

**JAMES MADISON UNIVERSITY
HARRISONBURG, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2000**



AUDIT SUMMARY

Our audit of James Madison University for the year ended June 30, 2000, found:

- the financial statements are presented fairly, in all material respects;
- an internal control matter that we consider to be a reportable condition; however, we do not consider this matter to be a material weakness;
- no material instances of noncompliance required to be reported under Government Auditing Standards; and,
- corrective action has begun with respect to the previous year audit finding titled “Reconcile Student Information System” which is again included in the section entitled Internal Control Finding and Recommendation.

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UNIVERSITY OFFICIALS

March 16, 2001

The Honorable James S. Gilmore, III
Governor of Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission

The Board of Visitors
James Madison University

We have audited the accounts and records of **James Madison University** (the University) as of and for the year ended June 30, 2000, and submit herewith our complete reports on financial statements and compliance and internal controls over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the balance sheet of the University as of June 30, 2000, and the related statements of changes in fund balances and current fund revenues, expenditures, and other changes for the year then ended. The financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2000, and the changes in fund balances and current fund revenues, expenditures, and other changes for the year then ended, in conformity with generally accepted accounting principles.

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

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

In planning and performing our audit of the financial statements of the University as of and for the year ended June 30, 2000, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards. We also determined the status of audit findings contained in our prior year report.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition, entitled "Reconcile Student Information System in a Timely Manner" is described in the section titled Internal Control Finding and Recommendation.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

Status of Prior Findings

The University has not completed corrective action with respect to the previously reported findings “Reconcile Student Information System.” Accordingly, we included this finding in the section entitled Internal Control Finding and Recommendation.

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

EXIT CONFERENCE

We discussed this report with management at an exit conference held on June 25, 2001.

AUDITOR OF PUBLIC ACCOUNTS

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INTERNAL CONTROL FINDING AND RECOMMENDATION

Reconcile Student Information System in a Timely Manner

The University has implemented PeopleSoft's Student Information System (SIS) module and has begun reconciling the Student Financial subsidiary ledger and the general ledger. Although the University is performing a reconciliation of the two systems, we found that they are not doing so consistently.

We recommend the University develop a written policy stating the frequency at which reconciliations should be performed. This policy should also establish a threshold amount for investigating unreconcilable differences.

JAMES MADISON UNIVERSITY
BALANCE SHEET
As of June 30, 2000

	Current Funds		Loan	Endowment and
	Unrestricted	Restricted	Funds	Similar Funds
ASSETS				
Cash and cash equivalents (Note 2)	\$ 21,045,820	\$ 784,278	\$ 697,297	\$ 59,758
Investments (Note 2)	296,691	21,431	-	185,658
Collateral held for securities lending (Note 2)	2,130,100	-	-	-
Appropriations available	-	-	-	-
Security deposits	39,607	-	-	-
Accounts receivable:				
Grants and contracts	-	1,433,529	-	-
Employee	55,411	-	-	-
Other (Net of allowance for doubtful accounts of \$512,013)	1,212,190	-	-	-
Due from the federal government	-	-	27,296	-
Due from other funds (Note 3)	55,344	-	-	-
Due from the Commonwealth of Virginia (Note 6)	1,749,499	-	-	-
Credits due from suppliers (Net of allowance for doubtful accounts of \$9,425)	47,623	-	-	-
Inventories	1,234,172	-	-	-
Prepaid expenses	2,476,872	-	-	-
Notes receivable (Net of allowance for doubtful accounts of \$243,313)	-	-	2,443,877	-
Land	-	-	-	-
Buildings	-	-	-	-
Equipment	-	-	-	-
Improvements	-	-	-	-
Reference and exhibit materials	-	-	-	-
Construction in progress	-	-	-	-
Total assets	\$ 30,343,329	\$ 2,239,238	\$ 3,168,470	\$ 245,416
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued expenses	\$ 15,164,404	\$ 541,041	\$ -	\$ -
Deposits and deferred revenue	5,364,212	182,794	-	-
Obligations under securities lending (Note 2)	2,130,100	-	-	-
Advance from the Treasurer of Virginia	55,500	-	-	-
Accrued compensated absences	3,946,834	-	-	-
Accrued faculty retirement plans (Note 4)	3,228,787	-	-	-
Due to other funds (Note 3)	-	427,954	123,392	-
Retainage payable (Note 5)	-	-	-	-
Long-term debt (Note 6)	-	-	-	-
Deposits held in custody for others	-	-	-	-
Total liabilities	29,889,837	1,151,789	123,392	-
Fund balances:				
Current funds - Unrestricted	453,492	-	-	-
Current funds - Restricted	-	1,087,449	-	-
Loan funds - U.S. Government	-	-	2,384,020	-
Loan funds - University	-	-	661,058	-
Endowment and similar funds	-	-	-	245,416
Plant funds:				
Unexpended	-	-	-	-
Renewal and replacement	-	-	-	-
Retirement of indebtedness	-	-	-	-
Investment in plant	-	-	-	-
Total fund balances	453,492	1,087,449	3,045,078	245,416
Total liabilities and fund balances	\$ 30,343,329	\$ 2,239,238	\$ 3,168,470	\$ 245,416

The accompanying notes to the financial statements are an integral part of this statement.

	Plant Funds	Agency Funds	Total
\$	11,201,835	\$ 2,069,915	\$ 35,858,903
	17,457,509	-	17,961,289
	-	-	2,130,100
	9,044,067	-	9,044,067
	-	-	39,607
	-	-	1,433,529
	-	-	55,411
	-	1,520	1,213,710
	-	-	27,296
	306,667	189,335	551,346
	-	-	1,749,499
	-	-	47,623
	-	-	1,234,172
	-	-	2,476,872
	-	-	2,443,877
	6,208,741	-	6,208,741
	242,035,123	-	242,035,123
	29,200,743	-	29,200,743
	30,344,776	-	30,344,776
	26,686,763	-	26,686,763
	31,020,870	-	31,020,870
\$	403,507,094	\$ 2,260,770	\$ 441,764,317

\$	2,274,780	\$ -	\$ 17,980,225
	-	-	5,547,006
	-	-	2,130,100
	-	-	55,500
	-	-	3,946,834
	-	-	3,228,787
	-	-	551,346
	1,221,716	-	1,221,716
	89,095,243	-	89,095,243
	-	2,260,770	2,260,770
	92,591,739	2,260,770	126,017,527
	-	-	453,492
	-	-	1,087,449
	-	-	2,384,020
	-	-	661,058
	-	-	245,416
	5,241,766	-	5,241,766
	11,955,984	-	11,955,984
	9,833	-	9,833
	293,707,772	-	293,707,772
	310,915,355	-	315,746,790
\$	403,507,094	\$ 2,260,770	\$ 441,764,317

JAMES MADISON UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 2000

	Current Funds		Loan	Endowment and Similar Funds
	Unrestricted	Restricted	Funds	
Revenues and other additions:				
Unrestricted current fund revenues	\$ 186,541,785	\$ -	\$ -	\$ -
State appropriations - Restricted	-	3,981,081	-	-
Federal grants and contracts - Restricted	-	7,289,739	-	-
State grants and contracts - Restricted	-	4,034,470	-	-
Private gifts, grants and contracts - Restricted	-	2,442,225	10,000	-
Endowment income	-	12,323	-	-
Investment income	-	-	-	-
Interest on loans receivable	-	-	57,138	-
Expended for plant facilities (Including \$7,143,832 charged to current funds)	-	-	-	-
Retirement of indebtedness	-	-	-	-
Other sources	-	2,760	8,879	-
Total revenues and other additions	186,541,785	17,762,598	76,017	-
Expenditures and other deductions:				
Education and general expenditures	109,597,257	17,293,629	-	-
Auxiliary enterprise expenditures	61,586,917	-	-	-
Indirect cost recovered	-	450,358	-	-
Administration and collection costs	-	-	26,366	-
Expended for plant facilities (Including \$3,142,079 not capitalized)	-	-	-	-
Refunded to grantor	-	-	12,649	-
Net decrease in fair value of investments	-	-	-	27,181
Retirement for plant facilities (Note 8)	-	-	-	-
Retirement of indebtedness	-	-	-	-
Interest on indebtedness	-	-	-	-
Total expenditures and other deductions	171,184,174	17,743,987	39,015	27,181
Transfers among funds - Additons/(Deductions)				
Mandatory:				
Debt service and other	(7,842,334)	-	-	-
Nonmandatory:				
Capital improvements	(6,252,094)	-	-	-
Total transfers	(14,094,428)	-	-	-
Net increase (decrease) for the year	1,263,183	18,611	37,002	(27,181)
Fund balances (deficit) at beginning of year	(809,691)	1,068,838	3,008,076	272,597
Fund balances at end of year	\$ 453,492	\$ 1,087,449	\$ 3,045,078	\$ 245,416

The accompanying notes to the financial statements are an integral part of this statement.

Plant Funds			
Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment in Plant
\$ -	\$ -	\$ -	\$ -
2,315,400	1,153,845	751,961	-
-	-	-	-
-	-	-	-
110,845	-	-	186,415
-	-	-	-
58,297	-	13,235	-
-	-	-	-
-	-	-	27,439,168
-	-	-	6,246,089
-	-	-	-
2,484,542	1,153,845	765,196	33,871,672
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
21,249,312	2,188,103	-	-
-	-	-	-
-	-	-	-
-	-	-	4,598,984
-	-	6,246,089	-
-	-	3,278,405	-
21,249,312	2,188,103	9,524,494	4,598,984
(922,092)	-	8,764,425	-
3,568,377	2,683,717	-	-
2,646,285	2,683,717	8,764,425	-
(16,118,485)	1,649,459	5,127	29,272,688
21,360,251	10,306,525	4,706	264,435,084
\$ 5,241,766	\$ 11,955,984	\$ 9,833	\$ 293,707,772

JAMES MADISON UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
For the Year Ended June 30, 2000

	Current Funds		Total
	Unrestricted	Restricted	
Revenues:			
Student tuition and fees	\$ 50,501,850	\$ -	\$ 50,501,850
State appropriations (Note 9)	57,431,603	3,987,029	61,418,632
Federal grants and contracts	374,010	7,016,011	7,390,021
State grants and contracts	87,735	4,050,503	4,138,238
Private gifts, grants and contracts	49,966	2,230,807	2,280,773
Endowment income	13,590	9,279	22,869
Sales and service of educational departments	553	-	553
Sales and service of auxiliary enterprises	77,230,143	-	77,230,143
Other sources	852,335	-	852,335
Total current revenues	186,541,785	17,293,629	203,835,414
Expenditures and mandatory transfers:			
Education and general:			
Instruction	63,663,928	472,981	64,136,909
Research	214,446	906,610	1,121,056
Public service	406,404	6,162,559	6,568,963
Academic support	16,321,667	2,569,484	18,891,151
Student services	5,385,226	272,620	5,657,846
Institutional support	10,595,248	37,178	10,632,426
Operation and maintenance of plant	12,041,957	2,515	12,044,472
Scholarships and fellowships	968,381	6,869,682	7,838,063
Total educational and general expenditures	109,597,257	17,293,629	126,890,886
Mandatory transfers for debt service and other	516,855	-	516,855
Total educational and general	110,114,112	17,293,629	127,407,741
Auxiliary enterprises:			
Operating expenditures	61,586,917	-	61,586,917
Mandatory transfers and debt service	7,325,479	-	7,325,479
Total auxiliary enterprises	68,912,396	-	68,912,396
Total expenditures and mandatory transfers	179,026,508	17,293,629	196,320,137
Other transfers and additions:			
Excess of restricted receipts over transfers to revenues	-	18,611	18,611
Nonmandatory transfers:			
Capital improvements	(6,252,094)	-	(6,252,094)
Net increase in fund balances	\$ 1,263,183	\$ 18,611	\$ 1,281,794

The accompanying notes to the financial statements are an integral part of this statement.

JAMES MADISON UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of James Madison University have been prepared in accordance with generally accepted accounting principles for colleges and universities. The significant accounting policies employed by the University are as follows:

A. Reporting Entity

James Madison University is an agency of the Commonwealth of Virginia and is governed by the University's Board of Visitors. A separate report is prepared for the Commonwealth of Virginia which includes all agencies, boards, commissions and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The University is a component unit of the Commonwealth of Virginia and is included in the general purpose financial statements of the Commonwealth.

The University has no component units, as defined by Section 2200, of the Governmental Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards; however, the University does have related party corporations whose combined financial conditions are stated in Note 9. These organizations are separate legal entities from James Madison University and the University exercises no control over them. For these reasons the University's related parties are not included in these financial statements.

B. Basis of Accounting

The financial statements of the University have been prepared on the accrual basis, in accordance with the American Institute of Certified Public Accountants' Industry Audit Guide, Audits of Colleges and Universities, except for depreciation accounting. The University follows the practice of reporting gifts and pledges when collected. No value is assigned to art, rare books and other collections received as gifts.

The Statement of Current Funds Revenues, Expenditures, and Other Changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

C. Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the University, the accounts of the University are maintained in accordance with the principles of "fund accounting." This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar

characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group. A summary of fund group definitions is as follows:

Current Funds - Current fund balances are separated into those which are restricted by donors and those which are unrestricted. Restricted funds may only be expended for the purpose indicated by the donor or grantor, whereas unrestricted funds are available for current operations at the discretion of the University.

Loan Funds - Loan funds represent funds which are limited by the terms of their donors or by action of the Board of Visitors for the purpose of making loans to students.

Endowment and Similar Funds - Endowment and similar funds generally include endowment funds and quasi-endowment funds.

Endowment[Karen A.1] funds are funds which donors or other outside agencies have stipulated, as a condition of the gift, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to principal.

Quasi-endowment funds are funds which the Board of Visitors of the University has determined are to be retained and invested. Since these funds are internally designated rather than externally restricted, the Board of Visitors has the right to decide at any time to expend the principal.

Plant Funds - Plant funds are divided into four groups: Unexpended, Renewal and Replacement, Retirement of Indebtedness, and Investment in Plant.

The Unexpended plant funds represent resources which are specified by external sources or designated by the Board of Visitors for the acquisition, construction, renovation, and replacement of physical properties.

The Renewal and Replacement funds include resources held for maintenance, repairs, renovations, and replacement of plant facilities.

The Retirement of Indebtedness fund is for the retirement of principal and interest on debt established under bond indentures.

Investment in Plant represents the capitalized value of physical property owned by the University, along with any associated debt.

Agency Funds - Agency funds consist of funds held by the University as a custodian for others.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the Board of Visitors. Externally restricted funds may be utilized only in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the Board of Visitors retains full control to use in achieving any of its institutional purposes.

All changes in fair value of investments, including realized and unrealized gains and losses arising from the sale, or holding of investments and other non-cash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds. In these funds income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds.

All other unrestricted revenue is accounted for in the unrestricted current fund. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

D. Investments

In accordance with GASB Statement Number 31, 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 revenue in the statement of changes in fund balances and in the statement of current funds revenues, expenditures and other changes.

E. 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. On July 5, 2000, the University contracted with Aramark Educational Services to manage dining operations. The contract included sale of existing dining services' inventory.

F. Investment in Plant

Plant assets consisting of land, buildings and equipment are stated at appraised historical cost or actual cost where determinable. Library books are valued using published average prices for library acquisitions. Other equipment expenditures are capitalized when the unit acquisition cost is \$5,000 or greater and the estimated useful life is two years or more. For the year ended June 30, 2000, the University implemented the National Association of College and University Business Officers (NACUBO) Advisory Report 99-7, *Accounting and Reporting for Capitalization of Software*. Applicable costs associated with developing or obtaining software for internal use is valued at actual cost and included in equipment on the Balance Sheet.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as: (1) expenditures, in the case of normal replacement of movable equipment; (2) mandatory transfers, in the case of required provisions for debt amortization and interest, equipment renewal and replacement; and (3) transfers of a non-mandatory nature for all other cases. No provision is made in the accounts for depreciation of plant assets.

G. Deferred Revenue

Deferred revenue represents revenues collected but not earned as of June 30, 2000. This is primarily composed of revenue for student tuition accrued in advance of the semester. If a program is conducted over a fiscal year end, deferred revenue is recorded for all revenue related to programs predominately conducted in the next fiscal year.

H. Accrued Compensated Absences

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

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and Cash Equivalents

Pursuant to Section 2.1-177, 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. Cash deposits held by the University are maintained in accounts that are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.1-359, et seq., Code of Virginia, except for cash held in foreign banks. 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 Number 9 definition of cash and cash equivalents, cash represents cash with the Treasurer, cash on hand, and cash deposits including certificates of deposits and temporary investments with original maturities of three months or less.

Investments

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

	<u>Market Value</u>
Cash and cash equivalents:	
Deposits with financial institutions	\$ 5,127,237
Money market and index funds	<u>1,465,301</u>
Total cash and cash equivalents	<u>\$ 6,592,538</u>
Investments:	
State non-arbitrage program (SNAP)	\$ 17,447,676
Investments with the Treasurer of Virginia	9,833
Mutual funds	<u>503,780</u>
Total investments	<u>\$ 17,961,289</u>

Securities Lending Transactions

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

3. INTERFUND ASSETS/LIABILITIES

Inter-fund obligations are recorded in each fund as due to or due from other funds. The borrowings provide working capital or cash advances for special projects.

	Current Funds <u>Unrestricted</u>	Current Funds <u>Restricted</u>	Loan Funds	Plant Funds	Agency Funds
Current unrestricted funds	\$ -	\$ (425,000)	\$ (25,000)	\$ 306,667	\$ 87,989
Current restricted funds	425,000	-	-	-	2,954
Loan funds	25,000	-	-	-	98,392
Plant funds	(306,667)	-	-	-	-
Agency funds	<u>(87,989)</u>	<u>(2,954)</u>	<u>(98,392)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 55,344</u>	<u>\$ (427,954)</u>	<u>\$ (123,392)</u>	<u>\$ 306,667</u>	<u>\$ 189,335</u>

4. FACULTY RETIREMENT PLANS

Supplemental Retirement Plans

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. As of June 30, 2000, 68 faculty members elected to enroll in the plan, including 20 new participants who retired under this plan during fiscal year 2000. 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 \$768,943 of the fiscal year 2001 plan contribution in 2000. The plan payment schedule is as follows:

Year Ending <u>June 30,</u>	Supplemental <u>Plan Obligations</u>
2001	\$ 375,374
2002	1,192,814
2003	882,151
2004	403,074
2005	<u>375,374</u>
Total	<u>\$ 3,228,787</u>

5. RETAINAGE PAYABLE

At June 30, 2000, \$1,221,716 was held by the University as retainage on various contracts for work which had been performed. The retainage will be remitted to the various contractors upon satisfactory completion of the construction projects.

6. LONG-TERM DEBT

The University has issued two categories of bonds pursuant to Section 9 of Article X of the Constitution of Virginia. Section 9(d) bonds are revenue bonds, which are limited obligations of the University payable exclusively from pledged general revenues and are not debt of the Commonwealth of Virginia, legally, morally, or otherwise. Pledged general fund revenues include general fund appropriations, tuition and fees, auxiliary enterprise revenues, and other revenues not required by law to be used for another purpose. The University issued 9(d) bonds directly through underwriters and also 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) also issues 9(d) bonds and uses the proceeds to purchase debt obligations (notes) of the University and various other institutions of higher education. The University's general revenue also secures these notes.

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

<u>Description</u>	<u>Interest Rates</u>	<u>Maturity</u>	<u>June 30, 2000</u>
Revenue bonds:			
Dormitory, Series 1993A	4.55% - 5.375%	2009	\$ 1,665,000
Dormitory, Series 1998A	3.50% - 4.80%	2019	14,120,000
Parking, Series 1999A	4.50% - 6.00%	2020	6,445,000
Student Center, Series 1999A	4.50% - 6.00%	2020	9,900,000
Recreation, Series 1993A	4.55% - 5.375%	2013	<u>13,620,000</u>
Total revenue bonds			<u>45,750,000</u>
General obligation revenue bonds:			
Dormitory and Dining Hall:			
Series 1979	3.00%	2009	1,495,000
Series 1993A	4.50% - 5.25%	2013	6,589,854
Series 1993B	4.20% - 5.00%	2010	2,858,633
Series 1996	4.75%	2001	131,124
Series 1997	5.00%	2017	17,330,000
Series 1998	4.00% - 5.50%	2018	1,000,000
Telecommunications, Series 1993B	4.20% - 4.25 %	2001	363,772
Student Center:			
Series 1992	5.40% - 5.90%	2005	1,416,479
Series 1992C	5.40% - 5.80%	2004	1,300,000
Series 1998	3.75% - 5.00%	2013	4,504,678

Electrical Upgrade:			
Series 1993A	4.50% - 4.80%	2003	140,000
Series 1994	6.00%	2004	430,000
Athletics:			
Series 1992	5.40% - 5.70%	2003	1,690,067
Series 1993A	4.50% - 4.90%	2004	231,586
Series 1993B	4.20% - 4.50%	2003	579,801
Total general obligation revenue bonds			<u>40,060,994</u>
Total bonds payable			<u>85,810,994</u>
Capital Leases:			
Higher education equipment trust fund leases payable	Various	2001-2003	1,807,476
Other capital leases payable	Various	2001-2004	499,559
Total capital leases payable			<u>2,307,035</u>
Installment purchases payable	Various	2001-2005	977,214
Total			<u><u>\$89,095,243</u></u>

Long-term debt matures as follows:

2001	\$ 6,893,807
2002	6,598,644
2003	6,240,295
2004	5,441,851
2005	4,767,894
Later Years	<u>59,152,752</u>
Total	<u><u>\$ 89,095,243</u></u>

Prior Year Defeasance of Debt

In prior years, the University and the Commonwealth of Virginia on behalf of the University issued bonds, which proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on other debt. The bonds representing that debt are therefore considered defeased. Accordingly, the trust account's assets and the liabilities for the defeased bonds are not included in the University's financial statements. On June 30, 2000, \$13,862,296 of the bonds outstanding are considered defeased.

Equipment Trust Fund Program

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

The Unrestricted Current Funds Balance Sheet line "Due from the Commonwealth of Virginia" totaling \$1,749,499 at June 30, 2000, represents equipment purchased by the University that was not reimbursed by the VCBA at year-end.

7. EQUIPMENT DISPOSALS

Retirement of Plant Facilities on the Statement of Changes in Fund Balances totaled \$4,598,984 for the year ending June 30, 2000. In fiscal year 2000, the University wrote-off \$3,298,849 of equipment from the equipment inventory by reclassifying the equipment type from "capitalized" to "controlled." This equipment had been included in the inventory, even though it did not meet the University's current equipment capitalization threshold. In fiscal year 1991, the University, in compliance with state guidelines, increased the equipment capitalization threshold from \$500 to \$5,000. The state guidelines also provided for a new "controlled" category for assets valued between \$2,000 and \$4,999. However, at that time, we did not reclassify equipment if the original cost fell within the controlled equipment limits.

8. STATE APPROPRIATIONS – CURRENT UNRESTRICTED FUNDS

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

The following is a summary of state appropriations received by the University, including all supplemental appropriations and reversions:

Original legislative appropriation per Chapter 1072	\$ 57,004,030
Supplemental adjustments:	
Salary increases and regrades	1,172,593
Health insurance premium	447,801
Deferred compensation match	31,642
Retirement plans, faculty salaries, auto liability insurance premium, and other miscellaneous reversions to the central fund	(1,224,285)
Reversion to the General Fund of the Commonwealth	<u>(178)</u>
Adjusted appropriation	<u>\$ 57,431,603</u>

9. AFFILIATED FOUNDATIONS

The financial statements do not include the assets, liabilities, and net assets of the James Madison University Foundation, Incorporated, James Madison University Alumni Association, or the James Madison University Research and Development Center, Incorporated. The purpose of these organizations is to operate for the benefit of the University. These organizations are separately incorporated entities and the related financial statements are examined by other auditors. The following condensed summary is based solely upon the reports of other auditors:

ASSETS

Cash and investments	\$ 32,622,663
Other assets	<u>2,927,773</u>
Total assets	<u>\$ 35,550,436</u>

LIABILITIES AND NET ASSETS

Liabilities	\$ 5,075,072
Net assets	<u>30,475,364</u>
Total liabilities and net assets	<u>\$ 35,550,436</u>

The aggregate revenues and expenditures of these organizations, determined as if in consolidation with the University, were \$1,200,691 and \$4,420,339, respectively for year ended June 30, 2000.

The James Madison University Foundation, Incorporated, receives gifts and expends funds for the benefit of the University. The revenues and expenditures of the University include funds expended by the Foundation and paid directly to the University of approximately \$4,317,431 for the year ended June 30, 2000.

10. COMMITMENTS

At June 30, 2000, the University was a party to construction and other contracts totaling approximately \$40,812,409 of which \$27,649,735 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 year ended June 30, 2000, such purchases totaled \$2,783,783.

The University is committed under various operating leases for equipment and space. In general, the equipment leases are for a two-year term and the space leases are for three to four year terms with appropriate renewal options for each type of lease. In most cases, the University expects

that in the normal course of business, these leases will be replaced by similar leases. Rental expense was approximately \$1,876,366 for the year ended June 30, 2000.

The University has, as of June 30, 2000, the following future minimum rental payments due under the above leases:

Year Ending <u>June 30,</u>	Operating <u>Obligation</u>
2001	\$ 2,216,852
2002	1,406,171
2003	979,906
2004	906,988
2005	898,231
Later years	<u>7,558,704</u>
Total	<u>\$ 13,966,852</u>

11. RETIREMENT PLANS

Virginia Retirement System

Employees of the University are employees of the Commonwealth of Virginia. Substantially all full-time classified salaried employees of the University participate in a defined benefit retirement plan administered by the Virginia Retirement System (VRS). VRS is an agent multiple-employer public employee retirement system (PERS) that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions. Information relating to this plan is available at the statewide level only in the Commonwealth's Comprehensive Annual Financial Report (CAFR). The Commonwealth of Virginia, not the University, has overall responsibility for contributions to this plan.

The University's total VRS contributions were \$5,339,866 for the year ended June 30, 2000, which included the five percent employee contribution assumed by the employer. These contributions represent 11.03 percent of covered payroll for the year. Contributions to the VRS were calculated using the base salary amount of approximately \$48,412,201 for the fiscal year ended 2000. The University's total payroll was approximately \$99,024,393 for the year ended June 30, 2000.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2000. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

Optional Retirement Plans

Full-time faculty and certain administrative staff participate in a defined contribution plan administered by five different providers rather than VRS. The five different providers are TIAA/CREF Insurance Companies, Fidelity Investments Tax-Exempt Services and MetLife Resources, Great-West Life Assurance Co., T. Rowe Price Associates, and Variable Annuity Life Insurance Company (VALIC). This plan is a fixed-contribution program where the retirement

benefits received are based upon the employer's (5.4 percent) and employee's (5 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 \$3,135,477 for the year ended June 30, 2000. Contributions to the optional retirement plan were calculated using the base salary amount of approximately \$30,148,819 for fiscal year 2000.

12. POST-EMPLOYMENT BENEFITS

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

13. CONTINGENCIES

Grants and Contracts

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

In addition, the University is required to comply with the various federal regulations issued by the Office of Management and Budget. Failure to comply with certain system requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 2000, the University estimates that no material liabilities will result from such audits or questions.

14. LITIGATION

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

15. RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The University participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care plan is administered by the Department of Personnel and

Training and the risk management insurance plans are administered by the Department of General Services, Division of Risk Management. Risk management insurance includes worker's compensation, property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and water craft plans. The University pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

JAMES MADISON UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUES AND EXPENDITURES
For the Year Ended June 30, 2000

	Food Services	Stores and Shops	Residential Facilities	Parking	Telecom- munications	Student Health
Revenues						
Student fees	\$ 16,661,139	\$ -	\$ 15,914,631	\$ -	\$ -	\$ -
Sales and services	3,722,171	2,196,308	859,854	1,772,580	1,806,445	197,105
Total revenues	20,383,310	2,196,308	16,774,485	1,772,580	1,806,445	197,105
Cost of sales	(6,539,386)	(799,789)	-	-	-	-
Net revenues	13,843,924	1,396,519	16,774,485	1,772,580	1,806,445	197,105
Expenses of operation:						
Personal services	7,506,219	515,171	1,809,336	359,958	329,586	1,472,819
Contractual services	2,119,135	153,498	4,846,148	942,366	389,796	94,931
Supplies and materials	440,113	10,687	1,298,521	12,195	46,650	144,718
Continuous charges and obligations	2,349,023	973,721	2,628,573	180,241	33,929	191,009
Miscellaneous	61,196	481	99,388	53,651	737	9,263
Equipment	441,097	9,875	613,797	144,101	501,297	45,354
Scholarships	65,398	-	105,793	-	-	12,330
Total expenses of operation	12,982,181	1,663,433	11,401,556	1,692,512	1,301,995	1,970,424
Excess (deficiency) of revenues over (under) expenses of operations	861,744	(266,914)	5,372,929	80,068	504,450	(1,773,319)
Non-operating revenues (expenses)						
Private gifts	-	-	-	-	-	-
Scholarships	-	-	-	-	-	-
Total non-operating revenues (expenses)	-	-	-	-	-	-
Transfers:						
Mandatory:						
Debt service	(912,861)	(15,983)	(2,644,714)	-	(637,915)	-
Nonmandatory:						
Allocation of student fees	118,746	-	27,726	709,676	163,936	1,724,599
Capital improvements	-	-	(596,012)	-	-	-
Total transfers	(794,115)	(15,983)	(3,213,001)	709,676	(473,979)	1,724,599
Net increase (decrease) for the year	\$ 67,628	\$ (282,897)	\$ 2,159,928	\$ 789,744	\$ 30,471	\$ (48,720)
Fund balance at the beginning of the year						
Fund balance at the end of the year						

Student Activities	Recreation	Other	Athletics	Total
\$ -	\$ -	\$ 31,503,335	\$ -	\$ 64,079,105
20,360	57,377	1,450,744	1,068,094	13,151,038
20,360	57,377	32,954,079	1,068,094	77,230,143
-	-	-	-	(7,339,175)
20,360	57,377	32,954,079	1,068,094	69,890,968
1,419,304	1,121,884	2,214,307	5,007,617	21,756,201
592,764	440,486	1,847,672	2,602,854	14,029,651
220,949	314,732	257,716	711,014	3,457,295
131,580	399,236	647,698	1,237,694	8,772,704
6,575	10,988	121,119	36,839	400,236
136,671	112,038	347,818	240,875	2,592,923
45,540	34,155	73,414	2,902,102	3,238,731
2,553,383	2,433,519	5,509,744	12,738,995	54,247,742
(2,533,023)	(2,376,142)	27,444,335	(11,670,901)	15,643,226
-	-	-	175,000	175,000
-	-	-	(175,000)	(175,000)
-	-	-	-	-
(738,347)	(1,462,965)	(17,449)	(895,244)	(7,325,479)
3,456,565	3,815,336	(22,670,055)	12,653,471	-
(707)	-	(5,614,122)	(22,473)	(6,233,314)
2,717,511	2,352,371	(28,301,625)	11,735,754	(13,558,793)
\$ 184,488	\$ (23,771)	\$ (857,291)	\$ 64,853	2,084,433
				13,040,406
				\$ 15,124,839

JAMES MADISON UNIVERSITY
Harrisonburg, Virginia

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