

**JAMES MADISON UNIVERSITY
HARRISONBURG, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2003**



AUDIT SUMMARY

Our audit of James Madison University for the year ended June 30, 2003 found:

- the financial statements are presented fairly in all material respects;
- no internal control matters that we consider to be material weaknesses;
- no instances of noncompliance that are required to be reported; and
- adequate corrective action of a prior year audit finding.

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UNIVERSITY OFFICIALS



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

May 14, 2004

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Lacey E. Putney
Vice-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, 2003, 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 ended June 30, 2003, 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 University Foundation, Inc., a discretely presented component unit, whose statements reflect total assets and revenues of \$41,545,443 and \$7,527,621, respectively, as of and for the year ended June 30, 2003. Those statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the accounts included in the James Madison University 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 its discretely presented component unit as of June 30, 2003, 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.

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, 2003, 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Status of Prior Findings

The University has taken adequate corrective action with respect to audit findings reported in the prior year.

Report Distribution and Exit Conference

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. We discussed this report with management at an exit conference held on June 2, 2004.

AUDITOR OF PUBLIC ACCOUNTS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Accounting Standards

The following Management's Discussion and Analysis is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective, easily read analysis of 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, 2003. Comparative numbers, where presented, are for the fiscal year ended June 30, 2002. 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, 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.

These financial reporting standards significantly changed the appearance and nature of the required financial information compared to the prior standards. 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, whereas 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 these 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.

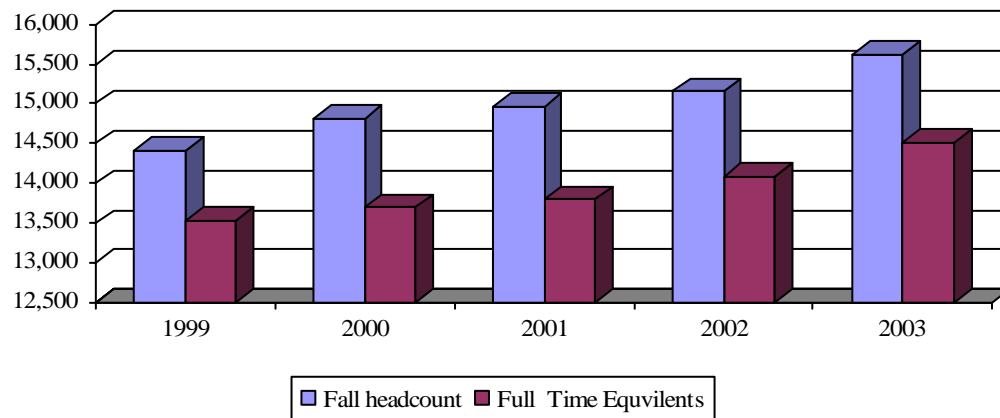
The University elected to implement early GASB Statement 39, *Determining Whether Certain Organizations are Component Units*. This statement addresses the conditions under which institutions should include associated fund-raising or research foundations as component units in their general-purpose financial 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. (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.

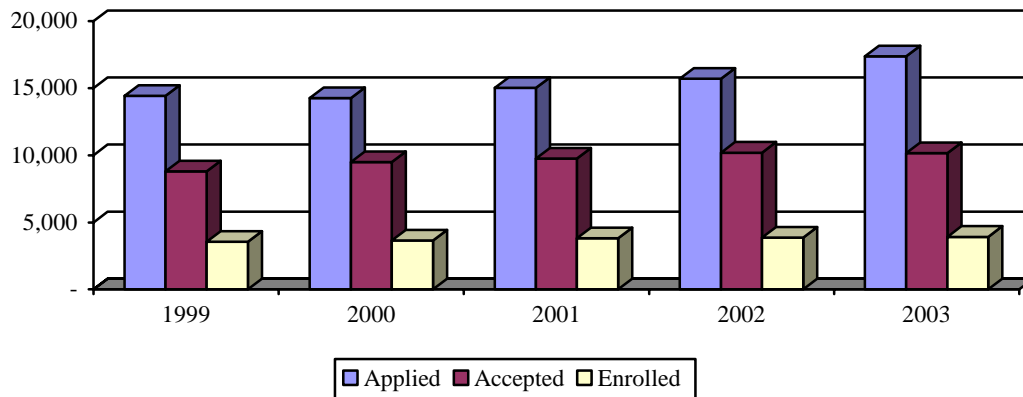
The chart below demonstrates the beginning of this trend.

Enrollment Information



Overall undergraduate and transfer applications, acceptances, and subsequent enrollment of accepted applicants are indicators of the University's popularity and selectivity among prospective students as shown in the graph below. The University continues to be a popular choice for students seeking a comprehensive, student-centered educational experience.

Admission Information



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, 2003 and 2002. The data presented in the SNA aids in determining the assets available to continue the University's operations. It also allows readers to determine how much the University owes to vendors and creditors. Finally, the SNA provides a picture of net assets and their availability for expenditure by the University. Sustained increases in net assets are one indicator of an organization's financial health.

Net assets are divided into three major categories. The first category, "Invested in capital assets, Net of related debt," represents the University's total investment in capital assets, net of accumulated depreciation

and outstanding debt obligations related to those capital assets. Debt incurred, but not yet expended for capital assets, is not included as a component of invested in capital assets, net of related debt. The next category is “Restricted net assets,” which is divided into two categories, expendable and 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 that, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or added to the principal. Unrestricted net assets represent resources used for the University’s general operations. They may be used at the discretion of the University’s Board of Visitors to meet current expenses for any lawful purpose in support of educational and general and auxiliary activities.

Statement of Net Assets *

	<u>2003</u>	<u>2002</u>
Assets:		
Current assets	\$ 68,575	\$ 56,885
Capital assets, Net	279,798	271,993
Other noncurrent assets	<u>6,703</u>	<u>4,576</u>
Total assets	<u>355,076</u>	<u>333,454</u>
Liabilities:		
Current liabilities	36,408	37,094
Noncurrent liabilities	<u>82,724</u>	<u>81,814</u>
Total liabilities	<u>119,132</u>	<u>118,908</u>
Net assets:		
Invested in capital assets, Net of related debt	203,488	191,369
Restricted – Expendable	7,304	3,583
Restricted – Nonexpendable	260	262
Unrestricted	<u>24,892</u>	<u>19,332</u>
Total net assets	<u>\$235,944</u>	<u>\$214,546</u>

* in thousands

The University’s total assets increased by \$21,622,000. 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 \$7,805,000 is discussed in the next section of this analysis. The \$11,690,000 increase in current assets is related to an increase in cash and cash equivalents and amounts due from the Commonwealth. An increase in auxiliary reserve funds of \$6,263,000 and unspent state grant funds of \$428,000 related to the new Commonwealth Information Security Center are the main components. Increases in amounts due from the Commonwealth are expenditure reimbursements for capital projects funded by the state’s 21st Century and General Obligation Bond programs. Total liabilities increased by only \$224,000.

Capital Asset and Debt Administration

The University continues to maintain and upgrade current facilities, as well as pursue opportunities

for additional facilities. Investment in new and upgrading current structures serves to facilitate the current and future instructional programs and residential lifestyles.

Note 4 of the Notes to Financial Statements describes the University's significant investment in capital assets with total depreciable capital asset additions of \$18,323,000 (excluding land and construction in progress) in fiscal year 2003. Significant capital projects substantially completed in fiscal year 2003 include the Gifford residence hall (\$5,197,000) and the campus bookstore (\$3,947,000). The Gifford Hall renovation was funded by previously issued debt. The campus bookstore was primarily funded by private gifts. Nondepreciable additions include \$1,844,000 for parcel two of a two-parcel land acquisition, funded with the proceeds from debt issued in 2003. 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. The University also used \$1,779,000 in auxiliary reserve funds to purchase land for future student recreation fields. Current year depreciation expense was \$15,067,000 with net retirements of \$600,000 resulting in a net increase of depreciable capital assets of \$2,656,000.

Major projects still under construction at June 30, 2003, include a third academic building on the East Campus (\$5,458,000), the Athletic Performance Center and Track Relocation (\$3,399,000), and the Harrison Hall renovation (\$556,000). Costs incurred relating to the East Campus' third academic building are for planning, architectural and engineering fees, and construction. The planning and fees were funded by state general funds. The constructions costs, estimated to be approximately \$24,249,000, are being funded by the state's 21st Century Bond Program. The University will incur no debt for this project. The Athletic Performance Center and Track Relocation projects are being funded by a combination of auxiliary reserve funds, gifts, and debt proceeds.

The University decreased its total long-term debt from \$81,647,000 in fiscal year 2002 to \$81,026,000 in fiscal year 2003, even after incurring \$2,100,000 in new bond indebtedness to fund the purchase of parcel two of the property acquisition discussed above; and \$4,170,000 for the Logan residence hall renovation. The University is participating in the Commonwealth's 2003 fall bond sale and will incur bond debt of \$2 million for construction of the Athletic Performance Center. As calculated under the State Council of Higher Education for Virginia's (SCHEV) formula, the University's 2003 debt service to unrestricted expenditures and mandatory transfers ratio was 5.4 percent, as compared to 5.5 percent for 2002. 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 increased from \$7,846,000 in 2002 to \$19,229,000 in 2003. Unpaid commitments at June 30, 2003, primarily reflect the East Campus' third academic building and the Athletic Performance Center projects. Further information relating to capital assets, construction, and capital debt is included in the Notes to Financial Statements in Notes 4 and 7.

The University's long range capital outlay program received a major boost in Fall 2002 from the voter-approved Virginia Higher Education Bond Referendum. 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 five 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 the current student body, not to further expand enrollment. The University's first bond project that got underway in 2003 is 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 expect to show an operating loss.

Statement of Revenues, Expenses, and Changes in Net Assets *

	<u>2003</u>	<u>2002</u>
Operating revenues	\$169,218	\$153,891
Operating expenses	<u>219,063</u>	<u>209,073</u>
Operating loss	<u>(49,845)</u>	<u>(55,182)</u>
Nonoperating revenues and expenses	<u>58,822</u>	<u>62,604</u>
Income before other revenues, expenses, gains, or losses	8,977	7,422
Other revenues, expenses, gains, or losses	<u>12,421</u>	<u>5,958</u>
Increase in net assets	21,398	13,380
Net assets - beginning of year	<u>214,546</u>	<u>201,166</u>
Net assets - end of year	<u>\$235,944</u>	<u>\$214,546</u>

* in thousands

Operating revenues, consisting mostly of tuition and fees and auxiliary enterprises, increased \$15,327,000 or ten percent from the prior fiscal year. Student tuition and fees, net of scholarship allowances, increased by \$7,091,000 in fiscal year 2003. Most of this growth was attributable to an approximate ten percent tuition rate increase. In order to mitigate further state budget reductions, the University increased tuition by \$170 per student for the Spring 2003 semester. Auxiliary revenues increased \$5,024,000 or 6.3 percent, mostly attributable to an overall room and board rate increase of two percent and a 2.1 percent

increase in the comprehensive fee. Federal and state grants and contracts also increased. Specific program increases include Pell Grants (\$340,000), federal pass-through funds from the state Department of Education for Special Education (\$367,000), and new funds for the Center for Civic Education (\$368,000).

State grants included an increase of \$434,000 for the Commonwealth Information Security Center, which received its initial funding from the Commonwealth in July 2001.

Compensation expense, consisting of the natural expense classifications salaries, 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; however, in September 2002, faculty and staff received a one-time bonus payment equal to 2.5 percent of their annual salary. Employees could take the bonus in cash, annual leave, or a combination of cash and leave. Compensation expense remained relatively stable with only 5.2 percent growth in 2003. Continuing statewide economic uncertainty again resulted in significant reductions in state appropriations. These reductions were offset by tuition increases, therefore allowing the University to fund increases in operating expenses.

Total operating expenses increased \$9,990,000 or 4.8 percent. New and additional grants for the Commonwealth Information Security Center and National Science Foundation projects resulted in a continued increase in research expenses.

Net nonoperating income decreased by \$3,782,000 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 \$5,370,000 (8.7 percent) in fiscal year 2003. Investment income, primarily from auxiliary reserve funds in state cash management pools, remained stable. As in the prior year, the state did not remit to institutions the fourth quarter interest earned on auxiliary cash reserves. Other revenues and gains include capital appropriations, which increased \$7,987,000 between fiscal years 2002 and 2003. This increase results from the 21st Century and General Obligation Bond funding for the East Campus academic building construction and Harrison Hall renovation described above. Capital gifts in fiscal year 2003 include \$2 million for the bookstore and \$1 million for the Athletic Performance Center.

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 spent 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 SCECNA.

Statement of Cash Flows *

	<u>2003</u>	<u>2002</u>
Cash provided (used) by:		
Operating activities	\$ (34,170)	\$ (43,102)
Noncapital financing activities	61,060	66,842
Capital financing activities	(22,072)	(22,560)
Investing activities	<u>1,806</u>	<u>1,934</u>
Net increase in cash	6,624	3,114
Cash – beginning of the year	<u>43,009</u>	<u>39,895</u>
Cash – end of year	<u>\$ 49,633</u>	<u>\$ 43,009</u>

* in thousands

Major sources of cash from operating activities in fiscal year 2003 include student tuition and fees (\$58,882,000), auxiliary enterprise's receipts (\$85,555,000), and grants and contracts (\$23,719,000). Major uses of cash include payments for salaries, wages, and fringe benefits (\$125,833,000); payments for supplies and services (\$55,733,000); and payments for noncapitalized plant improvements and equipment (\$9,035,000).

Cash flows from noncapital financing activities in 2003 include state appropriations for the University's educational and general programs and financial aid of \$61,806,000. 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 2003 include the conversion of noncash assets investments with the State Treasurer of Virginia into cash (\$2,033,000), proceeds from the issuance of debt (\$6,637,000), and capital gifts (\$3,056,000). Significant cash outflows include \$26,999,000 for the purchase and construction of capital assets and \$10,671,000 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 more modest than 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 increased 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 50 percent of the support for the University's total educational and general operating expenses, these reductions are substantial. Management 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 attempted 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 was implemented for the Spring 2003 semester. These actions were implemented during 2002-2003 to address the October 2002 assigned general fund reductions previously noted.

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 2003. Management will continue to closely monitor resources to ensure the ability to react to unknown internal and external issues.

JAMES MADISON UNIVERSITY
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2003 (with comparative data as of June 30, 2002)

	2003		2002	
	JMU	Component Unit	James Madison University	Component Unit
ASSETS				
Current assets:				
Cash and cash equivalents (Note 2)	\$ 49,170,617	\$ 944,126	\$ 42,683,087	\$ 1,791,665
Short-term investments (Note 2)	4,177,619	-	4,117,614	-
Accounts receivable (Net of allowance for doubtful accounts of \$396,330 and \$374,910 for 2003 and 2002, respectively) (Note 3)	3,961,352	65,487	4,082,287	57,814
Contributions receivable (Net of allowance for doubtful contributions of \$32,505 and \$21,327 for 2003 and 2002, respectively)	-	1,839,924	-	1,344,118
Due from the Commonwealth (Note 7)	6,320,472	-	2,183,832	-
Prepaid expenses	3,723,104	2,166	2,645,347	12,102
Inventory	754,572	2,646	756,396	2,646
Notes receivable (Net of allowance for doubtful accounts of \$39,356 and \$33,886 for 2003 and 2002, respectively)	466,951	-	416,644	-
Total current assets	68,574,687	2,854,349	56,885,207	3,208,345
Noncurrent assets:				
Restricted cash and cash equivalents (Note 2)	462,575	-	326,008	-
Endowment investments (Note 2)	190,989	17,701,871	195,432	16,773,718
Other long-term investments (Note 2)	3,873,300	14,987,053	1,848,219	14,021,402
Contributions receivable (Net of allowance for doubtful contributions of \$87,531 and \$42,794 for 2003 and 2002, respectively)	-	4,289,019	-	2,096,895
Notes receivable (Net of allowance for doubtful accounts of \$193,455 and \$176,896 for 2003 and 2002, respectively)	2,176,348	-	2,205,650	-
Capital assets, net: (Note 4)				
Nondepreciable	25,000,115	800,056	19,851,638	800,056
Depreciable	254,797,506	900,309	252,141,324	944,564
Other assets	-	12,786	-	13,716
Total noncurrent assets	286,500,833	38,691,094	276,568,271	34,650,351
Total assets	355,075,520	41,545,443	333,453,478	37,858,696
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses (Note 5)	18,621,401	250,344	18,326,584	431,802
Deferred revenue	4,073,498	-	4,289,265	-
Obligations under securities lending	3,084,721	-	2,858,587	-
Deposits held in custody for others	2,743,677	-	2,807,548	-
Long-term liabilities - current portion (Note 6)	7,825,050	74,934	8,754,712	88,812
Advance from the Treasurer of Virginia	59,000	-	57,000	-
Total current liabilities	36,407,347	325,278	37,093,696	520,614
Noncurrent liabilities (Note 6)	82,724,220	2,222,235	81,813,890	2,486,255
Total liabilities	119,131,567	2,547,513	118,907,586	3,006,869

JAMES MADISON UNIVERSITY

STATEMENT OF NET ASSETS

AS OF JUNE 30, 2003 (with comparative data as of June 30, 2002)

	2003		2002	
	JMU	Component Unit	James Madison University	Component Unit
NET ASSETS				
Invested in capital assets, Net of related deb	203,488,453	1,408,115	191,369,363	1,318,477
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	259,507	13,612,427	261,442	12,638,160
Research and public service	-	323,051	-	317,850
Other	-	4,560,344	-	4,515,772
Expendable:				
Scholarships and fellowships	37,514	1,060,075	33,053	882,219
Research and public service	2,509,238	1,422,491	1,712,495	1,359,931
Debt service	7,647	782,285	2,800	889,507
Capital projects	4,391,809	7,634,527	1,477,791	4,248,072
Loans	357,516	-	356,770	-
Other	-	5,649,830	-	6,256,230
Unrestricted	24,892,269	2,544,785	19,332,178	2,425,609
Total net assets	\$ 235,943,953	\$ 38,997,930	\$ 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, 2003 (with comparative data for the year ended June 30, 2002)

	2003		2002	
	James Madison University	Component Unit	James Madison University	Component Unit
Operating revenues:				
Student tuition and fees (Net of scholarship allowances of \$3,851,901 and \$3,319,056 for 2003 and 2002, respectively)	\$ 59,152,970	\$ -	\$ 52,061,522	\$ -
Gifts and contributions	-	6,043,740	-	3,100,894
Federal grants and contracts	13,657,335	-	11,366,430	-
State grants and contracts	7,775,928	-	7,249,488	-
Nongovernmental grants and contracts	2,593,115	-	2,256,857	-
Auxiliary enterprises (Net of scholarship allowances of \$4,500,656 and \$4,298,415 for 2003 and 2002, respectively) (Note 9)	85,188,974	-	80,164,607	-
Other operating revenues	849,889	63,808	792,327	89,833
Total operating revenues	169,218,211	6,107,548	153,891,231	3,190,727
Operating expenses (Note 10):				
Instruction	72,384,226	272,222	68,907,452	549,949
Research	4,509,392	10,383	2,866,517	28,773
Public service	10,141,666	84,604	8,814,366	74,966
Academic support	17,347,854	230,042	18,093,430	217,853
Student services	6,804,003	31,124	6,429,561	38,929
Institutional support	10,837,539	816,433	11,679,516	1,059,125
Operation and maintenance - plant	13,533,167	148,252	13,188,150	888,812
Depreciation	15,067,069	46,790	14,211,502	63,469
Student aid	3,554,177	1,126,890	3,706,951	958,171
Auxiliary activities (Note 9)	64,884,111	560,337	61,175,851	581,643
Total operating expenses	219,063,204	3,327,077	209,073,296	4,461,690
Operating gain (loss)	(49,844,993)	2,780,471	(55,182,065)	(1,270,963)
Nonoperating revenues (expenses):				
State appropriations (Note 11)	61,963,431	-	67,332,587	-
Gifts	582,470	-	465,053	-
Investment income (Net of investment expense of \$61,942 and \$108,735 for the University and \$227,724 and \$306,145 for the Foundation for 2003 and 2002, respectively)	1,758,325	447,942	1,736,223	(3,622,371)
Interest on capital asset - related deb	(3,706,570)	(54,441)	(3,534,088)	(62,203)
Loss on disposal of plant assets	(543,691)	-	(3,036,778)	-
Payment to the Commonwealth	(1,231,830)	-	(359,470)	-
Net nonoperating revenues (expenses)	58,822,135	393,501	62,603,527	(3,684,574)
Income (loss) before other revenues, expenses, gains or losses	8,977,142	3,173,972	7,421,462	(4,955,537)
Capital appropriations	8,502,938	-	515,941	-
Capital gifts	3,917,981	-	5,442,455	-
Additions to permanent endowments	-	972,131	-	2,941,675
Net other revenues	12,420,919	972,131	5,958,396	2,941,675
Increase (decrease) in net assets	21,398,061	4,146,103	13,379,858	(2,013,862)
Net assets - beginning of year	214,545,892	34,851,827	201,166,034	36,865,689
Net assets - end of year	\$ 235,943,953	\$ 38,997,930	\$ 214,545,892	\$ 34,851,827

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, 2003 AND 2002

	2003	2002
Cash flows from operating activities:		
Student tuition and fees	\$ 58,882,476	\$ 52,155,052
Grants and contracts	23,718,830	20,335,154
Auxiliary enterprises	85,555,411	80,156,709
Other receipts	721,255	788,355
Payments to employees	(100,430,282)	(95,945,324)
Payments for fringe benefits	(25,402,925)	(25,386,977)
Payments for services and supplies	(55,733,211)	(51,291,591)
Payments for utilities	(8,995,936)	(9,114,741)
Payments for scholarships and fellowships	(3,515,736)	(3,668,307)
Payments for noncapitalized plant improvements and equipment	(9,034,742)	(11,149,463)
Loans issued to students	(563,770)	(515,670)
Collections of loans from students	628,804	534,573
Net cash used by operating activities	(34,169,826)	(43,102,230)
Cash flows from noncapital financing activities:		
State appropriations	61,805,997	66,710,155
Payment to the Commonwealth	(1,231,830)	(359,470)
Gifts and grants for other than capital purposes	582,470	465,053
Loans issued to students and employees	(46,086)	(13,200)
Collections of loans from students and employees	17,417	18,698
Agency receipts	8,304,389	9,261,245
Agency payments	(8,372,139)	(9,240,968)
Net cash provided by noncapital financing activities	61,060,218	66,841,513
Cash flows from capital financing activities:		
Proceeds from investments	2,032,782	7,078,409
Proceeds from capital debt	6,636,573	6,043,820
Capital appropriations	3,857,659	515,941
Capital gifts	3,055,727	2,722,098
Proceeds from sale of capital assets	15,680	28,417
Purchase of capital assets	(26,998,972)	(28,124,913)
Principal paid on capital debt, leases, and installments	(6,778,061)	(6,617,564)
Interest paid on capital debt, leases, and installments	(3,893,436)	(4,205,798)
Net cash used by capital financing activities	(22,072,048)	(22,559,590)
Cash flows from investing activities:		
Interest on investments	266,887	56,149
Interest on cash management pools	1,538,866	1,878,300
Net cash provided by investing activities	1,805,753	1,934,449
Net increase in cash	6,624,097	3,114,142
Cash and cash equivalents - beginning of the year	43,009,095	39,894,953
Cash and cash equivalents - end of the year	\$ 49,633,192	\$ 43,009,095

JAMES MADISON UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (49,844,993)	\$(55,182,065)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	15,067,069	14,211,502
Changes in assets and liabilities:		
Receivables, net	50,561	(366,477)
Due from the Commonwealth	508,640	(250,000)
Prepaid expenses	(1,077,757)	114,373
Inventory	1,824	137,832
Notes receivable, net	9,909	(54,576)
Accounts payable and accrued expenses	726,697	(1,351,657)
Deferred revenue	(215,767)	20,910
Advance from the Treasurer of Virginia	2,000	2,500
Accrued compensated absences	354,766	(19,459)
Accrued retirement plan	291,317	(394,769)
Federal loan programs contributions refundable	(44,092)	29,656
Net cash used by operating activities	<u>\$ (34,169,826)</u>	<u>\$(43,102,230)</u>
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS		
Gift of capital assets	\$ (862,254)	\$ (2,720,357)
Principal and interest on capital lease debt paid by state agency on behalf of the University	157,434	622,432
Capitalization of interest revenue and expense, net	(156,364)	(551,986)
Change in fair value of investments recognized as a component of interest income	(9,055)	(41,964)

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

JAMES MADISON UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

James Madison University (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.

In fiscal year 2002, the University implemented Governmental Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement 14, *The Financial Reporting Entity*. This statement addresses the conditions under which institutions should include associated fundraising 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.

Prior to fiscal year 2002, the University had no component units, as defined by GASB Statement 14. However, under GASB Statement 39 standards, the James Madison University Foundation, Inc. (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 20-member board of the Foundation is self-perpetuating and consists of friends and supporters of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is discretely presented in the financial statements.

During the years ended June 30, 2003 and 2002, the Foundation distributed \$2,249,913 and \$3,095,057, respectively, to the University for both restricted and unrestricted purposes. Separate financial statements for the Foundation can be obtained by writing the Chief Financial Officer, JMU Foundation, Inc., MSC 8501, Harrisonburg, Virginia 22807.

B. Financial Statement Presentation

The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements and Management’s Discussion and Analysis of Public College and Universities*. These statements were effective for the Commonwealth and all of its component units for the fiscal year ending June 30, 2002; however, the University implemented the new standards for the fiscal year ended June 30, 2001. The current financial statement presentation provides a comprehensive entity-wide look at the University’s financial activities and replaces the fund-group perspective previously required.

GASB Statements 34 and 35 standards are designed to provide financial information that responds to the needs of three groups of primary users of general purpose external financial reports: the citizenry, legislative and oversight bodies, and investors and creditors. Under this guidance, the University is required to include a management’s discussion and analysis (MD&A), basic financial statements, notes to the financial statements; and supplementary information other than MD&A.

The Foundation is a private, nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition and presentation features. No modifications have been made to the Foundation’s financial information in the University’s financial reporting entity for these differences.

C. Basis of Accounting

The University follows GASB Statement 34 requirements for “reporting by special-purpose governments engaged only in business-type activities.” Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. All significant intra-agency transactions have been eliminated.

The University’s accounting policies conform with generally accepted accounting principles as prescribed by the GASB, including all applicable GASB pronouncements, as well as applicable FASB statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The University has the option to apply all FASB pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected not to apply the FASB pronouncements issued after the applicable date.

D. Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, purchased investments, interest-bearing temporary investments classified with cash, and investments received as gifts are recorded at fair value. All investment income, including changes in the fair value of

investments (unrealized gains and losses), is reported as nonoperating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

E. Capital Assets

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

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

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

F. Inventories

Inventories are valued at the lower of cost (generally determined on the first-in, first-out method) or market and consist primarily of expendable supplies held for consumption.

G. Noncurrent Cash and Investments

Cash and investments that are externally-restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital and other 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 and federal work-study and Perkins loans programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the Office of Management and Budget Revised Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*, and the *Compliance Supplement*.

K. Net Assets

GASB Statement 34 requires that the Statement of Net Assets report the difference between assets and liabilities as net assets, not fund balances. Net assets are classified as invested in capital assets, net of related debt; restricted; and unrestricted. "Invested in capital assets, net of related debt" consists of capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when constraints on the net asset use are either externally-imposed by creditors, grantors, or contributors or imposed by law. Unrestricted net assets consist of net assets that do not meet the definitions above. When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to use restricted resources first, then unrestricted resources as needed.

L. Revenue and Expense Classifications

Operating revenues include activities that have the characteristics of exchange transactions, such as: (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship allowances; and (3) federal, state, and 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 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 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, 2003 and 2002.

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 deposits with financial institutions of \$299,916 and \$260,477 at June 30, 2003 and 2002, respectively, and cash held in foreign banks, cash deposits held by the University are maintained in accounts that are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia. These amounts are insured in accordance with the banking regulations of the respective countries where the funds are maintained. The University's deposits as of June 30, 2003 and 2002 are categorized by levels of credit risk as follows: Category 1 includes insured deposits and Category 3 includes uninsured, uncollateralized deposits. At June 30, 2003 and 2002, deposits with financial institutions included \$299,916 and \$260,477 of uncollateralized deposits, which were Category three deposits; all remaining deposits were Category one. In accordance with the GASB Statement 9's definition of cash and cash equivalents, cash represents cash with the Treasurer of Virginia, cash on hand, 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.

	<u>2003</u>	<u>2002</u>
Cash and cash equivalents:		
Deposits with financial institutions	\$ 3,950,565	\$ 3,577,332
Money market and index funds	3,650,140	2,911,146
Cash with the Treasurer	<u>42,032,487</u>	<u>36,520,617</u>
Total	<u>\$49,633,192</u>	<u>\$43,009,095</u>
Investments:		
State non-arbitrage program (SNAP)	\$ 4,617,592	\$ 2,762,338
Investments with the Treasurer of Virginia	7,647	2,800
Collateral held for securities lending	3,084,721	2,858,587
Mutual funds	<u>531,948</u>	<u>537,540</u>
Total	<u>\$ 8,241,908</u>	<u>\$ 6,161,265</u>

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, 2003 and 2002. 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.

2003				
	<u>Category 1</u>	<u>Non-Categorized</u>	<u>Fair Value</u>	<u>Cost</u>
Common stock	\$24,622,306	\$ -	\$24,622,306	\$22,557,217
Corporate bonds	5,772,519	-	5,772,519	5,643,978
U.S. government securities	1,493,270	-	1,493,270	1,500,000
Cash and cash equivalents	529,049	-	529,049	529,049
Life insurance policies	-	271,780	271,780	271,780
Total	<u>\$32,417,144</u>	<u>\$271,780</u>	<u>\$32,688,924</u>	<u>\$30,502,024</u>
2002				
	<u>Category 1</u>	<u>Non-Categorized</u>	<u>Fair Value</u>	<u>Cost</u>
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	<u>\$30,532,426</u>	<u>\$262,694</u>	<u>\$30,795,120</u>	<u>\$32,433,722</u>

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, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Student tuition and fees	\$ 411,542	\$ 380,856
Auxiliary enterprises	800,155	897,452
Federal, state, and nongovernmental grants and contracts	2,948,415	2,917,875
Other activities	<u>197,570</u>	<u>261,014</u>
Total	4,357,682	4,457,197
Less allowance for doubtful accounts	<u>396,330</u>	<u>374,910</u>
Net accounts receivable	<u>\$3,961,352</u>	<u>\$4,082,287</u>

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the years ending June 30, 2003 and 2002 is presented as follows:

	<u>2003</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable capital assets:				
Land	\$ 9,192,774	\$ 4,044,737	\$ -	\$ 13,237,511
Inexhaustible artwork and historical treasures	159,976	38,822	-	198,798
Construction in progress	<u>10,498,888</u>	<u>9,177,967</u>	<u>8,113,049</u>	<u>11,563,806</u>
Total nondepreciable capital assets	<u>19,851,638</u>	<u>13,261,526</u>	<u>8,113,049</u>	<u>25,000,115</u>
Depreciable capital assets:				
Buildings	299,483,078	11,282,411	36,351	310,729,138
Infrastructure	26,965,096	1,111,691	-	28,076,787
Equipment	33,531,763	3,215,781	1,801,893	34,945,651
Other improvements	7,611,750	1,101,229	-	8,712,979
Library materials	<u>28,273,686</u>	<u>1,611,872</u>	<u>163,726</u>	<u>29,721,832</u>
Total depreciable capital assets	<u>395,865,373</u>	<u>18,322,984</u>	<u>2,001,970</u>	<u>412,186,387</u>
Less accumulated depreciation for:				
Buildings	87,317,310	8,299,839	36,351	95,580,798
Infrastructure	8,891,709	1,271,249	-	10,162,958
Equipment	19,203,800	3,956,996	1,202,160	21,958,636
Other improvements	3,079,068	408,764	-	3,487,832
Library materials	<u>25,232,162</u>	<u>1,130,221</u>	<u>163,726</u>	<u>26,198,657</u>
Total accumulated depreciation	<u>143,724,049</u>	<u>15,067,069</u>	<u>1,402,237</u>	<u>157,388,881</u>
Depreciable capital assets, Net	<u>252,141,324</u>	<u>3,255,915</u>	<u>599,733</u>	<u>254,797,506</u>
Total capital assets, Net	<u>\$271,992,962</u>	<u>\$16,517,441</u>	<u>\$8,712,782</u>	<u>\$279,797,621</u>

	2002			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
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	<u>17,058,548</u>	<u>19,980,767</u>	<u>26,540,427</u>	<u>10,498,888</u>
Total nondepreciable capital assets	<u>24,154,965</u>	<u>22,237,100</u>	<u>26,540,427</u>	<u>19,851,638</u>
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	<u>27,824,769</u>	<u>1,400,680</u>	<u>951,763</u>	<u>28,273,686</u>
Total depreciable capital assets	<u>366,531,099</u>	<u>33,720,154</u>	<u>4,385,880</u>	<u>395,865,373</u>
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	<u>23,927,687</u>	<u>1,304,475</u>	<u>-</u>	<u>25,232,162</u>
Total accumulated depreciation	<u>130,866,311</u>	<u>14,211,502</u>	<u>1,353,764</u>	<u>143,724,049</u>
Depreciable capital assets, Net	<u>235,664,788</u>	<u>19,508,652</u>	<u>3,032,116</u>	<u>252,141,324</u>
Total capital assets, Net	<u>\$259,819,753</u>	<u>\$41,745,752</u>	<u>\$29,572,543</u>	<u>\$271,992,962</u>

The Foundation's net capital assets consist of \$900,309 and \$944,564 in property and equipment and \$800,056 and \$800,056 in collections of historical artifacts for the years ending June 30, 2003 and 2002, respectively.

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Employee salaries, wages, and fringe benefits payable	\$14,960,400	\$14,738,610
Vendors and suppliers accounts payable	2,325,335	1,820,428
Capital projects accounts and retainage payable	<u>1,335,666</u>	<u>1,767,546</u>
Total accounts payable and accrued expenses	<u>\$18,621,401</u>	<u>\$18,326,584</u>

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, 2003 and 2002 is presented as follows:

	2003				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds	\$41,940,000	\$12,100,000	\$12,085,000	\$41,955,000	\$2,325,000
General obligation bonds	38,557,461	12,861,715	12,750,836	38,668,340	3,369,146
Capital leases	267,641	-	267,641	-	-
Installment purchases	<u>882,230</u>	<u>-</u>	<u>479,560</u>	<u>402,670</u>	<u>280,195</u>
Total long-term debt	<u>81,647,332</u>	<u>24,961,715</u>	<u>25,583,037</u>	<u>81,026,010</u>	<u>5,974,341</u>
Accrued retirement plan	2,318,855	1,415,180	1,123,863	2,610,172	-
Accrued compensated absences	4,155,260	2,246,448	1,891,683	4,510,025	1,850,709
Federal loan program contributions	<u>2,447,155</u>	<u>-</u>	<u>44,092</u>	<u>2,403,063</u>	<u>-</u>
Total long-term liabilities	<u>\$90,568,602</u>	<u>\$28,623,343</u>	<u>\$28,642,675</u>	<u>\$90,549,270</u>	<u>\$7,825,050</u>

	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	<u>489,163</u>	<u>799,356</u>	<u>406,289</u>	<u>882,230</u>	<u>463,849</u>
Total long-term debt	<u>82,151,435</u>	<u>6,699,356</u>	<u>7,203,459</u>	<u>81,647,332</u>	<u>6,555,611</u>
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	<u>2,417,499</u>	<u>29,656</u>	<u>-</u>	<u>2,447,155</u>	<u>-</u>
Total long-term liabilities	<u>\$91,457,277</u>	<u>\$10,150,684</u>	<u>\$11,039,359</u>	<u>\$90,568,602</u>	<u>\$8,754,712</u>

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

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

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

<u>Description</u>	<u>Interest Rates (%)</u>	<u>Maturity</u>	<u>2003</u>	<u>2002</u>
Revenue bonds:				
Dormitory, Series 1993A	4.70 - 5.375	2006	\$ 477,975	\$ 1,355,000
Dormitory, Series 2003A	2.92	2009	803,550	-
Dormitory, Series 1998A	3.50 - 5.00	2019	12,545,000	13,090,000
Parking, Series 1999A	4.50 - 6.00	2020	5,880,000	6,090,000
Student center, Series 1999A	4.50 - 6.00	2020	9,025,000	9,350,000
Recreation, Series 1993A	4.70 - 5.375	2006	2,402,025	12,055,000
Recreation, Series 2003A	2.92	2013	9,126,450	-
Property acquisition, Series 2002A	3.00 - 5.00	2013	<u>2,100,000</u>	<u>-</u>
Total revenue bonds			42,360,000	41,940,000
Deferred loss on refinancing			<u>(405,000)</u>	<u>-</u>
Revenue bonds payable			<u>41,955,000</u>	<u>41,940,000</u>
General obligation revenue bonds:				
Dormitory and dining hall:				
Series 1979	3.00	2009	1,040,000	1,200,000
Series 1993A	4.60 - 5.25	2003	-	5,648,124
Series 2002	2.50 - 5.00	2013	3,089,148	-
Series 2003A	2.50 - 5.00	2008	1,840,983	-
Series 1993B	4.25 - 5.00	2003	-	1,939,084
Series 2003A	2.50 - 5.00	2010	1,316,196	-
Series 1997	5.00	2017	15,220,000	15,960,000
Series 1998	4.00 - 5.50	2018	885,000	925,000
Series 2001	4.00 - 5.00	2021	5,425,000	5,625,000
Series 2002	2.50 - 5.00	2022	3,850,000	-
Student center:				
Series 1992	5.50 - 5.90	2003	-	900,145
Series 2002	2.50 - 4.00	2005	631,460	-
Series 1992C	5.50 - 5.80	2003	-	685,000
Series 2002	2.50 - 4.00	2004	355,910	-
Series 1998	3.90 - 5.00	2013	4,410,316	4,442,912
Electrical upgrade:				
Series 1993A	4.60 - 4.80	2003	-	50,000
Series 1994	6.00	2003	-	225,000
Series 2002	2.50 - 4.00	2004	116,978	-

Athletics:				
Series 1992	5.50 - 5.70	2003	-	525,468
Series 1993A	4.60 - 4.90	2004	-	230,793
Series 1993B	4.50	2003	-	200,935
Series 2003A	2.50	2004	<u>229,479</u>	<u>-</u>
Total general obligation revenue bonds			38,410,470	38,557,461
Deferred gain on refinancing			<u>257,870</u>	<u>-</u>
General obligation bonds payable			<u>38,668,340</u>	<u>38,557,461</u>
Total bonds payable			80,623,340	80,497,461
Capital leases:				
Higher education equipment trust fund leases payable	Various	2003	-	267,641
Installment purchases payable	Various	2001-2005	<u>402,670</u>	<u>882,230</u>
Total			<u>\$81,026,010</u>	<u>\$81,647,332</u>

Long-term debt matures as follows:

	<u>Principal</u>	<u>Interest</u>
2004	\$ 5,974,341	\$ 3,686,156
2005	5,420,466	3,458,116
2006	5,215,631	3,210,824
2007	5,457,347	2,974,914
2008	5,711,010	2,740,235
2009-2013	28,577,215	10,027,408
2014-2018	18,660,000	4,127,814
2019-2022	<u>6,010,000</u>	<u>423,916</u>
Total	<u>\$81,026,010</u>	<u>\$30,649,383</u>

Current Year Defeasance of Debt

In March 2003, the University issued \$10 million of Section 9(d) General Revenue Pledge Refunding Bonds, Series 2003A, with interest rates of 2.92 percent to refund \$9,525,000 of outstanding Section 9(d) Revenue Bonds, with interest rates of 4.90 percent - 5.375 percent. The Series 2003A bonds issued to refund a portion of the Recreation Series 1993A and Dormitory Series 1993A bonds were current refundings, where the proceeds of the new bonds were used to redeem the refunded bonds on June 1, 2003. The current refunding resulted in the recognition of a deferred accounting loss of \$475,000, which will be amortized to interest expense over the life of the new bonds. Current year amortization of the accounting loss resulting from the defeasance is \$70,000. Though current refunding resulted in the recognition of an accounting loss, the University in effect reduced its aggregate debt service obligation by \$1,244,577 over the next ten years and obtained an economic gain (equal to the difference between the present values of the old and new debt service payments) of \$1,079,178.

In June 2003, the Commonwealth of Virginia, on behalf of the University, issued \$3,386,658 of Section 9(c) General Obligation Bonds, Series 2003A, with interest rates of 2.5 percent - 5.0 percent to refund \$3,537,671 of outstanding General Obligation Bonds, Series 1993A Refunding and Series 1993B Refunding, with interest rates of 4.60 percent - 5.20 percent. The net proceeds were deposited into an irrevocable trust with an escrow agent to redeem the refunded bonds on

July 15, 2003. The current refunding resulted in the recognition of a deferred accounting gain of \$151,013, which will be amortized to interest expense over the life of the new debt. The current refunding resulted in the recognition of an accounting gain and the University in effect reduced its aggregate debt service obligation by \$202,895 over the next seven years and obtained an economic gain (equal to the difference between the present values of the old and new debt service payments) of \$185,774.

In October 2002, the Commonwealth of Virginia, on behalf of the University, issued \$5,710,058 of Section 9(c) General Obligation Bonds, Series 2002, with interest rates of 2.50 percent - 5.00 percent to refund \$5,850,613 of outstanding General Obligation Bonds, Series 1992 Refunding, Series 1992C, Series 1993A and Series 1994, with interest rates of 4.80 percent - 6.00 percent. The net proceeds were deposited into an irrevocable trust with an escrow agent to redeem the refunded bonds on July 15, 2003. The current refunding resulted in the recognition of a deferred accounting gain of \$140,555, which will be amortized to interest expense over the life of the new debt. Current year amortization of the accounting gain resulting from the defeasance is \$33,698. The current refunding resulted in the recognition of an accounting gain and the University in effect reduced its aggregate debt service obligation by \$400,923 over the next ten years and obtained an economic gain (equal to the difference between the present values of the old and new debt service payments) of \$389,176.

For financial reporting purposes, the bonds designated above as being refunded are considered to be defeased and have been removed from the noncurrent liabilities line in the Statement of Net Assets. Any related assets in escrow have similarly been excluded.

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, 2003 and 2002, \$4,670,000 and \$6,440,579, respectively, of the bonds outstanding were considered defeased.

Equipment Trust Fund Program

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

The Statement of Net Assets line "Due from the Commonwealth" includes \$1,616,040 and \$2,124,680 at June 30, 2003 and 2002, 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 and General Obligation bond program.

Foundation Debt

The Foundation has a line of credit for borrowings to a maximum of \$500,000 with interest payable monthly at prime. The line of credit expires on January 30, 2004. At both June 30, 2003 and 2002, no balance was outstanding on the line of credit. The Foundation's long-term debt primarily consists of \$832,262 and \$883,407 outstanding at June 30, 2003 and 2002, in Series 1999 Industrial Development Authority Revenue Bonds, interest at 5.32 percent, and maturing through 2014. Remaining debt includes \$292,250 and \$426,143 in notes payable for 2003 and 2002, respectively.

8. SUPPLEMENTAL RETIREMENT PLAN

Effective January 1, 1997, the University established a Supplemental Retirement Plan for tenured faculty members. The plan was designed to provide flexibility in the allocation of faculty positions. The plan is a qualified plan within the meaning of section 401(c) of the Internal Revenue Code of 1986 (the Code) and is a governmental plan within the meaning of section 414(d) of the Code. Since it is a governmental plan, the plan is not subject to the Employee Retirement Income Security Act of 1974 as amended. Since inception, 103 faculty members have elected to enroll in the plan. As of June 30, 2003, 57 participants remain, including 14 new participants who retired under this plan during fiscal year 2003. 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 2004 plan contribution of \$1,106,863 in 2003. The plan payment schedule is as follows:

Year Ending <u>June 30,</u>	Supplemental Plan <u>Obligations</u>
2005	\$1,096,163
2006	720,789
2007	510,184
2008	<u>283,036</u>
Total	<u>\$2,610,172</u>

9. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expenses consisted of the following at June 30, 2003 and 2002. The University used auxiliary revenues to pay debt service and capital improvements of \$10,164,039 and \$6,088,670 in 2003 and \$10,078,244 and \$5,091,087 in 2002, respectively. Those amounts are not included in the auxiliary operating expenses below.

Revenues:	<u>2003</u>	<u>2002</u>
Room contracts, net of scholarship allowances of \$1,108,495 in 2003 and \$1,071,578 in 2002	\$16,992,531	\$16,204,337
Food service contracts, net of scholarship allowances of \$1,165,344 in 2003 and \$1,104,416 in 2002	17,863,999	16,700,925
Comprehensive fee, net of scholarship allowances of \$2,226,817 in 2003 and \$2,122,421 in 2002	35,136,826	32,095,134
Other student fees and sales and services	<u>15,195,618</u>	<u>15,164,211</u>
Total auxiliary enterprises revenues	<u>\$85,188,974</u>	<u>\$80,164,607</u>

Expenses:

Residential facilities	\$12,125,268	\$11,718,418
Dining operations	24,966,259	24,001,916
Athletics	10,480,345	10,046,845
Other auxiliary activities	<u>17,312,239</u>	<u>15,408,672</u>
Total auxiliary activities expenses	<u>\$64,884,111</u>	<u>\$61,175,851</u>

10. EXPENSES BY NATURAL CLASSIFICATIONS

The following table shows a classification of expenses for the years ended June 30, 2003 and 2002 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.

	2003							
	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholarships and Fellowships	Utilities	Plant and Equipment	Depreciation	Total
Instruction	\$ 52,595,959	\$13,682,263	\$ 4,975,189	\$ -	\$ 3,603	\$1,127,212	\$ -	\$ 72,384,226
Research	2,142,942	261,766	1,807,657	-	-	297,027	-	4,509,392
Public service	4,401,636	910,619	4,622,575	-	2,177	204,659	-	10,141,666
Academic support	9,662,477	2,288,801	1,396,867	-	-	3,999,709	-	17,347,854
Student services	3,977,998	1,018,493	1,688,976	-	-	118,536	-	6,804,003
Institutional support	5,454,358	1,997,873	2,929,508	-	4,179	451,621	-	10,837,539
Operation and maintenance of plant	5,014,478	1,598,186	1,173,353	-	4,411,473	1,335,677	-	13,533,167
Depreciation expense	-	-	-	-	-	-	15,067,069	15,067,069
Scholarship and related expenses	29,088	7,890	1,463	3,515,736	-	-	-	3,554,177
Auxiliary activities	<u>17,114,999</u>	<u>4,718,015</u>	<u>36,701,240</u>	<u>-</u>	<u>4,888,642</u>	<u>1,461,215</u>	<u>-</u>	<u>64,884,111</u>
Total	<u>\$100,393,935</u>	<u>\$26,483,906</u>	<u>\$55,296,828</u>	<u>\$3,515,736</u>	<u>\$9,310,074</u>	<u>\$8,995,656</u>	<u>\$15,067,069</u>	<u>\$219,063,204</u>

	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	<u>13,138,497</u>	<u>3,594,034</u>	<u>37,927,987</u>	<u>-</u>	<u>4,422,801</u>	<u>2,092,532</u>	<u>-</u>	<u>61,175,851</u>
Total	<u>\$95,815,572</u>	<u>\$24,775,121</u>	<u>\$50,902,038</u>	<u>\$3,668,306</u>	<u>\$8,966,226</u>	<u>\$10,734,531</u>	<u>\$14,211,502</u>	<u>\$209,073,296</u>

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, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Original legislative appropriation:		
Educational and general programs	\$61,409,402	\$66,006,745
Student financial assistance	4,077,778	3,981,081
Higher education equipment trust fund program	157,434	622,432
Supplemental adjustments:		
Central Fund appropriation transfers:		
Budget reductions	(5,418,546)	(1,982,155)
Voluntary budget reductions	(235,000)	(852,079)
Faculty and staff bonuses	1,757,967	-
Salary annualization, increases, and regrades	-	55,603
Health insurance premium	1,386,867	587,336
Deferred compensation match	-	345,243
Retirement plans, group life insurance rate reduction, and other miscellaneous reversions to the Central Fund	(1,172,093)	(1,430,911)
Reversion to the General Fund of the Commonwealth	<u>(378)</u>	<u>(708)</u>
Adjusted appropriation	<u>\$61,963,431</u>	<u>\$67,332,587</u>

12. COMMITMENTS

At June 30, 2003, the University was a party to construction and other contracts totaling approximately \$28,781,488 of which \$9,552,366 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, 2003 and 2002, such purchases totaled \$3,147,860 and \$3,049,002.

The University is committed under various operating leases for equipment and space. In general, the equipment leases are for a two-year term and the space leases are for three-to four-year terms with appropriate renewal options for each type of lease. In most cases, the University expects that in the normal course of business, these leases will be replaced by similar leases. Rental expense was approximately \$1,954,338 and \$2,318,999 for the years ended June 30, 2003 and 2002.

The University has, as of June 30, 2003, the following future minimum rental payments due under the above leases:

Year Ending <u>June 30,</u>	Operating Lease <u>Obligation</u>
2004	\$ 1,854,504
2005	1,365,120
2006	1,203,523
2007	1,118,557
2008	1,116,497
2009-2013	4,882,219
2014-2018	<u>1,653,076</u>
Total	<u>\$13,193,496</u>

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, 2003. 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 \$2,639,082 and \$3,991,956 for the years ended June 30, 2003 and 2002, respectively. The retirement contribution rate was five percent for fiscal years 2003 and 2002. Contributions to VRS were calculated using the base salary amount of approximately \$51,186,561 and \$50,275,142 for the fiscal years ended June 30, 2003 and 2002. The University's total payroll was approximately \$109,228,187 and \$105,563,550 for the years ended June 30, 2003 and 2002, 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 \$3,924,232 and \$3,761,056 for the years ended June 30, 2003 and 2002, respectively. Contributions to the optional retirement plan were calculated using the base salary amount of approximately \$37,732,999 and \$36,163,996 for fiscal years 2003 and 2002.

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 \$553,059 and \$483,918 for the fiscal years 2003 and 2002, 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, 2003, 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.

JAMES MADISON UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUES AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003

	Food Service	Stores and Shops	Residential Facilities	Parking
Revenues:				
Student fees	\$ 19,029,343	\$ -	\$ 18,101,026	\$ -
Sales and services	8,105,759	1,181,582	473,820	2,165,360
Total revenues	27,135,102	1,181,582	18,574,846	2,165,360
Cost of sales	-	(64,698)	-	-
Net revenues	27,135,102	1,116,884	18,574,846	2,165,360
Expenses of operation:				
Personal service	509,748	183,284	1,940,309	469,288
Contractual service	21,614,317	-	6,273,222	999,989
Supplies and materials	299,511	29,279	1,331,160	19,044
Current charges and obligations	2,507,647	899,531	2,640,227	263,802
Miscellaneous	48,481	3,984	125,741	96,676
Equipment	7,061	109,573	468,225	-
Scholarships	41,871	-	122,754	-
Total expenses of operation	25,028,636	1,225,651	12,901,638	1,848,799
Excess (deficiency) of revenues over (under) expenses of operation	2,106,466	(108,767)	5,673,208	316,561
Nonoperating revenues (expenses):				
Private gifts	-	-	-	-
Scholarships	-	-	-	-
Total nonoperating revenue (expenses)	-	-	-	-
Transfers:				
Mandatory:				
Debt service	(927,013)	(17,436)	(4,643,688)	(543,167)
Nonmandatory:				
Allocation of student fees	222,360	-	-	844,047
Capital improvements	-	-	-	-
Total transfers	(704,653)	(17,436)	(4,643,688)	300,880
Net revenue increase/(decrease) for the year	\$ 1,401,813	\$ (126,203)	\$ 1,029,520	\$ 617,441

Fund balance - Beginning of year

Fund balance - End of year

Note: This schedule includes internal transactions and 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.

JAMES MADISON UNIVERSITY
Harrisonburg, Virginia

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