JAMES MADISON UNIVERSITY

HARRISONBURG, VIRGINIA

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2002

APA

Auditor of Public Accounts

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of James Madison University for the year ended June 30, 2002 found:

- that 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 to be a material weakness; and
- no instances of noncompliance that are required to be reported.

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Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

July 22, 2003

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
James Madison University

We have audited the accounts and records of **James Madison University** as of and for the year ended June 30, 2002, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of James Madison University, a component unit of the Commonwealth of Virginia, as of and for the year then ended June 30, 2002, as listed in the table of contents. These 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 did not audit the financial statements of the James Madison Foundation, Inc., a discretely presented component unit, which statements reflect total assets and revenues of $37,858,696 and $2,510,031, respectively, as of and for the year ended June 30, 2002. Those statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for the James Madison Foundation, Inc. is based solely upon the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of James Madison University and of its discretely presented component unit as of June 30, 2002, and the respective changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the University has implemented a new accounting and reporting standard, as required by the provisions of Governmental Accounting Standards Board Statement 39, *Determining Whether Certain Organizations are Component Units*, as of June 30, 2002.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. 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 basic financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, such information is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

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

In planning and performing our audit of the financial statements of James Madison University as of and for the year ended June 30, 2002, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants 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.

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. This reportable condition is described in the section titled "Internal Control Findings and Recommendations."

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 over financial reporting that might be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

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, 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 6, 2003.

AUDITOR OF PUBLIC ACCOUNTS

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INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Strengthen Controls over the Small Purchase Charge Card Program

The University needs to strengthen its procedures to comply with University and Commonwealth policies and procedures governing the use of small purchase charge cards. We found the following specific internal control weaknesses where the University did not follow established procedures.

The University did not perform annual analyses of cardholder usage. The policies require supervisors review cardholder limits annually to determine if there should be a change in the limits and the Program Administrator should document and retain the analysis. The Program Administrator should also use this information to cancel or reassign cards, if necessary, to reflect cardholders' actual activity. The cardholders we reviewed had monthly transaction limits that were higher than necessary, based on actual monthly purchases.

Two cardholders split purchases to circumvent transaction limits and one cardholder shared their card with another employee. One other cardholder did not have receipts for amounts charged and three cardholders paid sales tax on purchases and did not take corrective action to receive a credit. University and state policies require following transaction limits, not sharing cards, retaining documentation for purchases, and using tax exemptions.

The University needs to strengthen and comply with its policies and procedures over the small purchase charge card program. The University should develop a training program for all cardholders to ensure proper communication of card usage, security, and procurement guidelines to cardholders and their supervisors. Strengthening the internal controls over the program will reduce the risk of fraudulent and improper purchases. In addition, the University should consider revoking charge cards from cardholders who violate policies and procedures.

MANAGEMENT'S DISCUSSION AND ANALYSIS

New Accounting Standards

The following Management's Discussion and Analysis (MD&A) is required supplemental information under the new Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective, easily readable analysis of the University's 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 year ended June 30, 2002. Comparative numbers, where presented, are for the fiscal year ended June 30, 2001. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying financial statements, notes to financial statements, and other supplementary information. University management is responsible for all of the financial information presented, including this discussion and analysis.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34, *Basic Financial Statements and Management's Discussion and Analysis–for State and Local Governments*, which established new financial reporting requirements. In November 1999, GASB issued Statement 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities–an Amendment of GASB Statement 34*, which applies the new reporting standards to public institutions. As component units of the Commonwealth of Virginia, public institutions implemented GASB Statement 35 in fiscal year 2002, which is the same time that state government implemented GASB Statement 34. James Madison University chose to implement GASB Statement 35 in fiscal year 2001.

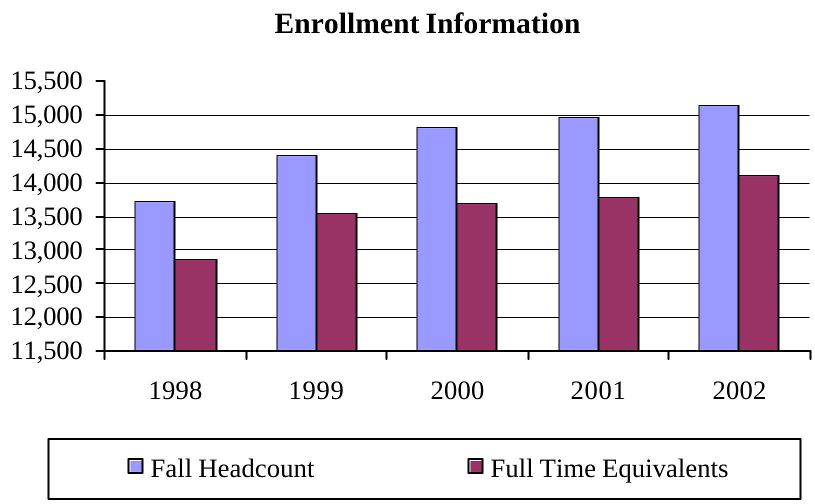
The new financial reporting standards significantly changed the appearance and nature of the required financial information. The major changes were: (1) financial statements are presented on an entity-wide basis and not by major fund groups; (2) depreciation expense is recognized, previously it was not; (3) expenses, rather than expenditures, are reported; and (4) the basic financial statements are preceded by this Management's Discussion and Analysis.

As required by the new accounting pronouncements, the basic financial statements are: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; 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.

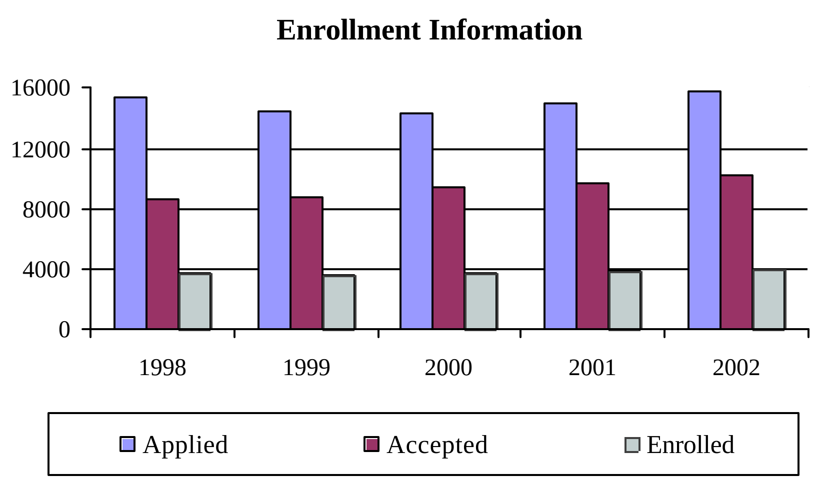
As in the prior year, our June 30, 2002 financial statements will include a significant new presentation. The University elected to implement early GASB Statement Number 39, *Determining Whether Certain Organizations are Component Units*. This statement addresses the conditions under which institutions should include associated fund-raising or research foundations as component units in their general-purpose financial statements; and how such component units should be displayed in the financial statements. Under the previous accounting standards, the University had no component units. Under the new standards, the James Madison University Foundation, Inc. (the Foundation) meets criteria qualifying it as a component unit. The Foundation is included in the accompanying financial statements in a separate column. However, the following discussion and analysis does not include the Foundation's financial condition and activities.

Enrollment and Admissions Information

In the 1980's and 1990's, James Madison University's goals included continuous enrollment growth. This substantial growth developed considerably faster than the funding necessary to support the student population. In order not to sacrifice the quality of our programs by uncontrolled enrollment expansion, University management developed a strategic plan to stabilize enrollment at approximately 15,000 students. The chart below demonstrates the beginning of this trend.



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. JMU 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, 2002 and 2001. The data presented in the SNA aids readers in determining the assets available to continue the University's operations. It also allows the 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 an organization's financial health.

Net assets are divided into three major categories. The first category, "Invested in capital assets, Net of 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 nonexpendable. Expendable restricted assets include resources the University is legally or contractually obligated to expend in accordance with restrictions imposed by external third parties. Nonexpendable restricted net assets consist of endowments and similar type funds where donors or other outside sources have stipulated, 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 and general and auxiliary activities.

Statement of Net Assets (in thousands)

	2002	2001
Assets:		
Current assets	$ 56,885	$ 54,366
Capital assets, Net	271,993	259,819
Other noncurrent assets	4,576	10,166
Total assets	333,454	324,351
Liabilities:		
Current liabilities	37,094	40,325
Noncurrent liabilities	81,814	82,860
Total liabilities	118,908	123,185
Net assets:		
Invested in capital assets, Net of related debt	191,369	185,217
Restricted - Expendable	3,583	2,618
Restricted - Nonexpendable	262	276
Unrestricted	19,332	13,055
Total net assets	$ 214,546	$ 201,166

The University's total assets increased by $9,103,000. Generally, we used noncurrent assets such as investments with the Treasurer of Virginia to construct and purchase capital assets. The net increase in capital assets of $12,174,000 is discussed in the next section of this analysis. The $2,519,000 increase in current assets is directly related to an increase in cash and cash equivalents. An increase in auxiliary reserve funds of $2,318,000 and unspent state grant funds of $427,000 related to the new Commonwealth Information Security Center are the main components. Total liabilities decreased by $4,277,000. The primary cause was a reduction in both operating and capital-related accounts payable. The operating payables in fiscal year 2001 included $450,000 related to long-distance phone service and several uncompleted non-capital renovation and repair projects funded by auxiliary cash reserves. Capital payables decreased due to the nature and completion status of the related capital projects at year-end.

Capital Asset and Debt Administration

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

Note 4 of the Notes to Financial Statements describes the University's significant investment in capital assets with total depreciable capital asset additions of over $33,720,000 (excluding land and construction in progress) in fiscal year 2002. Significant capital projects substantially completed in fiscal year 2002 include the East Campus student ($9,278,000) and alumni centers ($2,913,000), the Main Campus parking deck ($7,188,000), and infrastructure repairs to the University's steam lines ($1,904,000). The student center and the parking deck were primarily funded by previously issued debt. The alumni center was primarily funded by private gifts. We used auxiliary reserve funds to supplement the alumni center and parking deck projects. The steam line project was funded with state general funds and auxiliary reserve funds. Nondepreciable additions include $2,000,000 for parcel one of a two-parcel land acquisition, funded with auxiliary reserve funds. These sites were surrounded by the University, and are now included in the planned development and expansion of the University's campus on the west side of Main Street. Current year depreciation expense was $14,212,000 with net retirements of $3,032,000 resulting in a net increase of depreciable capital assets of $16,476,000.

Major projects still under construction at June 30, 2002 include a third academic building on the East Campus ($1,237,000), the campus bookstore ($2,461,000), and Gifford Hall renovation ($4,560,000). Costs incurred relating to the East Campus' third academic building are for planning, architectural, and engineering fees. Those costs were funded by state general funds. The construction costs, estimated to be approximately $24,249,000, will be funded by the state's 21st Century Bond Program. The University will incur no debt for this project. The campus bookstore project is primarily funded by gifts from the vendor that manages our bookstore operations. As noted below, bonds issued in fiscal year 2002 fund the Gifford Hall renovation.

The University decreased its total long-term debt from $82,151,000 in fiscal year 2001 to $81,647,000 in fiscal year 2002, even after incurring $5,900,000 in new bond indebtedness to fund the Gifford residence hall renovation. The University participated in the Commonwealth's 2002 Fall bond sales and incurred bond debt of $4,170,000 for renovation of Logan residence hall and $2,100,000 for parcel two of the property acquisition discussed above. As calculated under the State Council of Higher Education in Virginia's (SCHEV) formula, the University's 2002 debt service to unrestricted expenditures and mandatory transfers ratio was 5.5 percent, as compared to 5 percent for 2001. This ratio is one of the "system-wide" measures in SCHEV's Reports on Institutional Effectiveness. The Commonwealth recommends that this ratio not exceed seven percent. The Council has not indicated a new method for calculating this ratio based on the new reporting model. We computed our ratio based on the previous reporting model.

Overall, unpaid construction and other related contractual commitments decreased from $11,933,000 in 2001 to $7,846,000 in 2002. Unpaid commitments at June 30, 2002 primarily reflect the Campus Bookstore, Gifford Hall Renovation, and Bridgeforth Stadium Track Relocation projects. Further information relating to capital assets, construction, and capital debt is included in the Notes to Financial Statements in Notes 4 and 7.

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

Statement of Revenues, Expenses and Changes in Net Assets

The operating and nonoperating 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.

Nonoperating 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 show an operating loss.

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

	2002	2001
Operating revenues:		
Student tuition and fees (Net of scholarship allowances of $3,319,056)	$ 52,061	$ 48,529
Grants and contracts	20,873	17,030
Auxiliary enterprises (Net of scholarship allowances of $4,298,415)	80,165	78,003
Other operating revenues	792	740
Total operating revenues	153,891	144,302
Operating expenses:		
Instruction	68,907	68,020
Academic support	18,093	18,398
Depreciation	14,212	13,315
Auxiliary activities	61,176	62,906
Other operating expenses	46,685	48,611
Total operating expenses	209,073	211,250
Operating loss	(55,182)	(66,948)
Nonoperating revenues and expenses	62,604	69,516
Income before other revenues, expenses, gains or losses	7,422	2,568
Other revenues, expenses, gains or losses	5,958	5,407
Increase in net assets	13,380	7,975
Net assets - beginning of year	201,166	193,191
Net assets – end of year	$ 214,546	$ 201,166

Operating revenues, consisting mostly of tuition and fees and auxiliary enterprises, increased $9,589,000 or 6.6 percent from the prior fiscal year. Student tuition and fees, net of scholarship allowances, increased by $3,532,000 in fiscal year 2002. Most of this growth was attributable to a 9.1 percent tuition rate increase for out-of-state students. Auxiliary revenues remained relatively stable, increasing $2,162,000 or 2.8 percent. Federal and state grants and contracts also increased. Federal National Science Foundation and Pell grants increased by $455,000 and $437,000, respectively. State grants included $1,067,000 for the new Commonwealth Information Security Center, which received its initial funding from the Commonwealth in July 2001.

Compensation expense, comprised of the natural expense classifications, salaries and wages and fringe benefits, comprises 58 percent of the University's total operating expenses. The Commonwealth provides across-the-board salary increases on a periodic basis. During the biennium just completed, economic conditions in the Commonwealth did not accommodate such increases. Compensation expense remained relatively stable, with only 1.8 percent growth in 2002. Statewide economic uncertainty resulted in significant reductions in state appropriations. This forced the University to implement cost containment measures. These measures included reductions in discretionary spending, such as travel, the purchase of supplies, and other items.

Total operating expenses decreased $2,177,000. New and additional grants for the Commonwealth Information Security Center and National Science Foundation projects resulted in increased research expenses. Operation and maintenance of plant decreased by $3,909,000 in fiscal year 2002. This was mostly due to noncapitalizable expenses (primarily equipment and furnishings) related to several significant capital projects nearing completion at the end of fiscal year 2001.

Net nonoperating income decreased by $6,912,000 from the previous year's total. Due to the recent recession and its impact on state tax revenues, the University's state appropriations were reduced by $1,982,000 (3 percent) in fiscal year 2002. Investment income decreased $1,082,000 as related investments with the Treasurer of Virginia were converted to cash in order to construct and purchase capital assets. Also, the State did not remit to institutions the fourth quarter interest earned on auxiliary cash reserves. Most of the remaining decrease in net nonoperating income results from losses on the disposal of capital assets. Other revenues and gains include capital appropriations, which decreased between fiscal year 2001 and 2002. That decrease was more than offset by the increase in this category due to private gifts funding the construction of the new alumni center and bookstore.

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 noncapital financing activities, and includes state appropriations for the University's educational and general programs and financial aid. This section reflects the cash received and spending for items other than operating, investing, and capital financing purposes. Cash flows from capital financing activities presents 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)

	2002	2001
Cash provided (used) by:		
Operating activities	$ (43,102)	$ (53,983)
Noncapital financing activities	66,842	70,308
Capital financing activities	(22,560)	(23,597)
Investing activities	1,934	2,794
Net increase in cash	3,114	(4,478)
Cash – beginning of the year	39,895	44,373
Cash – end of year	$ 43,009	$ 39,895

Major sources of cash from operating activities in fiscal year 2002 include student tuition and fees ($52,155,000), auxiliary enterprise's receipts ($80,157,000), and grants and contracts ($20,335,000). Major uses of cash include payments for salaries, wages and fringe benefits ($121,332,000), payments for supplies and services ($51,292,000), and payments for noncapitalized plant improvements and equipment ($11,149,000).

Cash flows from noncapital financing activities in 2002 include state appropriations for the University's educational and general programs and financial aid of $66,710,000. 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 2002 include the conversion of noncash assets (investments with the State Treasurer) into cash ($7,078,000), proceeds from the issuance of debt of $6,044,000, and capital gifts of $2,722,000. Significant cash outflows include $28,125,000 for the purchase and construction of capital assets and $10,824,000 for the repayment of principal and interest on capital related debt.

Economic Outlook

The University's economic outlook is closely related to its role as one of the Commonwealth's comprehensive higher education institutions. As such, it is largely dependent upon ongoing financial and political support from the state government. Due to a lag in revenue collections, the Commonwealth initially projected a budget shortfall during fiscal years 2002, 2003, and 2004. The Commonwealth of Virginia continued to closely monitor revenue activities as fiscal year 2003 began. The recovery of the national economy has been delayed and has been more modest than was originally projected. Given these conditions, the Commonwealth once again had to revise revenue forecasts downward. Ultimately, these revenue shortfalls resulted in general fund reductions for state agencies in each of the three fiscal years. The University absorbed reductions for the 2002-2004 biennium in several areas of its budget, with general fund reductions for all areas totaling $5,419,000 for fiscal year 2003 and $7,351,000 for fiscal year 2004. The University was authorized to increase tuition to offset a portion of these reductions. Tuition for the Fall 2002 semester was increased by an average of ten percent for all students.

Given that general fund appropriations represent over fifty percent of the support for the University's total educational and general operating expenses, these reductions are substantial. Management has developed plans to reduce costs in a variety of areas, including travel, equipment, supplies, and in personal services by not filling some vacant positions. These plans attempt to reduce administrative costs, create efficiencies, and maximize revenues while attempting to minimize the impact on the University's core missions of instruction, research and public service. A midyear tuition increase has been implemented for the Spring 2003 semester. These actions have been implemented during 2002-2003 to address the October 2002 assigned general fund reductions noted above.

Uncertainty remains in regards to the extent the Commonwealth will need to implement additional measures to balance the budget for 2002-2004. As a result, it is unclear to what extent, if any, institutions of higher education will be further impacted. Economic factors related to the Commonwealth of Virginia can be found in the Commonwealth's Comprehensive Annual Financial Report.

The University's overall financial position remains strong. Even with the general fund reductions, revenue shortfalls, and economic uncertainty, the University generated an overall increase in net assets during fiscal year 2002. Management will continue to closely monitor resources to ensure the ability to react to unknown internal and external issues.

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FINANCIAL STATEMENTS

JAMES MADISON UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2002

	James Madison University	Component Unit James Madison University Foundation
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 42,683,087	$ 1,791,665
Short-term investments (Note 2)	4,117,614	-
Accounts receivable (Net of allowance for doubtful accounts of $374,910) (Note 3)	4,082,287	57,814
Contributions receivable (Net of allowance for doubtful contributions of $21,327)	-	1,344,118
Due from the Commonwealth (Note 7)	2,183,832	-
Prepaid expenses	2,645,347	12,102
Inventory	756,396	2,646
Notes receivable (Net of allowance for doubtful accounts of $33,886)	416,644	-
Total current assets	56,885,207	3,208,345
Noncurrent assets:		
Restricted cash and cash equivalents (Note 2)	326,008	-
Endowment investments (Note 2)	195,432	16,773,718
Other long-term investments (Note 2)	1,848,219	14,021,402
Contributions receivable (Net of allowance for doubtful contributions of $42,794)	-	2,096,895
Notes receivable (Net of allowance for doubtful accounts of $176,896)	2,205,650	-
Capital assets, net (Note 4)	271,992,962	1,744,620
Other assets	-	13,716
Total noncurrent assets	276,568,271	34,650,351
Total assets	333,453,478	37,858,696
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses (Note 5)	18,326,584	431,802
Deferred revenue	4,289,265	-
Obligations under securities lending	2,858,587	-
Deposits held in custody for others	2,807,548	-
Long-term liabilities - current portion (Note 6)	8,754,712	88,812
Advance from the Treasurer of Virginia	57,000	-
Total current liabilities	37,093,696	520,614
Noncurrent liabilities (Note 6)	81,813,890	2,486,255
Total liabilities	118,907,586	3,006,869

JAMES MADISON UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2002

	James Madison University	Component Unit James Madison University Foundation
NET ASSETS		
Invested in capital assets, Net of related debt	191,369,363	1,318,477
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	261,442	12,638,160
Research and public service	-	317,850
Other	-	4,515,772
Expendable:		
Scholarships and fellowships	33,053	882,219
Research and public service	1,712,495	1,359,931
Debt service	2,800	889,507
Capital projects	1,477,791	4,248,072
Loans	356,770	-
Other	-	6,256,230
Unrestricted	19,332,178	2,425,609
Total net assets	$ 214,545,892	$ 34,851,827

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

JAMES MADISON UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2001

	James Madison University	Component Unit James Madison University Foundation
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 38,790,790	$ 1,607,145
Short-term investments (Note 2)	5,262,699	-
Accounts receivable (Net of allowance for doubtful accounts of $422,192) (Note 3)	3,645,436	77,016
Contributions receivable (Net of allowance for doubtful contributions of $20,985)	-	1,080,149
Due from the Commonwealth (Note 7)	2,622,471	-
Prepaid expenses	2,759,720	5,349
Inventory	894,228	2,646
Notes receivable (Net of allowance for doubtful accounts of $38,092)	390,931	-
Total current assets	54,366,275	2,772,305
Noncurrent assets:		
Restricted cash and cash equivalents (Note 2)	1,104,163	-
Endowment investments (Note 2)	210,552	14,013,524
Other long-term investments (Note 2)	6,673,054	19,700,729
Contributions receivable (Net of allowance for doubtful contributions of $38,562)	-	1,889,530
Notes receivable (Net of allowance for doubtful accounts of $205,275)	2,177,797	-
Capital assets, net (Note 4)	259,819,753	1,338,436
Other assets	-	14,645
Total noncurrent assets	269,985,319	36,956,864
Total assets	324,351,594	39,729,169
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses (Note 5)	20,788,721	301,302
Deferred revenue	4,268,355	-
Obligations under securities lending	3,875,430	-
Deposits held in custody for others	2,741,277	-
Long-term liabilities - current portion (Note 6)	8,597,509	592,701
Advance from the Treasurer of Virginia	54,500	-
Total current liabilities	40,325,792	894,003
Noncurrent liabilities (Note 6)	82,859,768	1,969,477
Total liabilities	123,185,560	2,863,480

JAMES MADISON UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2001

	James Madison University	Component Unit James Madison University Foundation
NET ASSETS		
Invested in capital assets, Net of related debt	185,216,662	1,338,436
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	276,249	10,369,992
Research and public service	-	313,400
Other	-	3,772,760
Expendable:		
Scholarships and fellowships	31,239	785,098
Research and public service	866,334	1,496,261
Debt service	4,073	1,091,821
Capital projects	1,372,255	3,446,292
Loans	344,284	-
Other	-	11,320,394
Unrestricted	13,054,938	2,931,235
Total net assets	$ 201,166,034	$ 36,865,689

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

JAMES MADISON UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2002

	James Madison University	Component Unit James Madison University Foundation
Operating revenues		
Student tuition and fees (Net of scholarship allowances of $3,319,056)	$ 52,061,522	$ -
Gifts and contributions	-	3,100,894
Federal grants and contracts	11,366,430	-
State grants and contracts	7,249,488	-
Nongovernmental grants and contracts	2,256,857	-
Auxiliary enterprises (Net of scholarship allowances of $4,298,415) (Note 9)	80,164,607	-
Other operating revenues	792,327	89,833
Total operating revenues	153,891,231	3,190,727
Operating expenses (Note 10)		
Instruction	68,907,452	549,949
Research	2,866,517	28,773
Public service	8,814,366	74,966
Academic support	18,093,430	217,853
Student services	6,429,561	38,929
Institutional support	11,679,516	1,059,125
Operation and maintenance - plant	13,188,150	888,812
Depreciation	14,211,502	63,469
Student aid	3,706,951	958,171
Auxiliary activities (Note 9)	61,175,851	581,643
Total operating expenses	209,073,296	4,461,690
Operating loss	(55,182,065)	(1,270,963)
Nonoperating revenues (expenses)		
State appropriations (Note 11)	67,332,587	-
Gifts	465,053	-
Investment income/(loss) (Net of investment expense of $108,735 for the University and $306,145 for the Foundation)	1,736,223	(3,622,371)
Interest on capital asset - related debt	(3,534,088)	(62,203)
Loss on disposal of plant assets	(3,036,778)	-
Payment to the Commonwealth	(359,470)	-
Net nonoperating revenues (expenses)	62,603,527	(3,684,574)
Income (loss) before other revenues, expenses, gains or losses	7,421,462	(4,955,537)
Capital appropriations	515,941	-
Capital gifts	5,442,455	-
Additions to permanent endowments	-	2,941,675
Net other revenues	5,958,396	2,941,675
Increase (decrease) in net assets	13,379,858	(2,013,862)
Net assets - beginning of year as restated (Note 1)	201,166,034	36,865,689
Net assets - end of year	$ 214,545,892	$ 34,851,827

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

JAMES MADISON UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2001

	James Madison University	Component Unit James Madison University Foundation
Operating revenues		
Student tuition and fees (Net of scholarship allowances of $3,374,654)	$ 48,529,185	$ -
Gifts and contributions	-	6,666,803
Federal grants and contracts	9,096,016	-
State grants and contracts	5,641,370	-
Nongovernmental grants and contracts	2,292,633	-
Auxiliary enterprises (Net of scholarship allowances of $3,950,536) (Note 9)	78,002,577	-
Other operating revenues	740,399	97,292
Total operating revenues	144,302,180	6,764,095
Operating expenses (Note 10)		
Instruction	68,020,149	364,798
Research	1,537,122	2,737
Public service	8,303,263	59,037
Academic support	18,397,936	1,677,633
Student services	6,138,847	23,908
Institutional support	11,775,436	937,574
Operation and maintenance - plant	17,096,858	366,210
Depreciation	13,314,796	63,155
Student aid	3,760,238	1,002,149
Auxiliary activities (Note 9)	62,905,733	680,895
Total operating expenses	211,250,378	5,178,096
Operating income (loss)	(66,948,198)	1,585,999
Nonoperating revenues (expenses)		
State appropriations (Note 11)	69,793,028	-
Gifts	585,589	-
Investment income (Net of investment expense of $149,614 for the University and $215,646 for the Foundation)	2,818,235	2,890,687
Interest on capital asset - related debt	(3,489,577)	(75,352)
Loss on disposal of plant assets	(191,353)	-
Net nonoperating revenues	69,515,922	2,815,335
Income before other revenues, expenses, gains or losses	2,567,724	4,401,334
Capital appropriations	3,663,533	-
Capital gifts	1,743,402	-
Additions to permanent endowments	-	702,857
Net other revenues	5,406,935	702,857
Increase in net assets	7,974,659	5,104,191
Net assets - beginning of year as restated	193,191,375	31,761,498
Net assets - end of year	$ 201,166,034	$ 36,865,689

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

JAMES MADISON UNIVERSITY
STATEMENT OF CASH FLOWS
For the Years Ended June 30, 2002 and 2001

	2002	2001
Cash flows from operating activities:		
Student tuition and fees	$ 52,155,052	$ 47,932,140
Grants and contracts	20,335,154	16,204,804
Auxiliary enterprises	80,156,709	77,206,095
Other receipts	788,355	789,026
Payments to employees	(95,945,324)	(92,341,581)
Payments for fringe benefits	(25,386,977)	(25,677,754)
Payments for services and supplies	(51,291,591)	(52,520,540)
Payments for utilities	(9,114,741)	(9,369,152)
Payments for scholarships and fellowships	(3,668,307)	(3,707,831)
Payments for noncapitalized plant improvements and equipment	(11,149,463)	(12,391,999)
Loans issued to students	(515,670)	(548,668)
Collections of loans from students	534,573	442,662
Net cash used by operating activities	(43,102,230)	(53,982,798)
Cash flows from noncapital financing activities:		
State appropriations	66,710,155	69,002,676
Payment to the Commonwealth	(359,470)	-
Gifts and grants for other than capital purposes	465,053	585,589
Loans issued to students and employees	(13,200)	(37,512)
Collections of loans from students and employees	18,698	50,084
Agency receipts	9,261,245	10,210,702
Agency payments	(9,240,968)	(9,503,464)
Net cash provided by noncapital financing activities	66,841,513	70,308,075
Cash flows from capital financing activities:		
Proceeds from investments	7,078,409	7,607,304
Proceeds from capital debt	6,043,820	-
Capital appropriations	515,941	3,663,533
Capital gifts	2,722,098	1,068,402
Proceeds from sale of capital assets	28,417	15,990
Purchase of capital assets	(28,124,913)	(25,867,866)
Principal paid on capital debt, leases and installments	(6,617,564)	(6,218,482)
Interest paid on capital debt, leases and installments	(4,205,798)	(3,866,224)
Net cash used by capital financing activities	(22,559,590)	(23,597,343)
Cash flows from investing activities:		
Interest on investments	56,149	129,766
Interest on cash management pools	1,878,300	2,664,080
Net cash provided by investing activities	1,934,449	2,793,846
Net increase (decrease) in cash	3,114,142	(4,478,220)
Cash and cash equivalents - beginning of the year	39,894,953	44,373,173
Cash and cash equivalents - end of the year	$ 43,009,095	$ 39,894,953

JAMES MADISON UNIVERSITY
STATEMENT OF CASH FLOWS
For the Years Ended June 30, 2002 and 2001

	2002	2001
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (55,182,065)	$ (66,948,198)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	14,211,502	13,314,796
Changes in assets and liabilities:		
Receivables, net	(366,477)	(828,259)
Due from the Commonwealth	(250,000)	(125,181)
Prepaid expenses	114,373	(282,849)
Inventory	137,832	339,944
Notes receivable, net	(54,576)	(124,850)
Accounts payable and accrued expenses	(1,351,657)	2,205,250
Deferred revenue	20,910	(1,278,651)
Advance from the Treasurer of Virginia	2,500	(1,000)
Accrued compensated absences	(19,459)	227,885
Accrued retirement plan	(394,769)	(515,163)
Federal loan programs contributions refundable	29,656	33,478
Net cash used by operating activities	$ (43,102,230)	$ (53,982,798)
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS		
Gift of capital assets	$ (2,720,357)	$ (675,000)
Principal and interest on capital lease debt paid by State agency on behalf of the University	$ 622,432	$ 790,352
Capitalization of interest revenue and expense, net	$ (551,986)	$ (443,353)
Change in fair value of investments recognized as a component of interest income	$ (41,964)	$ 33,478

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

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NOTES TO THE FINANCIAL STATEMENTS

JAMES MADISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

James Madison University (the "University") is a comprehensive university that is part of the Commonwealth of Virginia'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 of Virginia 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 of Virginia and is included in the basic financial statements of the Commonwealth.

The University elected to implement early Governmental Accounting Standards Board (GASB) Statement Number 39, *Determining Whether Certain Organizations are Component Units,* an amendment of GASB Statement Number 14, *The Financial Reporting Entity*. This statement addresses the conditions under which institutions should include associated fund-raising or research foundations as component units in their basic financial statements; and how such component units should be displayed in the financial statements. This statement is effective for the fiscal year ending June 30, 2004.

Previously, the University had no component units, as defined by GASB Statement Number 14. However, under Statement Number 39 standards, the James Madison University Foundation, Inc. (the Foundation) meets criteria qualifying 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 twenty-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 ending June 30, 2002 and 2001, the Foundation distributed $3,095,057 and $4,014,783, 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 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 of Public College and Universities*. These statements are effective for the Commonwealth and all of its component units for the fiscal year ending June 30, 2002, however the University elected to implement the changes for the fiscal year ending June 30, 2001. The change in financial statement presentation provides a comprehensive entity-wide look at the University's financial activities, and replaces the fund-group perspective previously required.

The new 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 management's discussion and analysis (MD&A); basic financial statements; notes to the financial statements; and required supplementary information other than MD&A.

The Foundation is a private, nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement Number 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 Statement Number 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 Financial Accounting Standards Board (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. <u>Investments</u>

In accordance with GASB Statement Number 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 nonoperating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

E. <u>Capital Assets</u>

Capital assets include land, buildings and other improvements, library materials, equipment and infrastructure assets such as sidewalks, steam tunnels, and electrical and computer network cabling systems. Capital assets are generally defined by the University as assets with an initial cost of $5,000 or more and an estimated useful life in excess of two years. Library materials are valued using published average prices for library acquisitions. Such assets are recorded at actual cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Expenses for major capital assets and improvements are capitalized (construction in progress) as projects are constructed. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. The costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life are not capitalized. Certain maintenance and replacement reserves have been established to fund costs relating to residences and other auxiliary activities.

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

Buildings	50 years
Other improvements and infrastructure	20 years
Equipment	5-15 years
Library materials	5 years

F. <u>Inventories</u>

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. <u>Noncurrent Cash and Investments</u>

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 noncurrent assets are classified as noncurrent assets in the Statement of Net Assets. Assets that will be used to liquidate current liabilities, including capital project liabilities that are expected to be paid within one year, are classified as current assets.

H. Deferred Revenue

Deferred revenue primarily includes amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the next period.

I. Accrued Compensated Absences

The amount of leave earned, but not taken by non-faculty salaried employees is recorded as a liability on the Statement of Net Assets. The amount reflects, as of June 30, all unused vacation leave, sabbatical leave and the amount payable upon termination under the Commonwealth of Virginia's sick leave pay-out 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, 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 Number 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 no 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.

Restatement of Beginning Net Assets at July 1, 2001

Net asset balance previously reported, June 30, 2001	$ 201,865,777
Adjustments to accumulated depreciation, primarily to include London Hostel not previously recorded	(799,743)
Correction of internal transfer previously reported as an obligation between loan and agency funds	100,000
Revised net asset balance, July 1, 2001	$ 201,166,034

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 nongovernmental grants and contracts.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts, and other revenue sources that are defined as nonoperating revenues by GASB Statement Number 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,* and GASB Statement Number 34, such as state appropriations and investment and interest income.

Nonoperating expenses include interest on debt related to the purchase of capital assets and losses on the disposal of capital assets. All other expenses are classified as operating expenses.

M. Scholarship Discounts and Allowances

Student tuition and fees revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenue, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the student's behalf. Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). The alternative method proportionately calculates scholarship discounts and allowances on a University-wide basis by allocating cash payments to students, excluding payments for services, on the ratio of total aid to aid not considered to be third party aid.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The following information is provided with respect to the credit risk associated with the University's cash and cash equivalents and investments at June 30, 2002 and 2001.

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 $497,760 of deposits with financial institutions, 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, 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. The University's deposits as of June 30, 2002 are categorized by levels of credit risk as follows: Category one includes insured deposits; Category three includes uninsured, uncollateralized deposits. Deposits with financial institutions include $497,760 of uncollateralized deposits, which are Category three deposits; all remaining deposits are Category one. 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.

B. 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.

	2002	2001
Cash and cash equivalents:		
Deposits with financial institutions	$ 3,577,332	$ 3,494,394
Money market and index funds	2,911,146	2,748,110
Cash with the Treasurer	36,520,617	33,652,449
Total	$43,009,095	$39,894,953
Investments:		
State non-arbitrage program (SNAP)	$ 2,762,338	$ 7,698,432
Investments with the Treasurer of Virginia	2,800	4,073
Collateral held for securities lending	2,858,587	3,875,430
Mutual funds	537,540	568,370
Total	$ 6,161,265	$12,146,305

James Madison University Foundation Cash and Investments

The following information is provided with respect to the credit risk associated with the Foundation's cash and cash equivalents and investments at June 30, 2002 and 2001. 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. The Foundation's investments are categorized by levels of credit risk as described below:

Category 1 – Insured or registered securities held by the James Madison University Foundation or its agent in the Foundation's name.

As of June 30, 2002

	Category 1	Non-Categorized	Market Value	Cost
Common stock	$ 24,039,499	$ -	$ 24,039,499	$ 25,170,073
Corporate bonds	5,951,723	-	5,951,723	6,459,751
Cash and cash equivalents	541,204	-	541,204	541,204
Life insurance policies	-	262,694	262,694	262,694
Total	$ 30,532,426	$ 262,694	$ 30,795,120	$ 32,433,722

As of June 30, 2001

	Category 1	Non-Categorized	Market Value	Cost
Common stock	$ 26,696,897	$ -	$ 26,696,897	$ 23,687,924
Corporate bonds	6,286,605	-	6,286,605	6,443,213
Cash and cash equivalents	498,740	-	498,740	498,740
Life insurance policies	-	232,011	232,011	232,011
Total	$ 33,482,242	$ 232,011	$ 33,714,253	$ 30,861,888

C. Securities Lending Transactions

The investments under 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 in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2002 and 2001:

	2002	2001
Student tuition and fees	$ 380,856	$ 457,229
Auxiliary enterprises	897,452	937,498
Federal, state, and nongovernmental grants and contracts	2,917,875	2,440,571
Other activities	261,014	232,330
Total	4,457,197	4,067,628
Less allowance for doubtful accounts	374,910	422,192
Net accounts receivable	$4,082,287	$3,645,436

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the years ending June 30, 2002 and 2001 is presented as follows:

	2002			
	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable capital assets:				
Land	$ 6,991,441	$ 2,201,333	$ -	$ 9,192,774
Inexhaustible artwork and historical treasures	104,976	55,000	-	159,976
Construction in progress	17,058,548	19,980,767	26,540,427	10,498,888
Total nondepreciable capital assets	24,154,965	22,237,100	26,540,427	19,851,638
Depreciable capital assets:				
Buildings	275,740,337	24,081,968	339,227	299,483,078
Infrastructure	24,668,343	2,296,753	-	26,965,096
Equipment	31,388,237	5,238,416	3,094,890	33,531,763
Other improvements	6,909,413	702,337	-	7,611,750
Library materials	27,824,769	1,400,680	951,763	28,273,686
Total depreciable capital assets	366,531,099	33,720,154	4,385,880	395,865,373
Less accumulated depreciation for:				
Buildings	79,960,900	7,524,172	167,762	87,317,310
Infrastructure	7,674,564	1,217,145	-	8,891,709
Equipment	16,577,988	3,811,814	1,186,002	19,203,800
Other improvements	2,725,172	353,896	-	3,079,068
Library materials	23,927,687	1,304,475	-	25,232,162
Total accumulated depreciation	130,866,311	14,211,502	1,353,764	143,724,049
Depreciable capital assets, Net	235,664,788	19,508,652	3,032,116	252,141,324
Total capital assets, Net	$259,819,753	$41,745,752	$29,572,543	$271,992,962

	2001			
	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable capital assets:				
Land	$ 6,208,741	$ 782,700	$ -	$ 6,991,441
Inexhaustible artwork and historical treasures	94,976	10,000	-	104,976
Construction in progress	31,020,870	14,635,454	28,597,776	17,058,548
Total nondepreciable capital assets	37,324,587	15,428,154	28,597,776	24,154,965
Depreciable capital assets:				
Buildings	242,035,123	33,705,214	-	275,740,337
Infrastructure	24,638,343	30,000	-	24,668,343
Equipment	29,200,743	4,904,535	2,717,041	31,388,237
Other improvements	5,706,433	1,311,537	108,557	6,909,413
Library materials	26,591,787	1,334,606	101,624	27,824,769
Total depreciable capital assets	328,172,429	41,285,892	2,927,222	366,531,099
Less accumulated depreciation for:				
Buildings	73,134,899	6,137,961	-	79,272,860
Infrastructure	6,470,977	1,105,264	-	7,576,241
Equipment	12,843,755	4,531,900	776,354	16,599,301
Other improvements	2,543,512	255,524	108,557	2,690,479
Library materials	22,643,540	1,284,147	-	23,927,687
Total accumulated depreciation	117,636,683	13,314,796	884,911	130,066,568
Adjustments to previously reported accumulated depreciation balances	-	799,743	-	799,743
Adjusted total accumulated depreciation	117,636,683	14,114,539	884,911	130,866,311
Depreciable capital assets, Net	210,535,746	27,171,353	2,042,311	235,664,788
Total capital assets, Net	$247,860,333	$42,599,507	$30,640,087	$259,819,753

The Foundation’s net capital assets consist of $944,564 and $538,380 in property and equipment and $800,056 and $800,056 in collections of historical artifacts for the years ending June 30, 2002 and 2001.

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2002 and 2001:

	2002	2001
Employee salaries, wages and fringe benefits payable	$14,738,610	$14,975,178
Vendors and suppliers accounts payable	1,820,428	2,935,517
Capital projects accounts and retainage payable	1,767,546	2,878,026
Total accounts payable and accrued expenses	$18,326,584	$20,788,721

6. NONCURRENT LIABILITIES

The University's noncurrent liabilities consist of long-term debt (further described in Note 7), accrued supplemental retirement plan (further described in Note 8), and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the years ending June 30, 2002 and 2001 is presented as follows:

	2002				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds	$ 43,935,000	$ -	$ 1,995,000	$ 41,940,000	$ 2,085,000
General obligation bonds	36,389,224	5,900,000	3,731,763	38,557,461	3,739,121
Capital leases	1,338,048	-	1,070,407	267,641	267,641
Installment purchases	489,163	799,356	406,289	882,230	463,849
Total long-term debt	82,151,435	6,699,356	7,203,459	81,647,332	6,555,611
Accrued retirement plan	2,713,624	1,135,740	1,530,509	2,318,855	-
Accrued compensated absences	4,174,719	2,285,932	2,305,391	4,155,260	2,199,101
Federal loan program contributions	2,417,499	29,656	-	2,447,155	-
Total long-term liabilities	$ 91,457,277	$ 10,150,684	$ 11,039,359	$ 90,568,602	$ 8,754,712

	2001				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds	$ 45,750,000	$ -	$ 1,815,000	$ 43,935,000	$ 1,995,000
General obligation bonds	40,060,994	-	3,671,770	36,389,224	3,456,763
Capital leases	2,307,035	-	968,987	1,338,048	842,782
Installment purchases	977,214	-	488,051	489,163	254,099
Total long-term debt	89,095,243	-	6,943,808	82,151,435	6,548,644

Accrued retirement plan	3,228,787	1,053,025	1,568,188	2,713,624	-
Accrued compensated absences	3,946,834	2,228,703	2,000,818	4,174,719	2,048,865
Federal loan program contributions	2,384,020	33,479	-	2,417,499	-
Total long-term liabilities	$ 98,654,884	$ 3,315,207	$ 10,512,814	$ 91,457,277	$ 8,597,509

7. LONG-TERM DEBT

The University has issued two categories of bonds pursuant to Section 9 of Article X of the Constitution of Virginia. Section 9(d) bonds are revenue bonds, which are limited obligations of the University payable exclusively from pledged general revenues and are not debt of the Commonwealth 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.

Description	Interest Rates (%)	Maturity	2002	2001
Revenue bonds:				
Dormitory, Series 1993A	4.70 - 5.375	2009	$ 1,355,000	$ 1,515,000
Dormitory, Series 1998A	3.50- 5.00	2019	13,090,000	13,615,000
Parking, Series 1999A	4.50 – 6.00	2020	6,090,000	6,290,000
Student center, Series 1999A	4.50 – 6.00	2020	9,350,000	9,660,000
Recreation, Series 1993A	4.70 - 5.375	2013	12,055,000	12,855,000
Total revenue bonds			41,940,000	43,935,000
General obligation revenue bonds:				
Dormitory and dining hall:				
Series 1979	3.00	2009	1,200,000	1,350,000
Series 1993A	4.60 - 5.25	2013	5,648,124	6,128,792
Series 1993B	4.25 - 5.00	2010	1,939,084	2,468,228
Series 1997	5.00	2017	15,960,000	16,665,000
Series 1998	4.00 - 5.50	2018	925,000	965,000
Series 2001	4.00 - 5.00	2021	5,625,000	-
Student Center:				
Series 1992	5.50 - 5.90	2005	900,145	1,165,639

Series 1992C	5.50 - 5.80	2004	685,000	1,000,000
Series 1998	3.80 - 5.00	2013	4,442,912	4,474,660
Electrical upgrade:				
Series 1993A	4.60 - 4.80	2003	50,000	95,000
Series 1994	6.00	2004	225,000	330,000
Athletics:				
Series 1992	5.50 - 5.70	2003	525,468	1,123,653
Series 1993A	4.60 - 4.90	2004	230,793	231,190
Series 1993B	4.25 - 4.50	2003	200,935	392,062
Total general obligation revenue bonds			38,557,461	36,389,224
Total bonds payable			80,497,461	80,324,224
Capital leases:				
Higher education equipment trust fund leases payable	Various	2003	267,641	971,253
Other capital leases payable	Various	2002	-	366,795
Total capital leases payable			267,641	1,338,048
Installment purchases payable	Various	2001-2005	882,230	489,163
Total			$81,647,332	$82,151,435

Long-term debt matures as follows:

	Principal	Interest
2003	$ 6,555,611	$ 4,009,836
2004	5,830,052	3,710,079
2005	5,095,466	3,441,700
2006	4,880,631	3,204,458
2007	5,107,347	2,972,569
2008-2012	26,168,910	11,038,362
2013-2017	20,459,315	4,814,087
2018-2021	7,550,000	648,655
Total	$ 81,647,332	$ 33,839,746

Prior Year Defeasance of Debt

In prior years, the University and the Commonwealth of Virginia, on behalf of the University, issued bonds and the proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on other debt. The bonds representing that debt are, therefore, considered defeased. Accordingly, the trust account's assets and the liabilities for the defeased bonds are not included in the University's financial statements. On June 30, 2002 and 2001, $10,700,579 and $12,333,196, respectively, of the bonds considered defeased were outstanding.

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 Statement of Net Assets line "Due from the Commonwealth" includes $2,124,680 and $1,874,680 at June 30, 2002 and 2001, respectively, and represents equipment purchased by the University that was not reimbursed by the VCBA at year-end. The remaining balances in "Due from the Commonwealth" represent unreimbursed capital project expenses under the Commonwealth's 21st Century bond program.

Foundation Debt

The Foundation has a line of credit for borrowings to a maximum of $200,000 with interest payable monthly at prime. The line of credit expires on June 30, 2003. At June 30, 2002 and 2001, $0 and $200,000 was outstanding on the line of credit, respectively. The Foundation's long-term debt primarily consists of $883,407 and $931,909 outstanding at June 30, 2002 and 2001, in Series 1999 Industrial Development Authority Revenue Bonds, interest at 5.32 percent, and maturing through 2014. Remaining debt includes $426,143 in notes payable for 2002, and $344,200 in an unsecured bank loan for 2001, repaid in 2002.

8. SUPPLEMENTAL RETIREMENT PLAN

Effective January 1, 1997, the University established a Supplemental Retirement Plan for tenured faculty members. The plan was designed to provide flexibility in the allocation of faculty positions. The plan is a qualified plan within the meaning of section 401(c) of the Internal Revenue Code of 1986 (the Code) and is a governmental plan within the meaning of section 414(d) of the Code. Since it is a governmental plan, the plan is not subject to the Employee Retirement Income Security Act of 1974 as amended. As of June 30, 2002, 89 faculty members elected to enroll in the plan, including eleven new participants who retired under this plan during fiscal year 2002. In order to satisfy IRS requirements, a trust fund has been established as means to make the payments to the plan participants. The University prepaid the entire fiscal year 2003 plan contribution of $1,283,626 in 2002. The plan payment schedule is as follows:

Year Ending June 30,	Supplemental Plan Obligations
2004	$ 840,827
2005	813,127
2006	437,753
2007	227,148
Total	$ 2,318,855

9. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expenses consisted of the following at June 30, 2002 and 2001. The University used auxiliary revenues to pay debt service and capital improvements of $10,078,244 and $5,091,087 in 2002 and $9,207,737 and 7,324,744 in 2001, respectively. Those amounts are not included in the auxiliary operating expenses below.

Revenues:	2002	2001
Room contracts, net of scholarship allowances of $1,071,578 in 2002 and $1,005,016 in 2001	$16,204,337	$16,006,893
Food service contracts, net of scholarship allowances of $1,104,416 in 2002 and $1,017,263 in 2001	16,700,925	16,202,761
Comprehensive fee, net of scholarship allowances of $2,122,421 in 2002 and $1,928,257 in 2001	32,095,134	30,706,304
Other student fees and sales and services	15,164,211	15,086,619
Auxiliary enterprises revenues	$80,164,607	$78,002,577

Expenses:	2002	2001
Residential facilities	$11,718,418	$11,932,451
Dining operations	24,001,916	24,347,943
Athletics	10,046,845	10,488,059
Other auxiliary activities	15,408,672	16,137,280
Auxiliary activities expenses	$61,175,851	$62,905,733

10. EXPENSES BY NATURAL CLASSIFICATIONS

The following table shows a classification of expenses for the years ended June 30, 2002 and 2001; 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.

2002

	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholarships And Fellowships	Utilities	Plant and Equipment	Depreciation	Total
Instruction	$50,706,510	$12,742,383	$ 5,090,515	$ -	$ 9,094	$ 358,950	$ -	$ 68,907,452
Research	1,425,138	133,729	1,077,056	-	-	230,594	-	2,866,517
Public service	4,232,122	870,431	3,465,047	-	1,492	245,274	-	8,814,366
Academic support	9,304,997	2,217,526	1,087,477	-	-	5,483,430	-	18,093,430
Student services	3,847,594	946,132	1,569,641	-	-	66,194	-	6,429,561
Institutional support	8,155,130	2,695,736	5,120	-	16,454	807,076	-	11,679,516
Operation and maintenance of plant	4,978,129	1,566,109	677,046	-	4,516,385	1,450,481	-	13,188,150
Depreciation expense	-	-	-	-	-	-	14,211,502	14,211,502
Scholarship and related expenses	27,455	9,041	2,149	3,668,306	-	-	-	3,706,951
Auxiliary activities	13,138,497	3,594,034	37,927,987	-	4,422,801	2,092,532	-	61,175,851
Total	$ 95,815,572	$ 24,775,121	$ 50,902,038	$ 3,668,306	$ 8,966,226	$10,734,531	$14,211,502	$ 209,073,296

	Salaries and Wages	Fringe Benefits	Services and Supplies	2001 Scholarships and Fellowships	Utilities	Plant and Equipment	Depreciation	Total
Instruction	$51,387,430	$12,306,771	$ 3,793,166	$ -	$ 11,092	$ 521,690	$ -	$ 68,020,149
Research	776,482	58,007	644,356	-	-	58,277	-	1,537,122
Public service	3,674,221	846,417	3,468,158	-	-	314,467	-	8,303,263
Academic support	9,033,041	2,709,397	1,472,382	-	-	5,183,116	-	18,397,936
Student services	3,718,033	921,478	1,390,458	-	-	108,878	-	6,138,847
Institutional support	8,201,583	2,874,462	2,082	-	7,749	689,560	-	11,775,436
Operation and maintenance of plant	4,799,340	1,638,305	1,019,420	-	5,032,556	4,607,237	-	17,096,858
Depreciation expense	-	-	-	-	-	-	13,314,796	13,314,796
Scholarship and related expenses	39,584	8,437	4,386	3,707,831	-	-	-	3,760,238
Auxiliary activities	11,672,072	3,731,342	41,806,419	-	4,760,244	935,656	-	62,905,733
Total	$93,301,786	$25,094,616	$53,600,827	$3,707,831	$ 9,811,641	$12,418,881	$13,314,796	$ 211,250,378

11. STATE APPROPRIATIONS

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 for the years ending June 30, 2002 and 2001:

	2002	2001
Original legislative appropriation:		
Educational and general programs	$ 66,006,745	$ 64,516,851
Student financial assistance	3,981,081	4,133,341
Higher education equipment trust fund program	622,432	790,352
Supplemental adjustments:		
Central Fund Appropriation Transfers:		
3 percent budget reduction	(1,982,155)	-
Voluntary budget reductions	(852,079)	-
Salary annualization, increases and regrades	55,603	378,981
Health insurance premium	587,336	308,879
Deferred compensation match	345,243	327,445
Retirement plans, faculty salaries, auto liability insurance premium, and other miscellaneous reversions to the Central Fund	(1,430,911)	(660,884)
Reversion to the General Fund of the Commonwealth	(708)	(1,937)
Adjusted appropriation	$ 67,332,587	$ 69,793,028

12. COMMITMENTS

At June 30, 2002, the University was a party to construction and other contracts totaling approximately $23,032,674 of which $15,186,673 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, 2002 and 2001, such purchases totaled $3,049,002 and $3,636,977.

The University is committed under various operating leases for equipment and space. In general, the equipment leases are for a two-year term and the space leases are for three to four year terms with appropriate renewal options for each type of lease. In most cases, the University expects that in the normal course of business, these leases will be replaced by similar leases. Rental expense was approximately $2,318,999 and $2,142,549 for the years ended June 30, 2002 and 2001.

The University has, as of June 30, 2002, the following future minimum rental payments due under the above leases:

Year Ending June 30	Operating Lease Obligation
2003	$ 1,925,793
2004	1,300,425
2005	1,248,054
2006	1,101,366
2007	1,091,658
2008-2012	5,293,704
2013-2017	2,214,580
Total	$14,175,580

13. 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.

The VRS does not measure assets and pension benefit obligations separately for individual State institutions. Therefore, all 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 of Virginia, 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, 2002. 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 $3,991,956 and $5,280,476 for the years ended June 30, 2002 and 2001, respectively. Retirement contribution rates were lowered from 9.24 percent to 5.0 percent as part of the state budget reduction process. This rate decrease resulted in a reduction to retirement contribution expense. Contributions to the VRS were calculated using the base salary amount of approximately $50,275,142 and $50,978,082 for the fiscal years ended June 30, 2002 and 2001. The University's total payroll was approximately $105,563,550 and $102,442,248 for the years ended June 30, 2002 and 2001, respectively.

Optional Retirement Plans

Full-time faculty and certain administrative staff participate in a defined contribution plan administered by five different providers rather than the 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 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 (5.0 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 $3,761,056 and $3,551,865 for years ended June 30, 2002 and 2001, respectively. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $36,163,996 and $34,152,544 for fiscal years 2002 and 2001.

Deferred Compensation Plan

Employees of the University are employees of the Commonwealth of Virginia. 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. Employer contributions under the Deferred Compensation Plan were approximately $483,918 and $435,377 for the fiscal years 2002 and 2001, respectively.

14. 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.

15. 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, 2002, the University estimates that no material liabilities will result from such audits or questions.

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.

16. 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 of Virginia. 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 Commonwealth's Comprehensive Annual Financial Report.

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SUPPLEMENTARY INFORMATION

JAMES MADISON UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUES AND EXPENDITURES
For the Year Ended June 30, 2002

	Food Service	Stores and Shops	Residential Facilities	Parking
Revenues:				
Student fees	$ 17,805,341	$ -	$ 17,275,914	$ -
Sales and services	8,132,474	1,288,853	342,571	1,986,476
Total revenues	25,937,815	1,288,853	17,618,485	1,986,476
Cost of sales	-	(86,697)	-	-
Net revenues	25,937,815	1,202,156	17,618,485	1,986,476
Expenses of operation:				
Personal service	528,690	205,104	1,820,320	428,322
Contractual service	20,790,038	-	5,796,107	951,696
Supplies and materials	261,604	3,385	1,118,521	23,740
Current charges and obligations	2,306,166	918,324	2,684,823	239,019
Miscellaneous	100,739	-	154,887	132,416
Equipment	25,809	3,275	487,853	188,412
Scholarships	38,395	-	99,935	-
Total expenses of operation	24,051,441	1,130,088	12,162,446	1,963,605
Excess (deficiency) of revenues over (under) expenses of operation	1,886,374	72,068	5,456,039	22,871
Nonoperating revenues (expenses):				
Private gifts	-	-	-	-
Scholarships	-	-	-	-
Total non-operating revenues (expenses)	-	-	-	-
Transfers:				
Mandatory:				
Debt service	(931,671)	(17,436)	(4,253,402)	(543,699)
Nonmandatory:				
Allocation of student fees	214,057	-	-	838,029
Capital improvements	-	-	-	-
Total transfers	(717,614)	(17,436)	(4,253,402)	294,330
Net revenue increase/(decrease) for the year	$ 1,168,760	$ 54,632	$ 1,202,637	$ 317,201
Fund balance - Beginning of year				
Fund balance - End of year				

Note: This schedule includes internal transactions, accounts for purchases of capital assets as expenses, and does not include depreciation. Management uses this method of accounting to monitor individual auxiliary enterprises and to set rates.

Telecom-munications	Student Health	Student Activities	Recreation	Other	Athletics	Total
$ -	$ -	$ -	$ -	$ 34,808,015	$ -	$ 69,889,270
1,468,241	210,747	24,590	89,999	1,666,752	1,194,170	16,404,873
1,468,241	210,747	24,590	89,999	36,474,767	1,194,170	86,294,143
-	-	-	-	-	-	(86,697)
1,468,241	210,747	24,590	89,999	36,474,767	1,194,170	86,207,446
61,619	1,603,694	1,401,399	1,271,291	2,677,211	5,293,531	15,291,181
348,544	126,771	596,529	478,721	1,596,948	2,777,432	33,462,786
3,838	148,812	296,031	299,800	394,318	686,205	3,236,254
8,500	196,625	30,906	444,888	340,408	1,395,266	8,564,925
-	13,077	8,379	10,974	86,480	136,228	643,180
29,464	36,367	179,736	114,071	964,260	207,734	2,236,981
-	19,314	54,720	44,077	77,885	3,187,283	3,521,609
451,965	2,144,660	2,567,700	2,663,822	6,137,510	13,683,679	66,956,916
1,016,276	(1,933,913)	(2,543,110)	(2,573,823)	30,337,257	(12,489,509)	19,250,530
-	-	-	-	-	143,603	143,603
-	-	-	-	-	(143,603)	(143,603)
-	-	-	-	-	-	-
(189,210)	-	(1,775,536)	(1,468,112)	(17,432)	(881,747)	(10,078,245)
-	1,912,930	4,322,913	4,043,642	(24,840,391)	13,508,820	-
-	-	-	-	(5,091,087)	-	(5,091,087)
(189,210)	1,912,930	2,547,377	2,575,530	(29,948,910)	12,627,073	(15,169,332)
$ 827,066	$ (20,983)	$ 4,267	$ 1,707	$ 388,347	$ 137,564	4,081,198
						15,359,216
						$ 19,440,414

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Harrisonburg, Virginia

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