AUDIT SUMMARY

Our audit of James Madison University for the year ended June 30, 1998, found:

- the financial statements are presented fairly, in all material respects;

- internal control matters that we consider to be reportable conditions; however, we do not consider any of these to be material weaknesses;

- no instances of noncompliance required to be reported under Government Auditing Standards; and,

- adequate corrective action with respect to previous year audit findings.

STATUS OF SYSTEMS IMPLEMENTATION

In March of 1995, James Madison University signed a contract with PeopleSoft for a system that included financial information, human resources management, and student information. The new system would replace the University's 20-year old legacy system. Currently, University has completed and is using the Human Resources Management System (HRMS) and the Financial Information System (FIS). The University was a beta partner with PeopleSoft to develop the integrated Student Information System (SIS) and worked with other universities in the design and testing of the system. Thus far, the admissions and financial aid modules are operating and by October 1999, the University expects to have the final modules for student records and student financial accounts.

The original project budget included software, hardware, consulting services and personnel costs of new staff that the University hired specifically for the PeopleSoft project. The University spent $5,300,000 over the first four years, including unanticipated expenses such as office moves and initial funding for Year 2000 projects. Expenses raised the project budget to $8.9 million and the University has spent $7.1 million to date. In addition to the unanticipated expenses, in some cases, this increase reflects on-going costs of the project.

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May 21, 1999

The Honorable James S. Gilmore, III
Governor of Virginia

The Honorable Richard J. Holland
Chairman, Joint Legislative Audit
and Review Commission

The Board of Visitors
James Madison University

We have audited the accounts and records of **James Madison University** as of and for the year ended June 30, 1998, and submit herewith our complete reports on financial statements and compliance and internal controls.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the balance sheet of James Madison University as of June 30, 1998, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. The financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of James Madison University as of June 30, 1998, and the changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended, in conformity with generally accepted accounting principles.

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

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

In planning and performing our audit of the financial statements of James Madison University as of and for the year ended June 30, 1998, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards. We also determined the status of audit findings contained in our prior year report.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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. Reportable conditions are described in the section entitled "Internal Control Findings and Recommendations."

We believe none of these reportable conditions is a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

Status of Prior Findings

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

This report is for the information of the Governor and General Assembly, Board of Visitors, audit committee, management, and the people of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on September 8, 1999.

AUDITOR OF PUBLIC ACCOUNTS

KKH:whb
whb:56

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Improve Use of Accounting System for Financial Reporting

Financial Reporting is not taking advantage of the new accounting system to improve efficiency. The new system could replace several manual processes or word processing and spreadsheet programs. The University has made significant progress implementing new systems and technologies; however, it can improve how it uses its systems.

The following are examples of some processes the University could improve or automate, to save valuable staff resources and allow management to devote these resources to other areas.

- Financial Reporting does not use the financial statement report generating capabilities of the accounting system. By not using the report generator, Financial Reporting must manually process multiple queries and manually add amounts from system reports and spreadsheets to prepare the financial statements. By allocating sufficient resources to program the report generator once, Financial Reporting could save significant time each year when preparing the financial statements.

- Financial Reporting prepares more than 65 pages of manual adjustments and numerous supporting schedules to adjust the financial information from the accounting system. Many of the adjustments change account classification because Financial Reporting does not have them properly classified on the system.

- Facilities Planning and Construction maintains its own set of records, which involves extensive reentry of data, instead of using information from the accounting system. The accounting system does not report adequate information for effective decision making regarding capital construction projects.

- Rather than use the capabilities of the accounting system, the plant fund accountant manually adds amounts on a calculator and attaches the tape to the hard copy query.

We recommend that Financial Reporting fully use the capabilities of its automated systems. By re-engineering its processes, the University will realize the savings that it anticipated when implementing these new systems. In addition, Financial Reporting should work with Facilities Planning and Construction to evaluate the capability of the accounting system in providing information, eliminating the need for duplicate records and reducing the possibility of errors.

Reconcile Student Information System

The University does not have adequate procedures to reconcile revenue on its student information system to its accounting system. Because these systems do not interface, there is the possibility of processing transactions on one system and not on the other. Reconciling the two systems would detect these differences.

The University plans to implement the PeopleSoft Student Information Systems module in October 1999, which will interface with the accounting system. Once implemented, the University must develop adequate procedures to reconcile information between the systems.

Develop Oracle Security Policy

JMU should develop a security policy that requires a periodic review of all Oracle user access. Procedures to implement this policy should require at least an annual comparison of Oracle and PeopleSoft to ensure only valid PeopleSoft users have access to Oracle databases, and an evaluation of user ids with unique or powerful roles to ensure they are still needed. Ensuring only valid users and privileges are included in the database provides for efficient and effective management of the critical databases.

FINANCIAL STATEMENTS

JAMES MADISON UNIVERSITY
BALANCE SHEET
As of June 30, 1998

	Current Funds Unrestricted	Current Funds Restricted	Loan Funds	Endowment and Similar Funds	Plant Funds	Agency Funds	Total
ASSETS							
Cash and cash equivalents (Note 2)	$ 19,659,734	$ 1,208,407	$ 337,621	$ 259,718	$ 7,567,872	$ 905,615	$ 29,938,967
Investments (Note 2)	-	-	-	-	5,817,741	-	5,817,741
Collateral held for securities lending (Note 2)	1,877,628	-	-	-	-	-	1,877,628
Appropriations available	-	-	-	-	30,819,757	-	30,819,757
Security deposits	39,607	-	-	-	-	-	39,607
Accounts receivable:							
Grants and contracts	-	1,367,335	-	-	-	-	1,367,335
Employee	75,368	-	-	-	-	-	75,368
Other (Net of allowance for doubtful accounts of $259,360)	784,363	-	-	-	-	1,550	785,913
Due from the federal government	-	-	12,287	-	-	-	12,287
Interest receivable	380	44	-	-	-	-	424
Due from other funds (Note 4)	-	-	1,398	-	844,563	836,572	1,682,533
Credits due from suppliers (Net of allowance for doubtful accounts of $76,980)	394,201	-	-	-	-	-	394,201
Inventories	2,474,332	-	-	-	-	-	2,474,332
Prepaid expenses	1,370,405	3,580	-	-	-	-	1,373,985
Notes receivable (Net of allowance for doubtful accounts of $252,530)	-	-	2,569,620	-	-	-	2,569,620
Land	-	-	-	-	5,753,541	-	5,753,541
Buildings	-	-	-	-	171,796,035	-	171,796,035
Equipment	-	-	-	-	26,861,678	-	26,861,678
Improvements	-	-	-	-	17,801,445	-	17,801,445
Reference and exhibit materials	-	-	-	-	23,893,168	-	23,893,168
Construction in progress	-	-	-	-	56,240,865	-	56,240,865
Equity in equipment trust fund	-	-	-	-	74,797	-	74,797
Total assets	$ 26,676,018	$ 2,579,366	$ 2,920,926	$ 259,718	$ 347,471,462	$ 1,743,737	$ 381,651,227
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and accrued expenses	$ 11,921,047	$ 396,201	$ -	$ -	$ 2,256,175	$ -	$ 14,573,423
Deposits and deferred revenue	5,152,834	17,011	-	-	-	-	5,169,845
Obligations under securities lending (Note 2)	1,877,628	-	-	-	-	-	1,877,628
Advance from the Treasurer of Virginia	54,000	-	-	-	-	-	54,000
Accrued compensated absences	3,543,607	-	-	-	-	-	3,543,607
Accrued faculty retirement plans (Note 5)	3,393,328	-	-	-	-	-	3,393,328
Due to other funds (Note 4)	604,019	1,078,514	-	-	-	-	1,682,533
Retainage payable (Note 6)	-	-	-	-	1,151,014	-	1,151,014
Long-term debt (Note 7)	-	-	-	-	68,195,945	-	68,195,945
Deposits held in custody for others	-	-	-	-	-	1,743,737	1,743,737
Total liabilities	26,546,463	1,491,726	-	-	71,603,134	1,743,737	101,385,060
Fund balances:							
Current funds - Unrestricted	129,555	-	-	-	-	-	129,555
Current funds - Restricted	-	1,087,640	-	-	-	-	1,087,640
Loan funds - U.S. Government	-	-	2,356,261	-	-	-	2,356,261
Loan funds - University	-	-	564,665	-	-	-	564,665
Endowment and similar funds	-	-	-	259,718	-	-	259,718
Plant funds:							
Unexpended	-	-	-	-	28,162,068	-	28,162,068
Renewal and replacement	-	-	-	-	10,416,382	-	10,416,382
Retirement of indebtedness	-	-	-	-	4,849	-	4,849
Investment in plant	-	-	-	-	237,285,029	-	237,285,029
Total fund balances	129,555	1,087,640	2,920,926	259,718	275,868,328	-	280,266,167
Total liabilities and fund balances	$ 26,676,018	$ 2,579,366	$ 2,920,926	$ 259,718	$ 347,471,462	$ 1,743,737	$ 381,651,227

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

JAMES MADISON UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 1998

	Current Funds		Loan	Endowment and	Plant Funds			
	Unrestricted	Restricted	Funds	Similar Funds	Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment in Plant
Revenues and other additions:								
Unrestricted current fund revenues	###########	$ -	$ -	$ -	$ -	$ -	$ -	$ -
State appropriations - Restricted	-	3,259,300	-	-	35,582,188	644,732	651,016	-
Federal grants and contracts - Restricted	-	4,927,271	-	-	-	-	-	-
State grants and contracts - Restricted	-	3,461,866	-	-	-	-	-	-
Private gifts, grants and contracts - Restricted	-	2,488,847	-	-	-	-	-	3,204
Endowment income	-	10,479	-	-	-	-	-	-
Investment income	-	-	-	-	869,131	-	7,342	-
Interest on loans receivable	-	-	58,657	-	-	-	-	-
U.S. Government advances	-	-	28,507	-	-	-	-	-
Realized gain on investments	-	-	-	15,566	-	-	-	-
Unrealized gain on investments	-	-	-	16,697	-	-	-	-
Expended for plant facilities (Including $3,878,171	-	-	-	-	-	-	-	-
charged to current funds)	-	-	-	-	-	-	-	18,339,432
Retirement of indebtedness	-	-	-	-	-	-	-	5,078,811
Other sources	-	8,979	2,222	-	-	-	-	22,631
Total revenues and other additions	162,857,634	14,156,742	89,386	32,263	36,451,319	644,732	658,358	23,444,078
Expenditures and other deductions:								
Education and general expenditures	87,685,592	13,488,320	-	-	-	-	-	-
Auxiliary enterprise expenditures	61,398,345	-	-	-	-	-	-	-
Indirect cost recovered	-	298,757	-	-	-	-	-	-
Administration and collection costs	-	-	22,199	-	-	-	2,493	-
Expended for plant facilities (Including	-	-	-	-	-	-	-	-
$4,019,846 not capitalized)	-	-	-	-	16,660,919	1,820,188	-	-
Loan cancellation and write-offs	-	-	1,729	-	-	-	-	-
Realized loss on investments	-	-	-	-	-	-	-	-
Retirement for plant facilities	-	-	-	-	-	-	-	3,863,420
Retirement of indebtedness	-	-	-	-	-	-	5,078,811	-
Interest on indebtedness	-	-	-	-	-	-	3,393,523	-
Total expenditures and other deductions	149,083,937	13,787,077	23,928	-	16,660,919	1,820,188	8,474,827	3,863,420
Transfers among funds - Additions/(Deductions)								
Mandatory:								
Debt service and other	(7,827,985)	-	6,667	-	-	-	7,821,318	-
Nonmandatory:								
(To)/From other funds	(92,144)	-	92,144	-	-	-	-	-
Capital improvements	(2,752,603)	-	-	-	1,962,722	(592,013)	-	1,381,894
Total transfers	(10,672,732)	-	98,811	-	1,962,722	(592,013)	7,821,318	1,381,894
Extraordinary items:								
Loss on refinancing (Note 7)	-	-	-	-	-	-	-	(338,817)
Net increase (decrease) for the year	3,100,965	369,665	164,269	32,263	21,753,122	(1,767,469)	4,849	20,623,735
Fund balances at beginning of year, as adjusted (Note 3)	(2,971,410)	717,975	2,756,657	227,455	6,408,946	12,183,851	-	216,661,294
Fund balances at end of year	$ 129,555	$ 1,087,640	#########	$ 259,718	##########	$ 10,416,382	$ 4,849	###########

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

JAMES MADISON UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
For the Year Ended June 30, 1998

	Current Funds		
	Unrestricted	Restricted	Total
Revenues:			
Student tuition and fees	$ 48,092,226	$ -	$ 48,092,226
State appropriations (Note 8)	41,021,997	3,259,300	44,281,297
Federal grants and contracts	113,561	4,707,323	4,820,884
State grants and contracts	90,289	3,769,207	3,859,496
Private gifts, grants and contracts	131,918	1,744,784	1,876,702
Endowment income	24,370	7,706	32,076
Sales and service of educational departments	2,742	-	2,742
Sales and service of auxiliary enterprises	73,208,740	-	73,208,740
Other sources	171,791	-	171,791
Total current revenues	162,857,634	13,488,320	176,345,954
Expenditures and mandatory transfers:			
Educational and general:			
Instruction	51,542,731	591,711	52,134,442
Research	78,505	1,489,540	1,568,045
Public service	255,251	3,513,788	3,769,039
Academic support	13,513,539	1,829,651	15,343,190
Student services	4,803,102	161,308	4,964,410
Institutional support	8,686,789	33,752	8,720,541
Operation and maintenance of plant	8,570,561	1,133	8,571,694
Scholarships and fellowships	235,114	5,867,437	6,102,551
Total educational and general expenditures	87,685,592	13,488,320	101,173,912
Mandatory transfers for debt service	375,682	-	375,682
Total educational and general expenditures and mandatory transfers	88,061,274	13,488,320	101,549,594
Auxiliary enterprises:			
Operating expenditures	61,398,345	-	61,398,345
Mandatory transfers for debt service	7,452,303	-	7,452,303
Total auxiliary enterprises	68,850,648	-	68,850,648
Total expenditures and mandatory transfers	156,911,922	13,488,320	170,400,242
Other transfers and additions:			
Excess of restricted receipts over transfers to revenues	-	369,665	369,665
Nonmandatory transfers:			
To loan funds	(92,144)	-	(92,144)
Capital improvements	(2,752,603)	-	(2,752,603)
Net increase in fund balances	$ 3,100,965	$ 369,665	$ 3,470,630

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

NOTES TO FINANCIAL STATEMENTS

JAMES MADISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

B. Basis of Accounting

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

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

C. Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the University, the accounts of the University are maintained in accordance with the principles of "fund accounting." This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group. A summary of fund group definitions is as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

D. Investments

Investments are recorded at market, if purchased, or fair market value at the date of receipt, if received as a gift. This is a change in accounting principal from the year ending June 30, 1997, whereby purchased investments and interest-bearing temporary investments were recorded at cost, and investments received as gifts were recorded at the fair market value at the date of acquisition.

E. Inventories

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

F. Investment in Plant

Plant assets consisting of land, buildings, and equipment are stated at appraised historical cost or actual cost where determinable. Library books are valued using published average prices for library acquisitions. Other equipment expenditures are capitalized when the unit acquisition cost is $5,000 or greater and the estimated useful life is two years or more.

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

G. Deferred Revenue

Deferred revenue represents revenues collected but not earned as of June 30, 1998 . This is primarily composed of revenue for student tuition accrued in advance of the semester. If a program is conducted over a fiscal year end, deferred revenue is recorded for all revenue related to programs predominately conducted in the next fiscal year.

H. Accrued Compensated Absences

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

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

The relative risk associated with the University's cash, cash equivalents, and investments is detailed below:

Cash and Cash Equivalents: Pursuant to Section 2.1-177, et seq., Code of Virginia, all state funds of the University are maintained by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Cash deposits held by the University are maintained in accounts that are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.1-359, et seq., Code of Virginia, except for cash held in foreign banks. These amounts are insured in accordance with the banking regulations of the respective countries where the funds are maintained. Cash and cash equivalents represent cash with the treasurer, cash on hand, and cash deposits including certificates of deposit and temporary investments with original maturities of three months or less.

Investments: The investment policy of the University is established by the Board of Visitors. Credit risk is the risk that the University may not be able to obtain possession of its investment instrument at maturity. The University's cash, cash equivalents, and investments as of June 30, 1998 are categorized by levels of credit risk as described below:

Category 1	Insured or registered securities or securities held by the University or its agent in the University's name. The University has no category 1 investments for 1998.
Category 2	Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the University's name. The University has no category 2 investments for 1998.
Category 3	Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the University's name. The University has no category 3 investments for 1998.

The categorization of investment risk for assets held as of June 30, 1998, follows:

	Not Categorized	Market Value
Cash and cash equivalents:		
U.S. Government and U.S. Government Securities	$ 1,421,291	$ 1,421,291
Mutual, Money Market and Index Funds	1,910,049	1,910,049
Total Cash and Cash Equivalents	$ 3,331,340	$ 3,331,340
Investments:		
State Non-arbitrage Program Investments (SNAP)	$ 5,812,892	$ 5,812,892
Investments with the Treasurer of Virginia	4,849	4,849
Total Investments	$ 5,817,741	$ 5,817,741

Securities Lending

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

3. RESTATEMENT OF BEGINNING FUND BALANCES

Effective July 1, 1997, the University implemented GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Accordingly, fund balances at July 1, 1997 have been adjusted to report the fair value of the investments held at June 30, 1997. The following schedule details these changes.

	Current Funds		Endowment and
	Unrestricted	Restricted	Similar Funds
Fund balance June 30, 1997 as previously reported	$ (3,078,008)	$ 713,113	$ 192,839
Restatement for GASB 31	106,598	4,862	34,616
Fund balance June 30, 1997 as restated	$ (2,971,410)	$ 717,975	$ 227,455

4. INTERFUND ASSETS/LIABILITIES

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

Due (To)/From	Current Funds Unrestricted	Current Funds Restricted	Loan Funds	Plant Funds	Agency Funds
Current unrestricted funds	$ -	$ (1,083,014)	$ 1,398	$ 844,563	$ 841,072
Current restricted funds	1,083,014	-	-	-	(4,500)
Loan funds	(1,398)	-	-	-	-
Plant funds	(844,563)	-	-	-	-
Agency funds	(841,072)	4,500	-	-	-
Total	$ (604,019)	$ (1,078,514)	$ 1,398	$ 844,563	$ 836,572

5. FACULTY RETIREMENT PLANS

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, 1998 approximately 46 faculty members elected to enroll in the plan. In order to satisfy IRS requirements, a trust fund was established as means to make the payments to the plan participants. The plan payment schedule is as follows:

Year Ending June 30,	Supplemental Plan Obligations
1999	$ 714,171
2000	758,188
2001	758,188
2002	733,340
2003	409,343
Total	$ 3,373,230

Retirement Incentive Plan

The Retirement Incentive Plan for Faculty provides incentives for voluntary retirement of selected faculty. Only nonclassified teaching and research staff are eligible to apply to participate in the plan. One percent or less of the University's total compensation base for faculty salaries and benefits may be allocated to the plan, and the cost of retirement contracts awarded for the year cannot exceed this amount.

Incentive plan payments totaled $68,739 for the year ending June 30, 1998. Future obligations as of June 30, 1998, total $20,098.

6. RETAINAGE PAYABLE

At June 30, 1998, $1,151,014 was held by the University as retainage on various contracts for work which had been performed. The retainage will be remitted to the various contractors upon satisfactory completion of the construction projects.

7. LONG-TERM DEBT

Description	Interest Rates	Maturity	June 30, 1998
Revenue Bonds:			
Dormitory, Series 1993A	4.20% - 5.375%	2009	$ 1,950,000
Recreation, Series 1993A	4.20% - 5.375%	2013	15,050,000
Total Revenue Bonds			17,000,000
General Obligation Revenue Bonds:			
Dormitory and Dining Hall:			
Series 1979	3.00%	2009	1,780,000
Series 1979B	5.25%	1999	65,000
Series 1990B	6.40%	1999	115,000
Series 1993A	4.00% - 5.25%	2013	7,449,819
Series 1993B	3.80% - 5.00%	2010	3,609,268
Series 1996	4.75%	2001	262,532
Series 1997	5.00%	2017	18,575,000
Telecommunications, Series 1993B	3.80% - 4.25%	2001	1,045,743
Student Center:			
Series 1992	5.10% - 5.90%	2005	1,875,250
Series 1992C	5.10% - 5.80%	2004	1,855,000
Series 1993B	3.80% - 4.00%	1999	94,326
Series 1998	3.50% - 4.70%	2013	4,562,155
Electrical Upgrade:			
Series 1993A	4.00% - 4.80%	2003	220,000
Series 1994	6.00%	2004	615,000
Athletic/Recreation:			
Series 1992	5.10% - 5.70%	2003	2,748,548
Series 1993A	4.00% - 4.90%	2004	232,379
Series 1993B	3.80% - 4.50%	2003	941,207
Total General Obligation Revenue Bonds			46,046,227
Total Bonds Payable			63,046,227
Capital Leases:			
Higher Education Equipment Trust Fund Leases Payable	3.50% - 5.35%	1999-2003	3,407,709
Other Capital Leases Payable	3.90% - 6.168%	1999-2004	734,957
Total Leases Payable			4,142,666
Installment Purchases Payable	3.90% - 6.168%	1999-2004	1,007,052
Total			$ 68,195,945

Long-term debt matures as follows:

1998 - 1999	$ 5,487,011
1999 - 2000	5,485,851
2000 - 2001	5,711,596
2001 - 2002	5,395,898
2002 - 2003	5,103,731
Later Years	41,011,858
Total	$ 68,195,945

Current Year Defeasance of Debt

In February 1998, the Commonwealth of Virginia, on behalf of the University, issued $4,598,817 in General Obligation Refunding Bonds, Series 1998, with interest rates of 3.50% - 4.70% to advance refund $4,260,000 of outstanding General Obligation Bonds, Series 1992C, with interest rates of 5.90 percent - 6.00 percent. The net proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on refunded bonds. As a result, the bonds designated above as being refunded are considered defeased and are not reflected in the accompanying financial statements. Though advance refunding resulted in the recognition of an accounting loss of $338,817 for the year ended June 30, 1998, the University in effect reduced the aggregate debt service obligation by $378,645 over the next fifteen years and obtained an economic gain (equal to the difference between the present values of the old and new debt service payments) of $283,182.

Prior Year Defeasance of Debt

In prior years, the University and the Commonwealth of Virginia on behalf of the University issued bonds which 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, 1998, $17,377,704 of the bonds outstanding are considered defeased.

8. STATE APPROPRIATIONS – CURRENT UNRESTRICTED FUNDS

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

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

Original legislative appropriation per Chapter 924	$ 40,275,862
Supplemental adjustments:	
Classified salary increases	652,597
Health insurance premium	167,078
Telecommunications and group life reversions	(72,697)
Reversion to the General Fund of the Commonwealth	(843)
Adjusted appropriation	$ 41,021,997

9. AFFILIATED FOUNDATIONS

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

ASSETS

Cash and investments	$ 30,723,635
Other assets	4,208,584
Total assets	$ 34,932,219

LIABILITIES AND NET ASSETS

Liabilities	$ 5,278,693
Net assets	29,653,526
Total liabilities and net assets	$ 34,932,219

The aggregate revenues and expenditures of these organizations, determined as if in consolidation with the University, were $9,079,784 and $3,791,065, respectively for the year ended June 30, 1998.

The James Madison University Foundation, Inc. receives gifts and expends funds for the benefit of the University. The revenues and expenditures of the University include funds expended by the foundation and paid directly to the University of approximately $2,993,325 for the year ended June 30, 1998.

10. COMMITMENTS

At June 30, 1998, the University was a party to construction and other contracts totaling approximately $66,770,974 of which $47,272,524 has been incurred.

Under a contract between the Board of Visitors of the University and the City of Harrisonburg dated April 12, 1995, the University is committed to City services for steam and chilled water purchases and waste disposal. The City will bill the University for annual debt service for a new resource recovery facility and cost of delivered quantities of steam and chilled water. The contract will expire April 12, 2036. During the year ended June 30, 1998, such purchases totaled $1,971,401.

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 $2,983,226 for the year ended June 30, 1998.

The University has, as of June 30, 1998, the following future minimum rental payments due under the above leases:

Year Ending June 30	Operating Lease Obligation
1999	$ 2,113,315
2000	1,205,293
2001	959,212
2002	870,434
2003	710,296
Years Later	8,043,690
Total	$ 13,902,240

11. RETIREMENT PLANS

Virginia Retirement System

Employees of the University are employees of the Commonwealth of Virginia. The employees participate in a defined benefit retirement plan administered by the Virginia Retirement System (VRS). The VRS also administers life insurance and health related plans for retired employees. Information related to these plans is available at the statewide level only in the Commonwealth's Comprehensive Annual Financial Report (CAFR). The Commonwealth of Virginia, not the University, has the overall responsibility for contributions to these plans.

The University's total VRS contributions were $4,212,280 for the year ended June 30, 1998, which included the 5 percent employee contribution assumed by the employer. These contributions represent 9.81 percent of covered payroll for the year. Contributions to the VRS were calculated using the base salary amount of approximately $42,938,634 for the fiscal year ended June 30, 1998. The University's total payroll was approximately $82,575,968 for the year ended June 30, 1998.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 1998. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

Optional Retirement Plans

Full-time faculty and certain administrative staff participate in a defined contribution plan administered by five different providers rather than 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 Variable Annuity Life Insurance Company (VALIC). This plan is a fixed-contribution program where the retirement benefits received are based upon the employer's (5.4 percent) and employee's (5 percent) contributions, plus interest and dividends.

Individual contracts issued under the plan provide for full and immediate vesting of both the University's and the employee's contributions. Total pension costs under this plan were approximately $2,203,606 for year ended June 30, 1998. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $21,188,517 for fiscal year 1998.

12. POST-EMPLOYMENT BENEFITS

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

13. CONTINGENCIES

Grants and Contracts

The University has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the 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, 1998, the University estimates that no material liabilities will result from such audits or questions.

14. LITIGATION

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

15. YEAR 2000 COMPLIANCE

James Madison University recognizes the significance of the Century Date Change and the impact Year 2000 may have on its information technology and business infrastructure. The University has established a Year 2000 task force, consisting of Department Heads and various other employees, to oversee specific technical efforts associated with the Year 2000 phenomenon and to assist with meeting the requirements of the Commonwealth of Virginia.

The University identified the administrative computer systems as mission critical and is subjecting its mission critical systems to the following stages of work to address year 2000 issues:

Awareness – Define the Year 2000 problem and gain executive level support and sponsorship. Establish Year 2000 project team and develop an overall strategy. Ensure that everyone in the University is fully aware of the issues.

Assessment – Assess the Year 2000 impact on the University. Identify priority business activities, inventory and analyze systems supporting these activities, and prioritize their conversion or replacement. Develop contingency plans to handle potential system failures. Identify and secure the necessary resources.

Remediation – Convert, replaces, or eliminates selected systems. Modify interfaces.

Testing and Validation – Test, verify, and validate converted or replaced systems. Test the performance, functionality, and integration of these systems and interfaces in an operational environment.

Implementation – Define transition procedures and develop implementation schedule. Complete acceptance testing and develop contingency plans. Implement converted and replaced systems.

As of May 21, 1999, the University has several hourly contracts in place to complete the remediation, testing and validation, and implementation phases. It is estimated that the University will spend $1.2 million in order to complete this work.

16. SURETY BOND

University employees are covered by a Faithful Performance of Duty Bond administered by the Commonwealth of Virginia’s Department of General Services, Division of Risk Management with liability limits of $500,000 for each occurrence. Information relating to the Commonwealth’s self-insurance plans is available at the statewide level in the Commonwealth’s Comprehensive Annual Financial Report.

SUPPLEMENTARY INFORMATION

JAMES MADISON UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUES AND EXPENDITURES
For the Year Ended June 30, 1998

	Food Services	Residential Facilities	Stores and Shops	Student Health	Student Activities	Athletics	Telecom-munications	Parking	Recreation	Other	Total
Revenues:											
Student fees	$ 14,321,395	$ 14,501,704	$ -	$ 68,148	$ -	$ -	$ -	$ -	$ -	$ 26,088,148	$ 54,979,395
Sales and services	3,441,975	444,316	9,351,940	105,921	33,574	1,068,848	1,487,833	551,202	37,061	1,706,675	18,229,345
Total revenues	17,763,370	14,946,020	9,351,940	174,069	33,574	1,068,848	1,487,833	551,202	37,061	27,794,823	73,208,740
Cost of sales	5,864,991	-	6,587,499	-	-	-	-	-	-	-	12,452,490
Net revenues	11,898,379	14,946,020	2,764,441	174,069	33,574	1,068,848	1,487,833	551,202	37,061	27,794,823	60,756,249
Expenses of operation:											
Personal services	6,006,315	1,536,753	1,681,489	1,189,936	941,110	4,205,265	340,168	225,500	980,904	1,530,027	18,637,466
Contractual services	1,244,228	4,123,741	161,454	104,403	650,847	2,707,689	760,260	580,510	388,544	102,199	10,823,875
Supplies and materials	359,294	999,197	48,522	88,570	136,595	750,344	145,542	8,003	370,025	245,786	3,151,878
Continuous charges and obligations	2,165,723	3,447,361	1,268,772	159,132	100,978	1,106,202	21,669	113,649	364,027	549,437	9,296,949
Miscellaneous	200,598	161,993	736	210	1,223	229,664	8,170	162,129	56,648	1,609,854	2,431,225
Equipment	504,734	290,783	126,022	51,406	208,382	24,476	328,164	9,368	173,691	82,540	1,799,566
Scholarships	19,153	58,159	-	7,128	17,820	2,647,432	-	-	14,660	40,545	2,804,896
Total expenses of operation	10,500,045	10,617,986	3,286,994	1,600,784	2,056,955	11,671,071	1,603,973	1,099,159	2,348,499	4,160,387	48,945,855
Excess (deficiency) of revenues over (under) expenses of operations	1,398,334	4,328,033	(522,553)	(1,426,715)	(2,023,381)	(10,602,223)	(116,139)	(547,957)	(2,311,438)	23,634,435	11,810,395
Non-operating revenues (expenses):											
Private gifts	-	-	-	-	-	160,000	-	-	-	-	160,000
Scholarships	-	-	-	-	-	(160,000)	-	-	-	-	(160,000)
Total non-operating revenues (expenses)	-	-	-	-	-	-	-	-	-	-	-
Transfers:											
Mandatory:											
Debt service	(826,379)	(2,777,872)	(7,886)	-	(1,017,724)	(901,915)	(435,124)	-	(1,467,533)	(17,871)	(7,452,303)
Nonmandatory:											
Allocation of student fees	-	128,000	100,000	1,423,687	2,836,994	11,287,331	-	563,100	3,740,558	(20,079,669)	-
Capital improvements	(29,151)	(366,514)	-	-	-	(166,535)	-	(4,218)	-	(1,607,912)	(2,174,329)
Total transfers	(855,530)	(3,016,386)	92,114	1,423,687	1,819,269	10,218,881	(435,124)	558,882	2,273,025	(21,705,452)	(9,626,632)
Net increase (decrease) for the year	$ 542,804	$ 1,311,648	$ (430,439)	$ (3,028)	$ (204,112)	$ (383,342)	$ (551,263)	$ 10,925	$ (38,413)	$ 1,928,984	2,183,763
Fund balance at the beginning of the year											11,508,337
Fund balance at the end of the year											$ 13,692,100