. Significant additions included purchases of Memorial Hall ($10,799,000) and land for the Port Road recreation fields ($7,033,000) and increases in construction-in-progress, including $17,203,000 related to the Center for Performing Arts and Music Recital Hall. The increase in capital assets is further discussed in the next section of this analysis. The $7,391,000 increase in current assets includes a $4,259,000 increase in cash equivalents and short-term investments for the Commonwealth's securities lending program. The balances are allocated by the Commonwealth and are offset by a like amount reported as a liability. Changes in the balances from one year to the next have no impact on the University's net assets. Other non-current assets increased by $18,345,000, mostly due to an increase in restricted cash and cash equivalents. Unspent bond proceeds held as cash equivalents by the Treasurer of Virginia increased by $16,039,000. Most of the 2008 unspent funds relate to the East Campus Dining Facility currently under construction. Also, the University set aside another $3,526,000 for support of the Center for Performing Arts and Music Recital Hall capital projects. Current liabilities increased $6,963,000, including an increase of $4,293,000 in accounts payable and accrued expenses mostly attributable to large balances for the ongoing East Campus Dining Facility and Center for Performing Arts projects. Other increases relate to obligations under the securities lending program as noted above.

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 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 GOB 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 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.

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 $62,630,000 and $31,368,000 (excludes land, artwork and construction-in-progress) in fiscal years 2008 and 2007. Additions in fiscal year 2008 included completion of the East Campus Library ($25,937,000) and Miller Hall renovations ($13,137,000), and $9,327,000 for the building component of the Memorial Hall purchase. Significant 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. The Miller Hall and the East Library projects were funded by state general obligation bonds and state general funds. The Memorial Hall purchase was funded by debt proceeds. 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 University only incurred debt on the Memorial Hall and Parking Deck projects. Non-depreciable additions for 2008 include $1,472,000 for the land component of the Memorial Hall purchase and a $7,033,000 land purchase for the Port Road recreation fields. Non-depreciable additions for 2007 include $4,016,000 for land (playing fields and stadium) at the Memorial Hall site. Depreciation expense was $20,376,000 and $20,990,000 in 2008 and 2007, with net retirements of $139,000 and $1,496,000 resulting in a net increase of depreciable capital assets of $42,114,000 and $8,882,000 for 2008 and 2007, respectively.

Major projects still under construction at June 30, 2008 include the Center for Performing Arts and Music Recital Hall ($22,920,000), Hoffman Hall renovation ($9,600,000), and the East Campus Residence Hall ($6,157,000) and Dining Facility ($2,993,000) projects. 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. The East Campus Dining Facility and Hoffman Hall are funded through debt proceeds. The East Campus Residence Hall is funded by debt proceeds and auxiliary reserve funds. Major projects still under construction at June 30, 2007, included the Center for Performing Arts and Music Recital Hall, Miller Hall renovation, East Campus Library, and the Hoffman Hall renovation.

The University's total long-term debt increased to $122,386,000 in 2008 from $106,500,000 and $104,464,000 in fiscal years 2007 and 2006. The increase is the result of new debt in 2008 of $10,535,000 for the Memorial Hall purchase, $20,840,000 for construction of the East Campus Dining Hall, and another $2,280,000 for the Hoffman Hall renovation, offset by debt principal payments. The slight 2007 increase resulted from new debt of $8,585,000 for construction of the Warsaw Street parking deck, $6,230,000 for renovation of Hoffman residence hall, and $3,960,000 for purchase of the City of Harrisonburg's Memorial Stadium and recreational fields, offset by debt principal payments. The University plans to participate in the Commonwealth's fall 2008 bond sales, incurring debt of $20,188,000 for construction of another East Campus Residence Hall, $7,000,000 for construction of the Baseball/Softball Complex, and $8,000,000 for construction of the Multipurpose Recreation Fields.

During 2006, the University's Board of Visitors approved new "Debt Management Guidelines and Procedures." These guidelines established that the maximum annual debt service costs as a percentage of total operating revenues shall not exceed ten percent for non-revenue producing capital projects. The University's 2008 ratio was 3.4 percent, as compared to 2.8 percent for 2007 and 3.2 percent for 2006.

Overall, unpaid construction and other related contractual commitments increased from $19,526,000 in 2006 to $36,400,000 in 2007, and $117,263,000 in 2008. Unpaid commitments at June 30, 2008 primarily reflect construction on the East Campus Residence and Dining Halls and Performing Arts Center and Music Recital Hall projects. Unpaid commitments at June 30, 2007 primarily reflected construction on the East Campus Library and Hoffman Hall renovation projects. June 30, 2006 unpaid commitments 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. 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 completed in 2008 included $19.8 million for the East Campus Library, and $13.9 million for the Miller Hall renovation. Those projects also received significant state general funding. Remaining bond funding for projects currently under construction include $29.8 million for the Performing Arts Center and $20.9 million for the Music Recital Hall. In addition to the bond funds authorized, the state is providing general funding and the University is supplementing the 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.

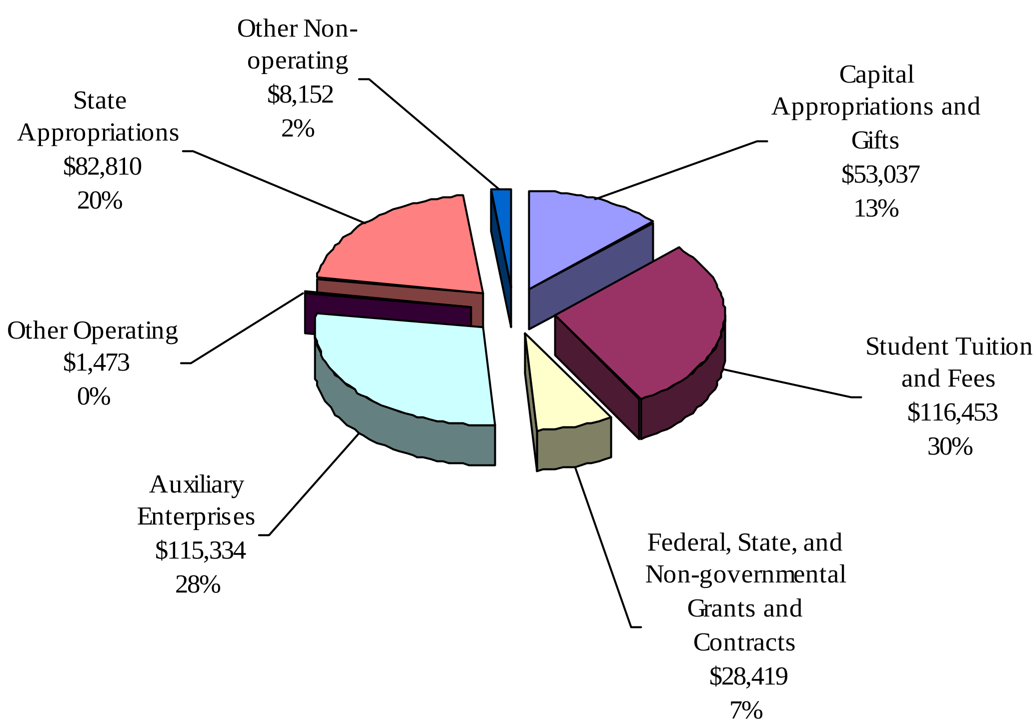
Non-operating revenues are revenues received for which goods and services are not directly provided. State appropriations and gifts are included in this category, but provide substantial support for paying the University's operating expenses. Therefore, the University, like most public institutions,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

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

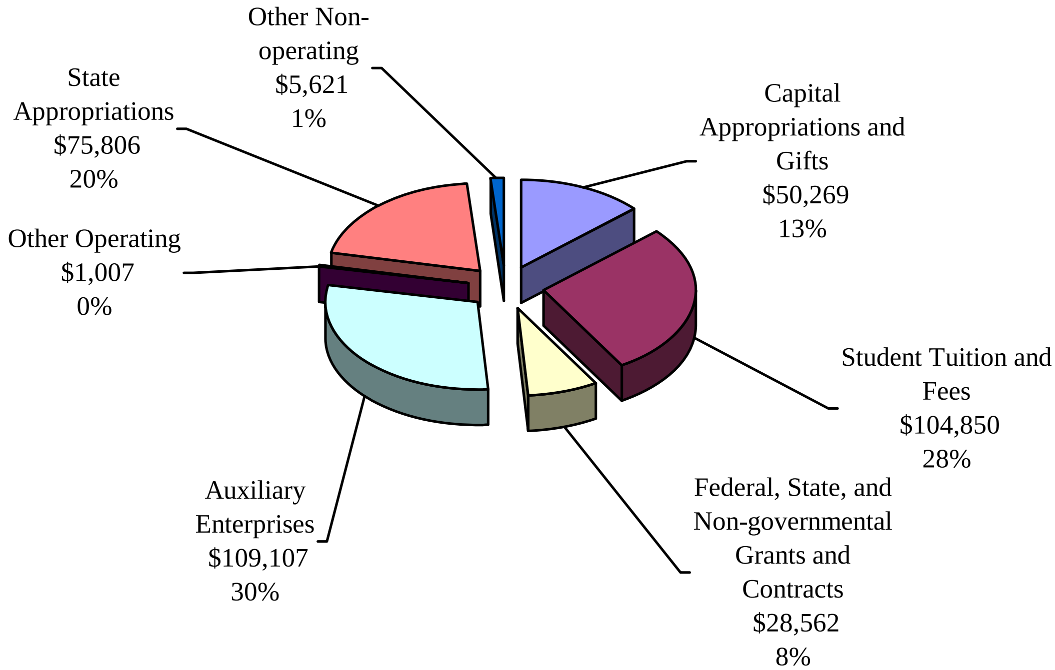
	2008	2007	2006
Operating revenues	$257,316	$239,935	$222,850
Operating expenses	336,666	306,460	279,789
Operating loss	(79,350)	(66,525)	(56,939)
Non-operating revenues and expenses	90,446	80,165	71,255
Income before other revenues, expenses, gains, or losses	11,096	13,640	14,316
Other net revenues	53,037	50,261	8,128
Increase in net assets	64,133	63,901	22,444
Net assets - beginning of year	400,222	336,321	313,877
Net assets - end of year	$464,355	$400,222	$336,321

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, 2008 and 2007. As noted above, critical recurring revenue sources such as state and capital appropriations are considered non-operating.

2008
Revenues by Source
(in thousands)



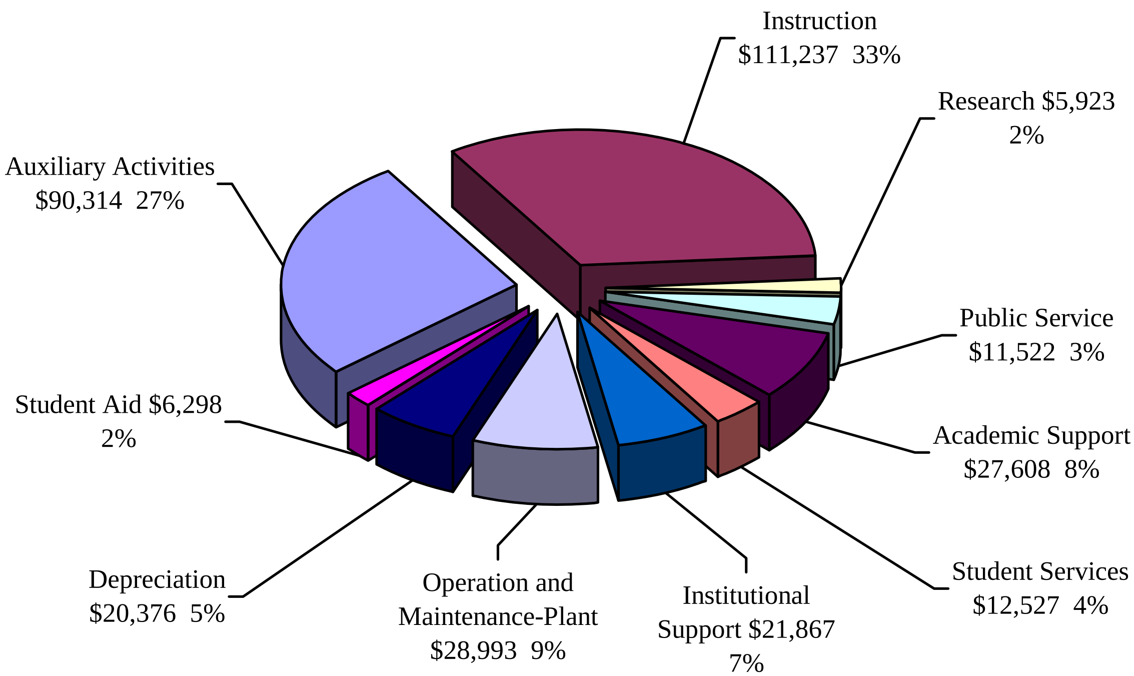
2007
Revenues by Source
(in thousands)



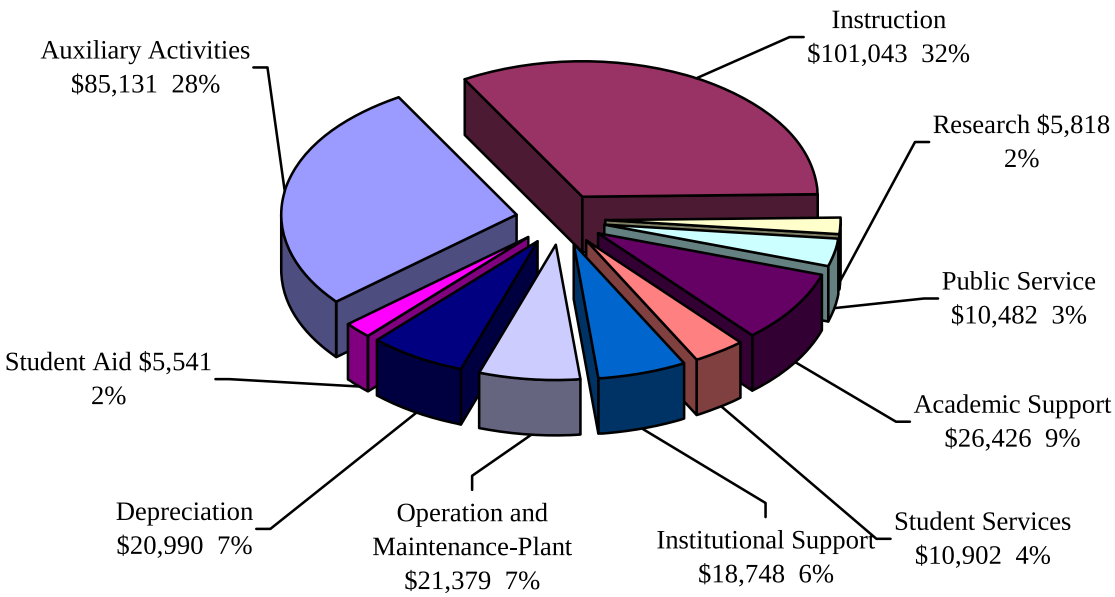
Operating revenues, consisting mostly of tuition and fees, and auxiliary enterprises, increased $17,381,000 or seven percent from the prior fiscal year, as compared to an eight percent increase from 2006 to 2007. Student tuition and fees, net of scholarship allowances, increased by $11,603,000 in fiscal year 2008 and $9,476,000 in fiscal year 2007. The 2008 tuition increase was due to a combination of average rate increases of six percent and an approximate three percent increase in undergraduate headcount. The 2007 tuition increase was mostly due to an approximate seven percent rate increase. Auxiliary revenues increased by $6,227,000, or six percent, as compared to a $7,601,000, or seven percent increase from 2006 to 2007. Increases reflect an approximate six percent rate increase in room, board, and comprehensive fees in each year.

The following graphical illustration presents total operating expenses for fiscal years 2008 and 2007 by function.

2008
Operating Expenses by Function
(in thousands)



2007
<u>Operating Expenses by Function</u>
(in thousands)



Total 2008 operating expenses increased $30,206,000 or ten percent, as compared to an increase of $26,671,000 or ten percent, from 2006 to 2007. Compensation expenses, consisting of the natural expense classifications salaries, wages, and fringe benefits, were the largest factor, increasing $17,729,000 and $15,425,000 in 2008 and 2007, respectively. Compensation expenses comprised 57 and 56 percent of the University's total operating expenses in 2008 and 2007, respectively. The Commonwealth provides across-the-board salary increases on a periodic basis. Faculty and staff received four percent increases in November 2007 and 2006, respectively. Compensation expense increased by ten percent in both 2008 and 2007. The increase in operating expenses was reflected in almost all the functional categories. Increased student tuition and fees and restored state appropriations continued to fund new initiatives and reinvestment in the educational and general programs.

Net non-operating income increased by $10,281,000 and $5,319,000 in fiscal years 2008 and 2007. The University's total state appropriations were increased by $7,004,000 (nine percent) and $2,365,000 (three percent) in 2008 and 2007, respectively. Investment income increased by $2,144,000 and $2,493,000 in 2008 and 2007, mostly from increases in interest on auxiliary reserve funds held by the state. Starting in 2007, the University was able to earn interest on educational and general cash balances, resulting in $1,492,000 and $854,000 in interest income for 2008 and 2007. Other revenues and gains include capital appropriations and contributions, which increased by $3,510,000 in 2008 after increasing $44,693,000 in 2007 (after 2006 restatement for Treasury reimbursement programs). Both years include state general funding for the Rockingham Memorial Hospital installment payment and supplements to the East Campus Library. 2008 also included $15,000,000 in new state general funds for the Center for Performing Arts and Music Recital Hall construction and $2,825,000 from the central capital project planning fund. The new state general funds were offset by decreased reimbursements for construction progress on projects funded from the General Obligation programs as described above.

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)

	2008	2007	2006
Cash provided/(used) by:			
Operating activities	$ (56,733)	$ (31,959)	$ (42,447)
Non-capital financing activities	88,002	80,730	74,781
Capital financing activities	(18,128)	(19,435)	(40,483)
Investing activities	6,118	3,340	2,015
Net increase/(decrease) in cash	19,259	32,676	(6,134)
Cash – beginning of the year	93,636	60,960	67,094
Cash – end of year	$112,895	$ 93,636	$ 60,960

Major sources of cash from operating activities include student tuition and fees ($116,117,000 in 2008 and $105,784,000 in 2007), auxiliary enterprises receipts ($115,562,000 in 2008 and $109,446,000 in 2007), and grants and contracts ($24,127,000 in 2008 and $25,209,000 in 2007). Major uses of cash include payments for salaries, wages, and fringe benefits ($188,415,000 in 2008 and $162,874,000 in 2007); payments for supplies and services ($87,550,000 in 2008 and $78,398,000 in 2007); and payments for non-capitalized plant improvements and equipment ($18,741,000 in 2008 and $14,775,000 in 2007).

Cash flows from non-capital financing activities include state appropriations for the University's educational and general programs and financial aid of $82,809,000 and $75,805,000 for 2008 and 2007, 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 2008 and 2007 include capital appropriations and contributions ($51,735,000 in 2008 and $36,578,000 in 2007), proceeds from issuance of capital related debt of $34,523,000 in 2008 and $19,451,000 in 2007.

Significant cash outflows include $80,793,000 in 2008 and $55,068,000 in 2007 for the purchase and construction of capital assets and $23,651,000 in 2008 and $21,158,000 in 2007 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 37 percent of operating expenses, excluding auxiliary activities and depreciation. In October 2007, the Commonwealth reduced state general fund support for higher education. During the 2008 legislative session, re-investments in higher education were continued and higher education was sheltered from a second round of reductions in the Spring. The Commonwealth also maintained the University's Board of Visitors' authority to establish tuition and fees rates. University management anticipates there will be significant budget reductions in 2009 as state general fund collections continue to slow and lag behind projections. Uncertainty in the economy's financial sector may also impact the cost and availability of debt financing. 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. In September 2008, the University's Board of Visitors approved management's request to move to level two autonomy under the Higher Education Restructuring Act in the areas of Procurement and Information Technology. The University is currently working with the appropriate state agencies to obtain this delegated restructuring authority.

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 20,505 students by fall 2012, an increase of 18 percent over fall 2007.

The University's overall financial position remains strong. As in fiscal years 2006 and 2007, the University again generated an overall increase in net assets during 2008. These increases are indicators of the University's sound and prudent uses of financial resources. Management continues to maintain a close watch over resources and the U.S. economy as a whole to react to unknown internal and external issues and sustain the University's current sound financial position.

FINANCIAL STATEMENTS

JAMES MADISON UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2008 and 2007

	2008		2007*	
	James Madison University	Component Unit	James Madison University	Component Unit
ASSETS				
Current assets:				
Cash and cash equivalents (Note 1 O., 2)	$ 80,934,146	$ 1,564,770	$ 80,341,528	$ 903,594
Securities lending - Cash and cash equivalents (Note 2)	4,283,467	-	3,271,599	-
Short-term investments (Note 2)	16,135,861	-	12,888,692	-
Accounts receivable (Net of allowance for doubtful accounts of $340,931 and $323,797 for 2008 and 2007, respectively) (Note 3)	5,199,574	45,074	5,168,060	43,529
Contributions receivable (Net of allowance for doubtful contributions of $40,321 and $64,205 for 2008 and 2007, respectively) (Note 3)	-	1,975,712	-	3,146,032
Due from the Commonwealth (Note 1 O., 4)	8,675,904	-	6,776,610	-
Prepaid expenses	5,293,919	30,300	4,633,978	23,546
Inventory	717,916	-	764,031	-
Notes receivable (Net of allowance for doubtful accounts of $46,208 and $49,012 for 2008 and 2007, respectively)	524,295	-	530,018	-
Total current assets	121,765,082	3,615,856	114,374,516	4,116,701
Non-current assets:				
Restricted cash and cash equivalents (Note 1 O., 2)	31,960,868	-	13,294,222	-
Endowment investments (Note 2)	236,948	35,549,782	280,170	31,303,086
Other long-term investments (Note 2)	660,616	29,995,637	776,612	32,171,671
Contributions receivable (Net of allowance for doubtful contributions of $166,792 and $76,082 for 2008 and 2007, respectively) (Note 3)	-	8,172,842	-	3,728,016
Due from the Commonwealth (Note 1 O., 4)	8,312,935		8,700,659	-
Notes receivable (Net of allowance for doubtful accounts of $190,109 and $181,941 for 2008 and 2007, respectively)	2,141,705	-	1,916,402	-
Capital assets, net: (Note 5)				
Non-depreciable	98,704,624	312,391	76,745,984	1,572,591
Depreciable	404,250,035	403,805	362,135,615	9,462,804
Other assets	-	8,141	-	9,070
Total non-current assets	546,267,731	74,442,598	463,849,664	78,247,238
Total assets	668,032,813	78,058,454	578,224,180	82,363,939
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses (Note 6)	36,332,271	177,756	32,039,552	197,663
Deferred revenue	10,902,526	-	10,878,290	735,000
Obligations under securities lending	20,419,328	-	16,160,291	-
Deposits held in custody for others	3,375,865	-	3,008,992	-
Demand note payable	-	-	-	6,765,000
Long-term liabilities - current portion (Note 7)	18,078,562	437,588	20,057,002	143,470
Advance from the Treasurer of Virginia	62,500	-	64,000	-
Total current liabilities	89,171,052	615,344	82,208,127	7,841,133
Non-current liabilities (Note 7)	114,506,770	1,077,779	95,793,641	1,404,876
Total liabilities	203,677,822	1,693,123	178,001,768	9,246,009

JAMES MADISON UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2008 and 2007

	2008		2007*	
	James Madison University	Component Unit	James Madison University	Component Unit
NET ASSETS				
Invested in capital assets, Net of related debt	402,361,323	716,196	338,599,975	4,270,395
Restricted for:				
Non-expendable:				
Scholarships and fellowships	317,261	26,421,501	356,768	24,345,685
Research and public service	-	1,952,393	-	1,825,933
Other	-	10,527,213	-	9,327,476
Expendable:				
Scholarships and fellowships	50,743	5,262,695	47,924	10,212,772
Research and public service	2,167,651	879,157	2,695,347	1,099,235
Debt service	9,404	596,104	216,136	780,580
Capital projects	11,125,011	9,218,916	12,834,458	5,757,855
Loans	344,591	-	342,234	-
Other	-	13,148,602	-	9,952,782
Unrestricted	47,979,007	7,642,554	45,129,570	5,545,217
Total net assets	$ 464,354,991	$ 76,365,331	$ 400,222,412	$ 73,117,930

The accompanying Notes to Financial Statements are an integral part of this statement.
* Certain prior year amounts were restated to agree with current year classifications

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JAMES MADISON UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the years ended June 30, 2008 and 2007

	2008		2007*	
	James Madison University	Component Unit	James Madison University	Component Unit
Operating revenues:				
Student tuition and fees (Net of scholarship allowances of $7,148,487 and $6,059,923 for 2008 and 2007, respectively)	$ 116,453,199	$ -	$ 104,849,675	$ -
Gifts and contributions	-	12,143,084	-	4,660,749
Federal grants and contracts	12,588,258	-	13,158,561	-
State grants and contracts	6,848,436	-	6,872,375	-
Non-governmental grants and contracts	4,618,784	-	4,940,994	-
Auxiliary enterprises (Net of scholarship allowances of $5,731,404 and $5,132,688 for 2008 and 2007, respectively) (Note 10)	115,334,434	-	109,106,915	-
Other operating revenues	1,472,934	965,912	1,007,192	495,552
Total operating revenues	257,316,045	13,108,996	239,935,712	5,156,301
Operating expenses (Note 11):				
Instruction	111,236,644	817,037	101,043,095	486,263
Research	5,922,628	14,437	5,818,110	9,817
Public service	11,522,193	88,546	10,482,013	48,310
Academic support	27,607,524	358,820	26,425,889	410,667
Student services	12,527,005	64,339	10,901,736	70,563
Institutional support	21,867,048	3,240,225	18,748,446	2,883,350
Operation and maintenance - plant	28,993,421	55,437	21,379,314	909,143
Depreciation	20,376,369	118,996	20,989,921	204,457
Student aid	6,298,269	1,767,595	5,540,929	1,686,516
Auxiliary activities (Note 10)	90,314,477	828,403	85,130,925	713,078
Total operating expenses	336,665,578	7,353,835	306,460,378	7,422,164
Operating gain/(loss)	(79,349,533)	5,755,161	(66,524,666)	(2,265,863)
Non-operating revenues/(expenses):				
State appropriations (Note 12)	82,810,149	-	75,806,060	-
Grants and contracts (Note 1 L.)	4,363,043	-	3,590,504	-
Gifts	1,524,711	-	1,138,200	-
Investment income (Net of investment expense of $907,568 and $1,089,647 for the University and $433,601 and $389,582 for the Foundation for 2008 and 2007, respectively)	6,627,327	(7,647,864)	4,483,134	8,079,843
In-Kind support from James Madison University	-	2,265,037	-	2,162,752
Interest on capital asset - related debt	(4,092,175)	(212,546)	(3,518,375)	(383,759)
Gain/(loss) on disposal of plant assets	(75,662)	-	(860,881)	-
Payment to the Commonwealth	(711,906)	-	(473,734)	-
Net non-operating revenues/(expenses)	90,445,487	(5,595,373)	80,164,908	9,858,836
Income before other revenues, expenses, gains or losses	11,095,954	159,788	13,640,242	7,592,973
Capital appropriations and contributions (Note 13)	52,459,804	-	48,950,077	-
Capital gifts	576,821	-	1,318,743	-
Additions/(reductions) to permanent endowments	-	3,087,613	(8,144)	6,903,905
Net other revenues	53,036,625	3,087,613	50,260,676	6,903,905
Increase in net assets	64,132,579	3,247,401	63,900,918	14,496,878
Net assets - beginning of year	400,222,412	73,117,930	336,321,494	58,621,052
Net assets - end of year	$ 464,354,991	$ 76,365,331	$ 400,222,412	$ 73,117,930

The accompanying Notes to Financial Statements are an integral part of this statement.
* Certain prior year amounts were restated to agree with current year classifications.

JAMES MADISON UNIVERSITY
STATEMENT OF CASH FLOWS
For the years ended June 30, 2008 and 2007

	2008	2007*
Cash flows from operating activities:		
Student tuition and fees	$ 116,116,954	$ 105,784,154
Grants and contracts (Note 1 L.)	24,127,243	25,208,577
Auxiliary enterprises	115,561,542	109,446,473
Other receipts	1,376,820	797,731
Payments to employees	(142,666,639)	(125,240,566)
Payments for fringe benefits	(45,748,857)	(37,632,999)
Payments for services and supplies	(87,550,038)	(78,398,330)
Payments for utilities	(12,727,770)	(11,452,168)
Payments for scholarships and fellowships	(6,298,269)	(5,540,929)
Payments for non-capitalized plant improvements and equipment	(18,741,433)	(14,774,921)
Loans issued to students	(590,709)	(775,688)
Collections of loans from students	408,572	619,891
Net cash used by operating activities	(56,732,584)	(31,958,775)
Cash flows from noncapital financing activities:		
State appropriations	82,808,646	75,805,089
Nonoperating grants and contracts (Note 1 L.)	4,363,043	3,590,504
Payment to the Commonwealth	(711,906)	(473,734)
Gifts and grants for other than capital purposes	1,524,711	1,138,200
Loans issued to students and employees	(2,100)	(5,827)
Collections of loans from students and employees	2,100	6,465
Agency receipts	14,599,177	8,500,775
Agency payments	(14,582,073)	(7,824,255)
Reductions to permannent endowment	-	(8,144)
Net cash provided by noncapital financing activities	88,001,598	80,729,073
Cash flows from capital financing activities:		
Capital appropriations and contributions (Note 1 O.)	51,735,150	36,577,622
Proceeds from capital debt	34,523,071	19,450,526
Capital gifts	-	741,597
Proceeds from sale of capital assets	58,260	22,005
Purchase of capital assets	(80,793,325)	(55,067,734)
Principal paid on capital debt, leases, and installments	(18,723,060)	(17,581,852)
Interest paid on capital debt, leases, and installments	(4,927,954)	(3,577,123)
Net cash used by capital financing activities	(18,127,858)	(19,434,959)
Cash flows from investing activities:		
Interest on investments	1,425,637	594,058
Interest on cash management pools	4,692,471	2,746,199
Net cash provided by investing activities	6,118,108	3,340,257
Net increase in cash	19,259,264	32,675,596
Cash and cash equivalents - beginning of the year, restated	93,635,750	60,960,154
Cash and cash equivalents - end of the year (Note 1 O.)	$ 112,895,014	$ 93,635,750

JAMES MADISON UNIVERSITY
STATEMENT OF CASH FLOWS
For the years ended June 30, 2008 and 2007

	2008	2007*
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (79,349,533)	$ (66,524,666)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	20,376,369	20,989,921
Changes in assets and liabilities:		
Receivables, net	(31,514)	(751,457)
Due from the Commonwealth	(147,265)	(128,606)
Prepaid expenses	(659,941)	301,454
Inventory	46,115	8,622
Notes receivable, net	(220,406)	(152,276)
Accounts payable and accrued expenses	2,408,586	10,515,981
Deferred revenue	24,237	2,835,974
Advance from the Treasurer of Virginia	(1,500)	1,500
Accrued compensated absences	82,794	340,961
Accrued retirement plan	723,044	589,713
Federal loan programs contributions refundable	16,430	14,104
Net cash used by operating activities	$ (56,732,584)	$ (31,958,775)
NON-CASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS:		
Gift of capital assets	$ 576,821	$ 577,146
Amortization of bond premium/discount and gain/loss on debt refinancing	$ (9,224)	$ 103,273
Capitalization of interest revenue and expense, net	$ (846,012)	$ (162,020)
Change in fair value of investments recognized as a component of interest income	$ (167,890)	$ 96,053
Loss on disposal of capital assets	$ (133,922)	$ (882,887)

The accompanying Notes to Financial Statements are an integral part of this statement.
*Certain prior year amounts were restated to agree with current year classifications.

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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 qualify 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, 2008 and 2007, the Foundation distributed $3,218,625 and $3,826,286, 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 consisting of land, buildings, infrastructure and equipment are stated at cost at date of acquisition, or fair marked value at date of donation for gifts. Library materials are valued using published average prices for library acquisitions. The University capitalizes construction costs that have a value or cost in excess of $200,000 at the date of acquisition. Renovation costs are capitalized when expenses total more than $200,000, the asset value significantly increases, or the useful life is significantly extended. Routine repairs and maintenance are charged to operating expense.

Equipment is capitalized when the unit acquisition cost is $5,000 or greater and the estimated useful life is more than two years. Expenses related to construction are capitalized at actual cost as they incurred (construction-in-progress). Construction period interest cost in excess of earning associated with related debt proceeds is capitalized as a component of the final asset.

Collections of works or art and historical treasures are capitalized at cost or fair market value at the date of donation. These collections are considered inexhaustible and therefore are not depreciated.

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

Buildings	50 years
Other improvements and infrastructure	20 years
Equipment	5-20 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. For 2008, federal Pell grant receipts are reported as non-operating because the University's administrative involvement with Pell grant requirements have the characteristics of a non-exchange transaction. A new line item, "nonoperating grants and contracts" is presented on the Statement of Revenues, Expenses, and Changes in Net Assets. 2007 "federal grants and contracts" operating revenue was revised to reflect this change.

Non-operating expenses include interest on debt related to the purchase of capital assets, losses on the disposal of capital assets, and nongeneral fund transfer payments to the Commonwealth. All other expenses are classified as operating expenses.

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 year 2008 and 2007, 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

Reclassifications were made to previously reported 2007 balances to reflect a change in reporting guidelines from the state Department of Accounts. In the past, higher education institutions reported state general fund appropriation available amounts on a cash line item. However, the Department of Accounts reports these balances on an appropriation available line item in the Commonwealth’s *Comprehensive Annual Financial Report* (CAFR). Higher education institutions are now required to report these balances on an “appropriation available/due from” line item. The University now reports these balances in the line items “Due from the Commonwealth” as further described in Note 4.

These reclassifications result in changes to the Statement of Net Assets and Statement of Cash Flows as noted below:

Financial Statement line	2007 Balance Previously Reported	Adjustment	2007 Balance Revised
Statement of Net Assets			
Current Assets:			
Cash and cash equivalents	$81,160,624	$(819,096)	$80,341,528
Due from the Commonwealth	5,957,514	819,096	6,776,610
Non-current assets:			
Restricted cash and cash equivalents	21,994,881	(8,700,659)	13,294,222
Due from the Commonwealth	-	8,700,659	8,700,659
Statement of Cash Flows			
Cash flows from capital financing activities:			
Capital appropriations and contributions	46,097,377	(9,519,755)	36,577,622
Total cash and cash equivalents – end of year	$103,155,505	$(9,519,755)	$93,635,750

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

GASB Statement 40, *Deposit and Investment Risk Disclosures*, became effective for the fiscal year ending June 30, 2005. It amends GASB Statement 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.* GASB Statement 40 eliminates the custodial credit risk disclosures for Category 1 and 2 deposits and investments. However, this statement does not change the disclosure requirements for Category 3 deposits and investments. The University has no Category 3 deposits or investments for 2008 and 2007. 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 $2,627,018 and $2,360,789 in 2008 and 2007, respectively.

A. Cash and Cash Equivalents

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

B. Investments

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

	2008	2007
Cash and cash equivalents:		
Cash with the Treasurer of Virginia	$ 80,591,087	$ 77,633,882
Cash on hand and deposits with financial institutions (including money market and certificates of deposit)	10,216,836	9,699,823
Collateral held for securities lending	4,283,467	3,271,599
Cash equivalents with the Treasurer of Virginia	22,084,962	6,045,552
Cash equivalents with the Bank of New York	2,129	256,493
Total	$117,178,481	$ 96,907,349
Investments:		
Collateral held for securities lending (short-term)	$ 16,135,861	$ 12,888,692
Investments not with the Treasurer of Virginia	897,564	1,056,782
Total	$ 17,033,425	$ 13,945,474

For 2008, investments not with Treasurer of Virginia include $897,564 in mutual funds with maturity less than one year. $219,487 of this amount carries an Aaa rating from Moody's, with the remainder unrated.

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.

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, 2008 and 2007. 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:

	2008		2007	
	Fair Value	Cost	Fair Value	Cost
Cash and cash equivalents	$ 4,896,460	$ 4,896,460	$ 4,740,280	$ 4,740,280
Common stock	16,834,270	17,301,273	18,531,986	13,325,055
Mutual funds	34,976,371	28,237,888	36,070,881	24,833,288
Corporate bonds	3,149,455	3,384,884	2,835,723	2,836,892
U.S. government securities	2,761,313	2,761,313	680,079	680,079
Life insurance policies	349,184	-	341,244	-
Real Estate	2,578,366	5,348	274,564	-
Total	$65,545,419	$56,587,166	$63,474,757	$46,415,594

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. The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains and losses are realized, the actual gains and losses are recorded by the affected agencies. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide basis in the Commonwealth of Virginia's CAFR.

3. ACCOUNTS AND CONTRIBUTIONS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2008 and 2007:

	2008	2007
Student tuition and fees	$ 1,054,893	$ 942,176
Auxiliary enterprises	708,895	698,326
Federal, state, and non-governmental grants and contracts	3,495,928	3,640,481
Other activities	280,789	210,874
Total	5,540,505	5,491,857
Less: allowance for doubtful accounts	340,931	323,797
Net accounts receivable	$5,199,574	$5,168,060

The Foundation's contributions receivable at June 30, 2008 and 2007 is summarized below:

	2008	2007
Due in less than one year	$ 2,016,033	$3,210,237
Due between one and five years	8,315,522	3,337,246
Due in more than five years	934,971	1,027,969
Total	11,266,526	7,575,452
Less: present value discount (three percent - six percent)	910,859	561,117
Less: allowance for doubtful accounts	207,113	140,287
Net contributions receivable	$10,148,554	$6,874,048

4. DUE FROM THE COMMONWEALTH

Due from the Commonwealth consisted of the following at June 30, 2008 and 2007:

	2008	2007
Treasury programs reimbursement due:		
Equipment Trust Fund	$ 2,008,602	$ 2,021,357
21st Century	1,090	243
General Obligation Bonds	2,761,145	2,952,058
Interest on Educational and General funds and Small Purchase Credit Card and EVa rebates	1,768,298	982,885
Appropriations available – Capital projects	10,447,230	9,519,755
Appropriations available – Financial aid programs	2,474	971
Total	$16,988,839	$15,477,269

5. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the years ending June 30, 2008 and 2007 is presented as follows:

	2008			
	Beginning Balance	Additions	Reductions	Ending Balance
Non-depreciable capital assets:				
Land	$ 38,216,919	$ 9,139,907	$ -	$ 47,356,826
Inexhaustible artwork and historical treasures	1,002,834	603,618	-	1,606,452
Construction-in-progress	37,526,231	58,932,991	46,717,876	49,741,346
Total non-depreciable capital assets	76,745,984	68,676,516	46,717,876	98,704,624

	2008			
	Beginning Balance	Additions	Reductions	Ending Balance
Buildings	430,405,072	52,977,235	820,410	482,561,897
Infrastructure	38,070,472	1,118,704		39,189,176
Equipment	51,058,038	4,637,306	2,803,205	52,892,139
Other improvements	20,570,089	305,333		20,875,422
Library materials	38,882,311	3,591,334	669,046	41,804,599
Total depreciable capital assets	578,985,982	62,629,912	4,292,661	637,323,233
Less accumulated depreciation for:				
Buildings	132,517,358	11,203,622	749,515	142,971,465
Infrastructure	16,152,449	1,709,891		17,862,340
Equipment	31,648,982	3,942,739	2,734,977	32,856,744
Other improvements	5,911,724	917,318		6,829,042
Library materials	30,619,854	2,602,799	669,046	32,553,607
Total accumulated depreciation	216,850,367	20,376,369	4,153,538	233,073,198
Depreciable capital assets, net	362,135,615	42,253,543	139,123	404,250,035
Total capital assets, net	$438,881,599	$110,930,059	$46,856,999	$502,954,659

	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

	2007			
	Beginning Balance	Additions	Reductions	Ending Balance
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

The Foundation's net capital assets consist of $615,605 and $10,934,804 in property and equipment, and $100,591 and $100,591 in collections of historical artifacts for the years ending June 30, 2008 and 2007, respectively.

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2008 and 2007:

	2008	2007
Employee salaries, wages, and fringe benefits payable	$23,464,668	$22,173,660
Vendors and suppliers accounts payable	5,508,206	4,390,628
Capital projects accounts and retainage payable	7,359,397	5,475,264
Total accounts payable and accrued expenses	$36,332,271	$32,039,552

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, 2008 and 2007 is presented as follows:

	2008				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds	$ 46,193,797	$15,420,000	$ 7,839,372	$ 53,774,425	$ 3,927,425
General obligation bonds	33,347,131	23,120,000	3,786,699	52,680,432	3,661,230
Installment purchases	26,959,444	-	11,028,000	15,931,444	7,553,667
Total long-term debt	106,500,372	38,540,000	22,654,071	122,386,301	15,142,322
Accrued retirement plan	1,857,382	1,820,973	1,071,437	2,606,918	26,492
Accrued compensated absences	5,095,314	2,757,877	2,675,083	5,178,108	2,909,748
Federal loan program contributions	2,397,575	16,430	-	2,414,005	-
Total long-term liabilities	$115,850,643	$43,135,280	$26,400,591	$132,585,332	$18,078,562

	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

8. LONG-TERM DEBT

The University has issued two categories of bonds pursuant to Section 9 of Article X of the Constitution of Virginia. Section 9(d) bonds are revenue bonds, which are limited obligations of the University payable exclusively from pledged general revenues and are not debt of the Commonwealth, legally, morally, or otherwise. Pledged General Fund revenues include General Fund appropriations, tuition and fees, auxiliary enterprise revenues, and other revenues not required by law to be used for another purpose. The University issued 9(d) bonds directly through underwriters and participates in the Public Higher Education Financing Program (Pooled Bond

Program) created by the Virginia General Assembly in 1996. Through the Pooled Bond Program, the Virginia College Building Authority (VCBA) issues 9(d) bonds and uses the proceeds to purchase debt obligations (notes) of the University and various other institutions of higher education. The University's general revenue also secures these notes.

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

Description	Interest Rates (%)	Maturity	2008	2007
Revenue bonds:				
Dormitory, Series 2003A	2.92	2009	$ 232,650	$ 458,700
Dormitory, Series 1998A	4.0 - 4.80	2012	2,910,000	8,495,000
Dormitory, Series 2004B	5.00	2014	1,610,000	1,610,000
Dormitory, Series 2007B	4.0 – 5.0	2019	4,885,000	-
Parking, Series 1999A	4.50 - 6.00	2010	580,000	850,000
Parking, Series 2004B	3.00 – 5.00	2020	4,190,000	4,210,000
Parking, Series 2006A	3.54 – 5.00	2027	8,325,000	8,585,000
Student center, Series 1999A	4.50 - 6.00	2010	890,000	1,300,000
Student center, Series 2004B	3.00 – 5.00	2020	6,445,000	6,470,000
Recreation, Series 2003A	2.92	2013	6,237,350	7,381,300
Recreation, Series, 2006A	3.54 – 5.00	2027	3,840,000	3,960,000
Property acquisition, Series 2002A	3.00 - 5.00	2013	1,190,000	1,395,000
Athletics, Series 2003A	2.00 – 5.00	2014	1,230,000	1,405,000
Property acquisition, Series 2007A	4.5 – 5.0	2028	10,535,000	-
Total revenue bonds			53,100,000	46,120,000
Bond premium			928,155	358,797
Deferred loss on refinancing			(253,730)	(285,000)
Revenue bonds payable			53,774,425	46,193,797
General obligation revenue bonds:				
Dormitory and dining hall:				
Series 1979C	3.00	2009	185,000	365,000
Series 2002R	2.50 - 5.00	2013	1,823,155	2,140,368
Series 2003A	2.50 - 5.50	2008	-	301,813
Series 2003R	2.50 - 5.50	2010	415,040	610,779
Series 1998A	5.50	2008	-	50,000
Series 2001A	4.00	2021	1,215,000	1,455,000
Series 2004B	2.00 – 5.00	2020	14,235,458	15,143,820
Series 2002A	2.50 - 5.00	2022	3,225,000	3,385,000
Series 2006B	4.0 – 5.0	2026	5,720,000	5,915,000
Series 2007B	4.0 – 5.0	2027	2,165,000	-
Series 2007B	4.0 – 5.0	2027	19,775,000	-

Description	Interest Rates (%)	Maturity	2008	2007
General obligation revenue bonds:				
Student center:				
Series 1998R	3.75 - 5.00	2013	2,643,867	3,105,925
Total general obligation revenue bonds			51,402,520	32,472,705
Bond premium			823,216	358,906
Deferred gain on refinancing			454,696	515,520
General obligation bonds payable			52,680,432	33,347,131
Total bonds payable			106,454,857	79,540,928
Installment purchases payable	4.0	2010	15,931,444	26,959,444
Total			$122,386,301	$106,500,372

Long-term debt as of June 30, 2008 matures as follows:

	Principal	Interest
2009	$ 15,142,322	$ 5,752,629
2010	15,870,309	6,005,671
2011	7,638,907	4,047,617
2012	8,005,590	3,703,407
2013	8,421,262	3,337,247
2014-2018	30,999,730	11,786,679
2019-2023	21,204,730	5,527,814
2024-2028	15,103,451	1,506,013
Total	$122,386,301	$41,667,077

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. $12,000,000 installments were made in both 2007 and 2008. Additional installments due include $8,600,000 in December 2008 and conclude 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 $18,600,000 liability (net of imputed interest) at June 30, 2008, was $15,931,444. 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. <u>Deferral on Debt Defeasance</u>

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

The November 2004 9(c) issue was considered an advance refunding and resulted in the recognition of a deferred accounting gain of $157,952 in fiscal year 2005. Amortization of the accounting gain resulting from the defeasance was $36,638 and $0 for fiscal years 2008 and 2007.

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 $45,000 for fiscal years 2008 and 2007.

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 $75,000 and $100,000 for fiscal years 2008 and 2007.

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 $31,399 and $29,179 for fiscal years 2008 and 2007.

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 $7,213 and $9,439 for fiscal years 2008 and 2007.

In October 2007, Virginia College Building Authority, on behalf of the University, issued $4,885,000 of Section 9(d) Educational Facilities Revenue Refunding Bonds, Series 2007B, with interest rates of 4.0 percent – 5.0 percent. The bonds, issued at a premium of $142,499, were used to refund $4,930,000 of outstanding Revenue Bonds, Series 1998A, with an interest rate of 5 percent. The net proceeds were deposited into an irrevocable trust with an escrow agent to pay interest, redemption premium and maturity value of the refunded bonds on their call date. The advance refunding resulted in the recognition of a deferred accounting loss of $97,499 in fiscal year 2008, which is being amortized to interest expense over the life of the new debt. Though advance refunding resulted in the recognition of an accounting loss, the University in effect reduced its aggregate debt service obligation by $304,662 over the next 11 years and obtained an economic gain (equal to the difference between the present values of the old and new debt service payments) of $249,187.

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, 2008, 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 LIBOR plus one percent. The line of credit expires on January 30, 2009. At both June 30, 2008 and 2007, no balance was outstanding on the line of credit. The Foundation's long-term debt consists of $531,544 and $598,236 outstanding at June 30, 2008 and 2007, 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 was due on demand. The Foundation repaid the note in 2008. The note was 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 was due monthly at a rate of 5.81 percent fixed for the term of the loan. The balance of the note was $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, 142 faculty members have elected to enroll in the plan. As of June 30, 2008, 39 participants remain, including 14 new participants who retired under this plan during fiscal year 2008. 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 $951,437 of the fiscal year 2009-plan contribution in 2008. The plan payment schedule is as follows:

Year Ending June 30,	Supplemental Plan Obligations
2009	$ 26,492
2010	871,620
2011	785,035
2012	656,970
2013	266,801
Total	$2,606,918

10. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expenses consisted of the following at June 30, 2008 and 2007. The University used auxiliary revenues and cash reserves to pay debt service and capitalized improvements of $11,210,121 and $18,738,468 in 2008 and $8,875,805 and $11,457,304 in 2007, respectively. Those amounts are not included in the auxiliary operating expenses below.

	2008	2007
Revenues:		
Room contracts, net of scholarship allowances of $1,268,765 in 2008 and $1,142,438 in 2007	$ 20,904,667	$ 19,750,003
Food service contracts, net of scholarship allowances of $1,602,300 in 2008 and $1,480,975 in 2007	26,538,919	25,613,692
Comprehensive fee, net of scholarship allowances of $2,860,339 in 2008 and $2,509,275 in 2007	47,375,816	43,385,777
Other student fees and sales and services	20,515,032	20,357,443
Total auxiliary enterprises revenues	$115,334,434	$109,106,915
Expenses:		
Residential facilities	$ 16,649,800	$ 15,247,327
Dining operations	34,379,540	33,188,175
Athletics	17,738,084	16,448,483
Other auxiliary activities	21,547,053	20,246,940
Total auxiliary activities expenses	$ 90,314,477	$ 85,130,925

11. EXPENSES BY NATURAL CLASSIFICATIONS

The following table shows a classification of expenses for the years ended June 30, 2008 and 2007 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.

	2008							
	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholarships and Fellowships	Utilities	Plant and Equipment	Depreciation	Total
Instruction	$ 74,657,531	$22,921,368	$ 10,871,283	$ -	$ 27,842	$ 2,758,620	$ -	$111,236,644
Research	3,381,106	590,897	1,722,189	-	-	228,436	-	5,922,628
Public service	6,493,646	1,563,441	3,201,383	-	-	263,723	-	11,522,193
Academic support	13,496,559	4,315,223	3,511,585	-	-	6,284,157	-	27,607,524
Student services	6,685,646	2,160,471	3,417,663	-	-	263,225	-	12,527,005
Institutional support	10,299,152	4,343,209	6,106,609	-	10,404	1,107,674	-	21,867,048
Operation and maintenance of plant	7,472,745	3,328,787	6,568,222	-	5,999,592	5,624,075	-	28,993,421
Depreciation expense	-	-	-	-	-	-	20,376,369	20,376,369
Scholarship and related expenses	-	-	-	6,298,269	-		-	6,298,269
Auxiliary activities	20,944,080	7,809,467	50,693,763	-	7,096,425	3,770,742	-	90,314,477
Total	$143,430,465	$47,032,863	$86,092,697	$6,298,269	$13,134,263	$20,300,652	$20,376,369	$336,665,578

	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

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

During the years ending June 30, 2008 and 2007, the following adjustments were made to the University's original appropriations:

Original legislative appropriation:	2008	2007
Educational and general programs	$76,504,635	$72,343,681
Student financial assistance	6,086,935	5,456,181
Supplemental adjustments:		
Central Fund appropriation transfers:		
Budget reductions	(4,781,540)	-
2007 reversion carryforward	771,548	-
Tuition incentive fund	784,186	-
Faculty and staff salary increases	1,495,803	519,652
Health insurance premium	1,165,126	777,115
Other miscellaneous increases	160,793	88,632
Retirement plans, group life insurance rate, and retiree health care credit transfer (to)/from the Central Fund	585,528	473,305
Advancement of July 3, 2006 pay date to June 30, 2006	-	(3,080,958)
Other	41,859	-
Reversion to the General Fund of the Commonwealth	(4,724)	(771,548)
Adjusted appropriation	$82,810,149	$75,806,060

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, 2008 and 2007.

	2008	2007
Treasury reimbursement programs:		
VCBA 21st Century	$ 68,229	$ 1,462,733
VCBA Equipment Trust Fund	2,008,602	2,021,357
General Obligation Bonds	13,068,478	21,288,339
Capital project general fund appropriations	37,314,495	24,177,648
Total capital appropriations and contributions	$52,459,804	$48,950,077

14. COMMITMENTS

At June 30, 2008, the University was a party to construction and other contracts totaling approximately $177,768,367 of which $60,505,272 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, 2008 and 2007, such purchases totaled $4,980,456 and $4,408,815.

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 $2,613,882 and $3,355,709 for the years ended June 30, 2008 and 2007.

The University has, as of June 30, 2008, the following future minimum rental payments due under the above leases:

Year Ending June 30,	Operating Lease Obligation
2009	$ 1,987,464
2010	2,637,620
2011	2,127,290
2012	1,705,001
2013	1,236,292
2014-2018	3,622,494
2019-2023	198,374
Total	$13,514,535

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, 2008. 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 $7,762,434 and $6,800,731 for the years ended June 30, 2008 and 2007, respectively. The retirement contribution rate was 11.15 percent and 10.74 percent for fiscal years 2008 and 2007. Contributions to VRS were calculated using the base salary amount of approximately $68,754,244 and $62,585,785 for the fiscal years ended June 30, 2008 and 2007. The University's total payroll was approximately $142,666,639 and $125,240,566 for the years ended June 30, 2008 and 2007, respectively.

b. Optional Retirement Plans

Full-time faculty and certain administrative staff participate in a defined contribution plan administered by two different providers other than the VRS. Effective July 1, 2004, the previous five providers were reduced to TIAA/CREF Insurance Companies and Fidelity Investments Tax-Exempt Services. This plan is a fixed-contribution program where the retirement benefits received are based upon the employer's (5.4 percent) and employee's (5.0 percent) contributions, plus interest and dividends.

Individual contracts issued under the plan provide for full and immediate vesting of both the University's and the employee's contributions. Total pension costs under this plan were approximately $5,824,084 and $5,039,727 for the years ended June 30, 2008 and 2007, respectively. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $56,000,809 and $48,458,913 for fiscal years 2008 and 2007.

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 $759,395 and $692,653 for the fiscal years 2008 and 2007, 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, 2008, 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.

19. SUBSEQUENT EVENTS

Subsequent to June 30, 2008, financial and credit markets experienced some of the greatest turbulence in their history, resulting in significant reductions in equity values and available credit. The James Madison University Foundation's investments (included in the component unit columns on the *Statement of Net Assets*) have experienced declines during this period of market volatility. The market value of the Foundation's investments was $65,545,419 at June 30, 2008. The estimated value of these investments, net of unrealized losses and other changes was $51,105,441 (a 22% decrease) on January 31, 2009.

Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

March 31, 2009

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable M. Kirkland Cox
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 activities 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, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of James Madison University Foundation, Inc., a discretely presented component unit, which is discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for James Madison University Foundation, Inc., is based on the reports 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 James Madison University Foundation, Inc., that were audited by other auditors upon whose reports we are relying, were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards. An audit 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 reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and discretely presented component unit of James Madison University as of June 30, 2008 and 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with Government Auditing Standards, we have also issued our report dated March 31, 2009 on our consideration of James Madison University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

AUDITOR OF PUBLIC ACCOUNTS