

Marshall University Research Corporation

Combined Financial Statements as of and for the
Years Ended June 30, 2011 and 2010,
Supplemental Schedule for the Year Ended
June 30, 2011, Independent Auditors' Report,
and Reports Required by OMB Circular A-133
for the Year Ended June 30, 2011

MARSHALL UNIVERSITY RESEARCH CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Marshall University Research Corporation:

We have audited the accompanying combined statements of net assets of Marshall University Research Corporation (the "Corporation") as of June 30, 2011 and 2010, and the related combined statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These combined financial statements are the responsibility of the management of the Corporation. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits 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 of America. 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 consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such combined financial statements present fairly, in all material respects, the financial position of the Corporation, at June 30, 2011 and 2010, and its revenues, expenses, and changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 to 9, which is the responsibility of the Corporation's management, is not a required part of the basic combined 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming an opinion on the basic combined financial statements of the Corporation taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2011, is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations, and is not a required part of the basic combined financial statements. This schedule is the responsibility of the management of the Corporation. Such information has been subjected to the auditing procedures applied in our audit of the 2011 basic combined financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the 2011 basic combined financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2011, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

October 11, 2011

Marshall University Research Corporation

Management Discussion and Analysis

Fiscal Year 2011

Introduction

The Marshall University Research Corporation (“MURC” or the “Corporation”) is a non-profit state entity created by the West Virginia Legislature to further research and economic development activities within the State of West Virginia. MURC is a component unit of Marshall University (“Marshall”) and is included as an integral part of Marshall’s annual combined financial statements.

Overview

The Management’s Discussion and Analysis is required supplementary information and has been prepared in accordance with the requirements of Governmental Accounting Standard Board (GASB). This section of MURC’s annual financial report provides an overview of MURC’s financial performance during the year ended June 30, 2011 as compared to the previous fiscal year. Comparative analysis is also presented for fiscal year 2010 compared to fiscal year 2009.

The Corporation’s financial report consists of three basic financial statements: the statement of net assets, the statement of revenues, expenses and changes in net assets, and the statement of cash flows. These statements focus on the financial condition, the results of operations, and cash flows of the Corporation as a whole. Each of these statements is discussed below.

Net Assets

The statements of net assets present the assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities) of the Corporation as of the end of the fiscal year. Assets denote the resources available to continue the operations of the Corporation. Liabilities indicate how much the Corporation owes vendors, employees and lenders. Net assets measure the equity or the availability of funds of the Corporation for future periods.

Net Assets are displayed in three major categories:

Invested in Capital Assets, Net of Related Debt. This category represents the Corporation’s total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted Net Assets. This category includes net assets, the use of which is restricted, either due to externally imposed constraints or because of restrictions imposed by law. They are further divided into two additional components - nonexpendable and expendable. Nonexpendable restricted net assets include endowment and similar type funds for which donors or other outside sources have stipulated, as a condition of the gift or grant instrument, 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. Expendable restricted net assets include resources for which the Corporation is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted Net Assets. This category includes resources that are not subject to externally imposed stipulations. Such resources are derived primarily from facilities and administrative earnings and revenues from investments. Unrestricted net assets are used for transactions related to the educational and general operations of the Corporation and may be designated for specific purposes by the Corporation’s Board of Directors. While the Corporation has not specifically designated Net Asset balances at June 30, 2011, certain amounts are reserved for specific programs.

Condensed Combined Statements of Net Assets (in thousands)

	As of June 30		
	2011	2010	2009
Assets:			
Current assets	\$ 29,537	\$ 30,306	\$ 31,399
Other noncurrent assets	15,668	5,209	2,521
Capital assets, net	<u>19,009</u>	<u>15,933</u>	<u>15,400</u>
Total Assets	<u>\$ 64,214</u>	<u>\$ 51,448</u>	<u>\$ 49,320</u>
Liabilities:			
Current liabilities	\$ 7,542	\$ 6,640	\$ 5,955
Noncurrent liabilities	3,384	3,655	3,506
Total Liabilities	<u>\$ 10,926</u>	<u>\$ 10,295</u>	<u>\$ 9,461</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 15,337	\$ 12,043	\$ 11,871
Restricted:			
Non expendable	7,193	738	465
Expendable	18,769	17,593	16,927
Unrestricted	11,989	10,779	10,596
Total Net Assets	<u>\$ 53,288</u>	<u>\$ 41,153</u>	<u>\$ 39,859</u>

Changes to Net Assets

The increase in net assets of \$12,135,233 for FY2011 was primarily the result of the receipt of monies earned in connection with the West Virginia Research Trust fund totaling \$7,315,119, an increase in net capital assets of \$3,076,114, and an increase in unrestricted assets of \$1,211,322. The increase in net assets of \$1,294,183 for FY2010 was primarily the result of an increase of \$3,271,004 in grants and contracts receivables offset by a decrease in cash from the expenditure of Eminent Scholar Recruitment and Enhancement monies totaling \$1,476,656 and an increase in accounts payables totaling \$459,471.

The first component is the Corporation’s equity in capital assets, which increased \$3,293,798 during FY2011 and \$171,676 during FY2010.

Restricted nonexpendable net assets were earned in connection with the “Bucks for Brains” West Virginia Research Trust fund in the amount of \$6,454,313 during FY2011 and \$273,191 during FY2010. Private donations were received by the Marshall University Foundation (the “Foundation”) and were matched by a corresponding draw from the State on the project for each year. These funds are held in two nonexpendable funds — one at the Foundation and the other at MURC.

Additionally, restricted expendable net assets increased by \$1,175,799 during FY2011 and \$666,381 during FY2010. These monies have been restricted for use by entities outside the Corporation, mainly by granting agencies. During FY2011, this was primarily due to receipts of program income totaling \$900,476. During FY2010, this was primarily due to receipt of \$1,525,248 by the Robert C Byrd Institute in program income offset by a decrease of \$800,000 of the WVMUL Digital Conversion Grant which was expended in FY2010.

Finally, unrestricted net assets increased by \$1,211,322 for FY2011 and \$182,935 for FY2010 over the prior year total. Surplus activity in Cost Recovery and Operating Funds accounts for the growth in this component. These monies can be expended for any legal purpose.

Statement of Revenues, Expenses and Changes in Net Assets

The statement of revenues, expenses and changes in net assets present the revenues and expenses, both operating and non-operating, as well as other gains and losses of the Corporation.

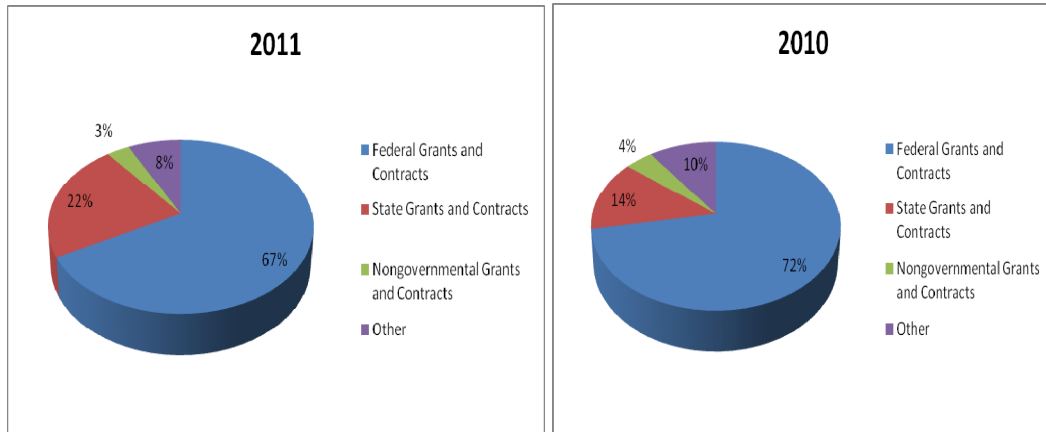
Operating revenues are received for providing goods and services to the various customers and constituencies of the Corporation. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the Corporation. Revenues received for which goods and services are not provided are reported as non-operating revenues. For example, gifts are non-operating because they are provided by the donor to the Corporation without the donor directly receiving commensurate goods and services for those revenues.

Condensed Combined Statements of Revenues, Expenses and Changes in Net Assets (in thousands)

	Years Ended June 30		
	2011	2010	2009
Operating revenues	\$ 59,746	\$ 44,992	\$ 40,662
Operating expenses	(47,934)	(43,797)	(37,620)
Operating income	11,812	1,195	3,042
Nonoperating revenues	56	99	(101)
Income before capital gifts and grants	11,868	1,294	2,941
Capital grants and gifts	267	0	0
Increase in Net Assets	12,135	1,294	2,941
Net Assets at Beginning of Year	41,153	39,859	36,918
Net Assets at End of Year	\$ 53,288	\$ 41,153	\$ 39,859

Revenues:

The following charts illustrate the composition of revenues by source for 2011 and 2010:



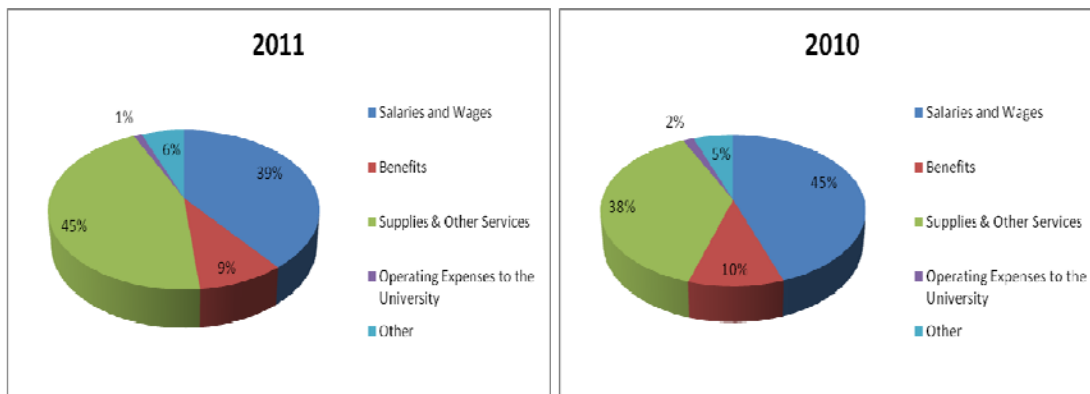
Changes to Operating Revenues and Expenses

For FY2011, Operating Revenues were \$59,745,817, an increase of \$14,753,682 compared to the previous year. This increase was primarily due to an increase in federal awards of \$7,760,875 and state grants of \$7,245,326. The two largest new federal awards were an INBRE II award for \$3,086,572 and a HRSA award in connection with the Translational Genomic Research Institute for \$3,475,981. The increase in state grant awards was in connection with the research trust fund monies received. For FY2010, Operating Revenues were \$44,992,135, an increase of \$4,329,709 compared to the previous year. This increase was primarily due to an increase in federal grants of \$4,702,968 offset by a slight reduction in private grants of \$445,702. The two largest new federal awards were a DARPA award for \$6,834,506 and a HRSA award for \$1,200,000.

Excluding construction related grant revenue, Operating Revenues for FY2011 increased \$10,053,388 over FY2010 and increased \$4,403,231 over FY2009.

Expenses:

The following is a graphic comparison of total expenses by category between 2011 and 2010:



Operating Expenses were \$47,933,966 for FY2011 as compared to \$43,796,562 for FY2010, an increase of \$4,137,404. For FY2011, salaries and benefits decreased by \$804,050 and expenditures for supplies and other services increased by \$4,683,496, both attributable to changes in grant activity.

Statement of Cash Flows

The statement of cash flows presents detailed information about the cash activity during the year. This statement helps users assess the Corporation's ability to generate net cash flows, its ability to meet obligations as they come due, and its need for external financing.

The statement of cash flows is divided into five sections:

Cash flows from operating activities show the net cash provided or used by the operating activities of the Corporation.

Cash flows from noncapital financing activities reflect the cash received and paid for non-operating, non-investing, and noncapital financing purposes.

Cash flows from capital and related financing activities include cash used for the acquisition and construction of capital and related items.

Cash flows from investing activities show the purchases, proceeds, and interest received from investing activities.

Reconciliation of operating income to net cash provided by operating activities provides a schedule that reconciles the accrual-based operating income (loss) and net cash provided by operating activities.

Condensed Combined Statements of Cash Flows (in thousands)

	Years ended June 30		
	2011	2010	2009
Cash provided (used) by:			
Operating activities	\$ 14,354	\$ 764	\$ 3,742
Capital and related financing activities	(5,179)	(2,133)	(2,998)
Investing activities	<u>(10,279)</u>	<u>(2,957)</u>	<u>564</u>
Net (decrease) increase in cash and cash equivalents	(1,104)	(4,326)	1,308
Cash and cash equivalents, beginning			
of year	16,540	20,866	19,558
Cash and cash equivalents, end of year	<u>\$ 15,436</u>	<u>\$ 16,540</u>	<u>\$ 20,866</u>

The decrease in cash balance in 2011 is primarily due to an increase in grant and contract activity which provided net cash of \$11,171,630. This increase was offset by the purchase of capital assets totaling \$5,526,525 and the purchase of investments totaling \$10,468,579. The decrease in cash balance in 2010 is primarily the result of purchasing investments totaling \$3,054,485 and the expenditure of Eminent Scholars Recruitment and Enhancement program monies totaling \$1,476,656.

Capital Asset and Debt Administration

The Corporation completed construction for an addition to the Forensic Science Center in September 2009. Funding for the Forensic Science Center addition resulted in the Corporation incurring a note payable in the amount of \$3,000,000, which had a principal balance of \$2,659,649 at June 30, 2011. Other capital assets owned by the Corporation are primarily comprised of equipment purchased with funds provided directly within grant agreements or using indirect costs recovery funds. During FY2011, \$5,526,525 in capital assets were purchased which includes state of the art research equipment. Of these expenditures, most noteworthy were a CT Scanner for the Virtual Colonoscopy project, equipment for the Translational Genomic Research Institute, and a Multi-Photon Microscope which will be used to advance cellular and physiological research at Marshall. The only other debt incurred by the Corporation is two capital leases for copiers with a remaining balance of \$1,700.

Economic Outlook

MURC has experienced tremendous growth during the last several years. While 2012 grant activity is returning to 2009 levels as the result of timing of some awards and the ending of the stimulus funding, we have achieved major new milestones.

The “Bucks for Brains” initiative is thriving and MURC has raised 60% of the \$15 million goal for a total of \$8.9 million in gifts and pledges with an additional \$8.9 million in match from the state. This program is funded through proceeds from private, endowed gifts matched by endowment funds from the WV Research Trust Fund established in 2008. The mission of this initiative is to stimulate world-class research and development and to attract venture capital, which will eventually lead to jobs in emerging high-tech, high wage industries. Marshall is legislatively entitled to match \$15 million in private gifts with the possibility of additional matching funds beyond that total.

In June 2011, MURC was awarded a sub-contract from the University of Kentucky as a key partner in their Clinical and Translational Award from the National Institute of Health. This has led to major new applications to programs such as the Community Cancer Outreach Program and pilot funding for Marshall researchers which will lead to collaborative applications in the future.

Marshall has joined the Appalachian Clinical Research Network with the University of Kentucky, the University of Cincinnati and Ohio State University. This has culminated in the recent announcement of a \$2.6 Million, 5-year award from Bristol Meyers Squibb for community-based diabetes research. This grant will provide support for coalitions in 10 distressed counties, helping them to implement evidence-based programs that promote long-term behavior change and improve the health for people who have diabetes.

Marshall has opened the Translational Genomics Research Institute, a new laboratory facility directed at translational research. The Institute shall provide foundational science supporting clinical centers in Marshall’s School of Medicine. The Institute is comprised of a translational research unit in the Edwards Comprehensive Cancer Center and a new genomic medical center. The Institute’s genomic thrust can also lead to ecogenomics research — a new field which applies the tools of genomics, proteomics, etc. to ecology.

Marshall has begun project development of the Biotechnology Development Center and Applied Engineering Complex which will serve as a major new focus for engineering and biotechnology research. This facility shall be utilized to transform basic and applied research into commercially viable products, processes, and services. This aspect of the new facility will allow the commercialization of Marshall’s

rapidly growing science research, particularly the expansion accompanying the completion of the Robert C. Byrd Biotechnology and Science Center and the Edwards Comprehensive Cancer Center.

This facility will enable Marshall to provide research scientists, entrepreneurs and existing industries with the practical expertise and support in technology transfer business development and intellectual property rights necessary to create new regional business. It will also support academic programs and provide technology capabilities that have been designed to support the operations of high-end engineering, 3-D graphic simulations, digital/spatial/molecular modeling, environmental science, mathematics and computational science, and research.

The Marshall Human Research Protection Program (HRPP) has experienced great success with the implementation of our new Institutional Review Board (IRB) electronic online submission system. This suite of electronic tools features electronic document management, web-based protocol sharing and collaboration, automatic notifications, electronic submissions and reviews and vital audit capabilities including electronic revision histories, electronic signatures and event tracking. This system has greatly increased the efficiency and speed of the IRB process. In fact, a recent survey conducted by the Association for the Accreditation of Human Subject Research Protection Programs (our accrediting organization) indicated that our approval times were significantly faster than other accredited institutions.

As evidenced by all of these achievements, MURC continues to enjoy a very robust and thriving research environment. We remain confident in our ability to seek and acquire funding opportunities as well as continue to provide our best service to both Marshall and our community.

MARSHALL UNIVERSITY RESEARCH CORPORATION

COMBINED STATEMENTS OF NET ASSETS AS OF JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 15,435,657	\$ 16,539,544
Grants and contracts receivable — net of allowance of \$392,105 and \$412,458 in 2011 and 2010, respectively	13,679,205	13,379,228
Other accounts receivable	67,480	50,144
Prepaid expenses	<u>354,894</u>	<u>337,547</u>
 Total current assets	 <u>29,537,236</u>	 <u>30,306,463</u>
NONCURRENT ASSETS:		
Other accounts receivable	17,264	56,541
Deferred charges — debt issuance costs	40,375	42,750
Investments	15,610,202	5,109,541
Capital assets — net	<u>19,008,818</u>	<u>15,932,704</u>
 Total noncurrent assets	 <u>34,676,659</u>	 <u>21,141,536</u>
 TOTAL	 <u>\$ 64,213,895</u>	 <u>\$ 51,447,999</u>

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

COMBINED STATEMENTS OF NET ASSETS AS OF JUNE 30, 2011 AND 2010

	2011	2010
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,397,072	\$ 2,193,923
Accrued liabilities	839,156	887,839
Notes payable — current portion	121,953	119,565
Compensated absences	872,142	873,470
Deferred revenue	<u>3,311,328</u>	<u>2,565,123</u>
 Total current liabilities	 <u>7,541,651</u>	 <u>6,639,920</u>
NONCURRENT LIABILITIES:		
Notes payable	2,539,396	2,661,349
Deferred rent revenue	<u>844,986</u>	<u>994,101</u>
 Total noncurrent liabilities	 <u>3,384,382</u>	 <u>3,655,450</u>
 Total liabilities	 <u>10,926,033</u>	 <u>10,295,370</u>
NET ASSETS:		
Invested in capital assets — net of related debt	15,336,664	12,042,866
Restricted for:		
Nonexpendable	7,192,505	738,191
Expendable — sponsored projects	18,769,029	17,593,230
Unrestricted	<u>11,989,664</u>	<u>10,778,342</u>
 Total net assets	 <u>53,287,862</u>	 <u>41,152,629</u>
 TOTAL	 <u>\$64,213,895</u>	 <u>\$51,447,999</u>

See notes to combined financial statements.

(Concluded)

MARSHALL UNIVERSITY RESEARCH CORPORATION

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
OPERATING REVENUES:		
Contracts and grants:		
Federal	\$40,210,319	\$32,449,444
State	13,397,306	6,151,980
Private and local	1,658,085	1,889,749
Interest on loans receivable		67
Program income	1,477,726	1,342,121
Miscellaneous — net	<u>3,002,381</u>	<u>3,158,774</u>
 Total operating revenues	 <u>59,745,817</u>	 <u>44,992,135</u>
OPERATING EXPENSES:		
Salaries and wages	18,877,287	19,535,544
Benefits	4,299,302	4,445,095
Supplies and other services	21,404,217	16,720,721
Utilities	655,516	587,036
Student financial aid — scholarships and fellowships	522,856	329,560
Depreciation	<u>2,174,788</u>	<u>2,178,606</u>
 Total operating expenses	 <u>47,933,966</u>	 <u>43,796,562</u>
OPERATING INCOME	<u>11,811,851</u>	<u>1,195,573</u>
NONOPERATING REVENUES (EXPENSES):		
Investment income — including unrealized gain of \$32,082 and \$161,007 in 2011 and 2010, respectively	221,935	199,258
Interest on indebtedness	(90,257)	(56,466)
Loss on disposal of equipment	<u>(75,623)</u>	<u>(44,182)</u>
 Net nonoperating revenues	 <u>56,055</u>	 <u>98,610</u>
INCOME BEFORE CAPITAL GIFTS AND GRANTS	11,867,906	1,294,183
CAPITAL GRANTS AND GIFTS	<u>267,327</u>	<u> </u>
INCREASE IN NET ASSETS	12,135,233	1,294,183
NET ASSETS — Beginning of year	<u>41,152,629</u>	<u>39,858,446</u>
NET ASSETS — End of year	<u>\$53,287,862</u>	<u>\$41,152,629</u>

See notes to combined financial statements.

MARSHALL UNIVERSITY RESEARCH CORPORATION

COMBINED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Contracts and grants	\$ 55,682,586	\$ 37,223,927
Payments to and on behalf of employees	(23,245,264)	(23,772,474)
Payments to suppliers	(21,265,692)	(16,184,430)
Payments for utilities	(655,516)	(587,036)
Payments for scholarships and fellowships	(522,856)	(329,560)
Collection of loans		244,796
Disbursement of loan funds		(333,991)
Program income	1,477,726	1,342,121
Other receipts — net	<u>2,882,618</u>	<u>3,160,565</u>
Net cash provided by operating activities	<u>14,353,602</u>	<u>763,918</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Payments on notes payable	(119,565)	(160,012)
Purchases of capital assets	(5,259,198)	(3,291,262)
Deferred rent revenue collected		417,727
Proceeds from disposal of equipment	200,000	535,939
Withdrawal from noncurrent cash and cash equivalents	<u> </u>	<u>364,279</u>
Net cash used in financing activities	<u>(5,178,763)</u>	<u>(2,133,329)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(10,468,579)	(3,045,043)
Sale/maturity of investments		65,727
Investment income	<u>189,853</u>	<u>22,242</u>
Net cash used in investing activities	<u>(10,278,726)</u>	<u>(2,957,074)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(1,103,887)	(4,326,485)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>16,539,544</u>	<u>20,866,029</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 15,435,657</u>	<u>\$ 16,539,544</u>

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

COMBINED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 11,811,851	\$ 1,195,573
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation expense	2,174,788	2,178,606
Changes in assets and liabilities:		
Accounts receivable — net	(278,036)	(3,211,729)
Prepaid expenses	(17,347)	15,885
Loans — net		8,040
Accounts payable	203,149	459,471
Accrued liabilities	(136,565)	160,205
Deferred revenue	597,090	5,482
Compensated absences	(1,328)	104,786
Advances from federal sponsors		(152,401)
	<u>\$ 14,353,602</u>	<u>\$ 763,918</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
NONCASH TRANSACTIONS:		
Loss on disposal of equipment	<u>\$ (75,623)</u>	<u>\$ (44,182)</u>
Donated assets	<u>\$ 267,327</u>	<u>\$ -</u>

See notes to combined financial statements.

(Concluded)

MARSHALL UNIVERSITY RESEARCH CORPORATION

NOTES TO COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

1. ORGANIZATION

Marshall University Research Corporation (the “Corporation”) is a not-for-profit corporation incorporated in 1987, pursuant to the laws of the State of West Virginia (the “State”). The purpose of the Corporation is to foster, support, and assist in any research and economic development activities consistent with the educational objectives and mission of Marshall University (the “University”). The Corporation has been designated by the University to fulfill the role of public institutions to work in partnership with business, industry, or government. The Corporation encourages the acceptance of gifts, grants, contracts, and equipment, and the sharing of facilities, equipment, and skilled personnel to promote and develop joint, applied research and development, technical assistance, and instructional programs in the State. The Corporation is considered a component unit of the University.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of the Corporation have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by Governmental Accounting Standards Board standards (GASB). The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the Corporation’s assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.

The Corporation follows all GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, and has elected not to apply the FASB Statements and Interpretations issued after November 30, 1989, to its financial statements.

Reporting Entity — The Corporation is combined with the University (its parent), as the University is the sole member of the nonstock, not-for-profit corporation. The University is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State that are not included in the State’s general fund. The University is a separate entity, which, along with all State institutions of higher education, the West Virginia Higher Education Policy Commission (which includes West Virginia Network for Educational Telecomputing) (the “Commission”), and the West Virginia Council for Community and Technical College Education, form the Higher Education Fund of the State. The Higher Education Fund is considered a component unit of the State, and its financial statements are discretely presented in the State’s comprehensive annual financial report.

The accompanying combined financial statements present all funds under the authority of the Corporation, including Marshall Institute for Interdisciplinary Research, Inc. (MIIR). The basic criteria for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the Corporation’s ability to significantly influence operations and accountability for fiscal matters of related entities.

Financial Statement Presentation — GASB establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented on a combined basis to focus on the Corporation as a whole. Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of Corporation obligations. The Corporation's net assets are classified as follows:

Invested in Capital Assets — Net of Related Debt — This represents the Corporation's total investment in capital assets, net of depreciation and outstanding debt used to fund those capital assets.

Restricted Net Assets, Expendable — This includes resources for which the Corporation is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Restricted Net Assets, Nonexpendable — This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift or grant instrument, 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.

Unrestricted Net Assets — Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the Corporation, and may be used at the discretion of the Board of Directors to meet current expenses for any purpose.

Basis of Accounting — For financial reporting purposes, the Corporation is considered a special-purpose government engaged only in business-type activities. Accordingly, the Corporation's financial statements have been prepared on the accrual basis of accounting with a flow of economic resources measurement focus. Revenues are reported when earned and expenses when materials or services are received. All intercompany accounts and transactions have been eliminated.

Cash and Cash Equivalents — For purposes of the statements of net assets, the Corporation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Cash Flows — Any cash and cash equivalents escrowed, restricted for noncurrent assets, or in funded reserves have not been included as cash and cash equivalents for the purpose of the combined statements of cash flows.

Investments — Investments, other than alternative investments, are presented at fair value based on quoted market prices. The alternative investments are carried at estimated fair value. These valuations include assumptions and methods that were reviewed by University management and are primarily based on quoted market prices for the underlying investments or other observable market data. The University believes that the carrying amount of its alternative investments is a reasonable estimate of fair value. Because a portion of alternative investments are not readily marketable, and the estimated value is subject to uncertainty, the reported value may differ from the value that would have been used had a ready market existed.

Allowance for Doubtful Accounts — It is the Corporation's policy to provide for future losses on uncollectible accounts, contracts, grants, and loans receivable based on an evaluation of the underlying account, contract, grant, and loan balances, the historical collectibility experienced by the Corporation on such balances and such other factors which, in the Corporation's judgment, require consideration in estimating doubtful accounts.

Capital Assets — Capital assets include equipment, buildings, and construction in progress. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 5 to 12 years for furniture and equipment and 50 years for buildings.

Deferred Revenue — Revenues for programs or activities to be conducted in the next fiscal year are classified as deferred revenue.

Deferred Rent Revenue — Deferred rent revenue represents the monies received from Huntington Area Development Council (HADCO). Recognition of this revenue was deferred during the construction of a business start-up incubator. The beginning total \$994,101 of deferred rent to be received from HADCO is being recognized evenly over a 20-year period commencing July 2010.

Compensated Absences — The Corporation accounts for compensated absences in accordance with the provisions of GASB. GASB requires entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation, as such benefits are earned and payment becomes probable.

Risk Management — The State's Board of Risk and Insurance Management (BRIM) provides general liability coverage to the Corporation and its employees. Such coverage may be provided to the Corporation by BRIM through self-insurance programs maintained by BRIM or policies underwritten by BRIM that may involve experience-related premiums or adjustments to BRIM.

BRIM engages an independent actuary to assist in the determination of its premiums so as to minimize the likelihood of premium adjustments to the Corporation or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums the Corporation is currently charged by BRIM and the ultimate cost of that insurance based on the Corporation's actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to the Corporation and the Corporation's ultimate actual loss experience, the difference will be recorded, as the change in estimate becomes known.

Classification of Revenues — The Corporation has classified its revenues according to the following criteria:

Operating Revenues — Operating revenues include activities that have the characteristics of exchange transactions, such as (1) most federal, state, local, and nongovernmental grants and contracts, (2) federal appropriations, and (3) sales and services of educational activities.

Nonoperating Revenues — Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB, such as investment income.

Other Revenues — Other revenues primarily consist of capital grants and gifts.

Use of Restricted Net Assets — The Corporation has not adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Generally, the Corporation attempts to utilize restricted funds first when practicable.

Government Grants and Contracts — Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The Corporation recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is generally recorded at fixed rates negotiated for a period of one to five years. As of June 30, 2011, the Corporation recorded accounts receivable of \$2,192,647 associated with the State and other affiliates.

Tax Status — The Corporation has applied for and received from the Internal Revenue Service an exemption from taxation under Section 501(c)(3) of the Internal Revenue Code as an entity organized for educational, research, and economic development purposes.

Use of Estimates — The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risk and Uncertainties — Investments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain securities, it is reasonably possible that changes in risk and values could occur in the near term and that such changes could materially affect the amounts reported in the combined financial statements.

Newly Adopted Statements Issued by the Governmental Accounting Standards Board — During 2011, the Corporation adopted Statement No. 54, *Fund Balance and Governmental Fund Type Definitions*. This statement establishes new categories for reporting fund balance and revised the definitions for governmental fund types. The adoption of this statement did not have a material impact on its combined financial statements.

The Corporation also adopted Statement No. 59, *Financial Instruments Omnibus*. This statement improves financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards related to certain financial instruments and external investment pools. The adoption of this statement did not have a material impact on its combined financial statements.

Recent Statements Issued by the Governmental Accounting Standards Board — The Governmental Accounting Standards Board has issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for fiscal years beginning after December 15, 2011. This statement addresses how to account for and report service concession arrangements (SCAs) by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 60 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 61, *The Financial Reporting Entity: Omnibus — an amendment of GASB Statements No. 14 and No. 34*, effective for fiscal years beginning after June 15, 2012. This statement improves financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of the entity. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 61 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for fiscal years beginning after December 15, 2011. The objective of this

statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance included in the FASB and AICPA pronouncements issued on or before November 30, 1989. This statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 62 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for fiscal years beginning after December 15, 2011. The objective of this statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of financial position and related disclosures. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 63 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, effective for fiscal years beginning after June 15, 2011. The objective of this statement is to improve financial reporting by clarifying whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 64 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of June 30, 2011 and 2010, is as follows:

	2011	2010
Money market and savings	\$ 15,428,747	\$ 13,134,891
In bank	6,910	3,404,652
Trustee	_____	_____ 1
	<u>\$ 15,435,657</u>	<u>\$ 16,539,544</u>

The carrying amount of cash in bank at June 30, 2011 and 2010, was \$6,910 and \$3,404,652, respectively, as compared with a bank balance of \$16,924 and \$3,404,652, respectively. Any differences are primarily the result of outstanding checks and items in transit. The bank balances were covered by federal depository insurance as noted below or were collateralized by securities held by the State's agent. Regarding federal depository insurance, interest bearing accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Non-interest bearing accounts are 100% insured through December 31, 2012.

On October 3, 2008, Fifth Third Bank implemented the revised FDIC deposit insurance coverage rules to the collateral management process, in accordance to state-level requirements. As a result of these changes, the FY2010 balance of \$3,384,652 was fully insured through the FDIC through the Temporary Liquidity Guaranty Program (TLGP). In January 2011, the monies held at Fifth Third Bank were invested through Smith Barney. At June 30, 2011, \$381,249 was held in a cash account insured by the Security Investor Protection Corporation (SIPC).

Cash equivalents totaling \$14,445,806 and \$12,533,109 at June 30, 2011 and 2010, respectively, are held in repurchase agreements, and a business savings account collateralized at 112% and 113%, respectively. The collateral was held in the name of the Corporation.

Cash on deposit with Trustee consisted of the proceeds from a notes payable that was restricted for the construction of a new Forensic Science Center (see Note 7). The account balance at June 30, 2010 consisted of the residual value of \$1 which was liquidated in FY2011.

4. INVESTMENTS

Investments at June 30, 2011 and 2010, consist of the following:

	2011	2010
U.S. Government national mortgage association securities	\$ 13,463,876	\$ 3,042,689
Common fund — intermediate-term fund	<u>2,146,326</u>	<u>2,066,852</u>
Total investments	<u>\$ 15,610,202</u>	<u>\$ 5,109,541</u>

Investments have been reported at fair value and categorized as Level 1, 2, or 3. Level 1 represents investments that have a quoted price in the active market. Level 2 represents investments with direct or indirect market inputs. Level 3 represents investments with no observable market.

Investment Type	2011			Fair Value
	Level 1	Level 2	Level 3	
Common fund — intermediate-term fund	\$ -	\$ 2,138,437	\$ 7,888	\$ 2,146,325
U.S. Government National Mortgage Association Securities	<u> </u>	<u>13,463,877</u>	<u> </u>	<u>13,463,877</u>
	<u>\$ -</u>	<u>\$ 15,602,314</u>	<u>\$ 7,888</u>	<u>\$ 15,610,202</u>
Investment Type	2010			Fair Value
	Level 1	Level 2	Level 3	
Common fund — intermediate-term fund	\$ -	\$ 2,057,411	\$ 9,441	\$ 2,066,852
U.S. Government National Mortgage Association Securities	<u> </u>	<u>3,042,689</u>	<u> </u>	<u>3,042,689</u>
	<u>\$ -</u>	<u>\$ 5,100,100</u>	<u>\$ 9,441</u>	<u>\$ 5,109,541</u>

Credit Risk — The Corporation’s investment policy limits individual investments to U.S. Government agency securities and nationally recognized bond funds holding those securities. The U.S. Government National Mortgage Association Securities held by the corporation have an average maturity of 2.5 years and 2 years, respectively, for fiscal year 2011 and 2010. The Intermediate Term Fund had an average maturity of 1.6 and 1.5 years, respectively, for fiscal year 2011 and 2010. At both June 30, 2011 and 2010, the Corporation’s investment in U.S. Government National Mortgage Association Securities were rated AAA as government-backed securities and the average rating of the Intermediate Term Fund was AA at both June 30, 2011 and 2010.

Concentration of Credit Risk — To minimize risk, the Corporation's investment policy allows for no more than 60% of available assets to be invested with any one issuer, except U.S. Government securities.

5. CAPITAL ASSETS

The summary of capital asset transactions for the Corporation for the years ended June 30, 2011 and 2010, is as follows:

	2011			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets:				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Building	4,932,619			4,932,619
Equipment	<u>27,867,240</u>	<u>5,526,525</u>	<u>(1,745,491)</u>	<u>31,648,274</u>
Total capital assets	<u>32,799,859</u>	<u>5,526,525</u>	<u>(1,745,491)</u>	<u>36,580,893</u>
Less accumulated depreciation — building	(73,989)	(98,652)		(172,641)
Less accumulated depreciation — equipment	<u>(16,793,166)</u>	<u>(2,076,136)</u>	<u>1,469,868</u>	<u>(17,399,434)</u>
Total accumulated depreciation	<u>(16,867,155)</u>	<u>(2,174,788)</u>	<u>1,469,868</u>	<u>(17,572,075)</u>
Capital assets — net	<u>\$ 15,932,704</u>	<u>\$ 3,351,737</u>	<u>\$ (275,623)</u>	<u>\$ 19,008,818</u>
	2010			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets:				
Construction in progress	\$ 4,417,417	\$ 515,202	\$(4,932,619)	\$ -
Building		4,932,619		4,932,619
Equipment	<u>27,587,650</u>	<u>2,776,061</u>	<u>(2,496,471)</u>	<u>27,867,240</u>
Total capital assets	<u>32,005,067</u>	<u>8,223,882</u>	<u>(7,429,090)</u>	<u>32,799,859</u>
Less accumulated depreciation — building		(73,989)		(73,989)
Less accumulated depreciation — equipment	<u>(16,604,898)</u>	<u>(2,104,617)</u>	<u>1,916,349</u>	<u>(16,793,166)</u>
Total accumulated depreciation	<u>(16,604,898)</u>	<u>(2,178,606)</u>	<u>1,916,349</u>	<u>(16,867,155)</u>
Capital assets — net	<u>\$ 15,400,169</u>	<u>\$ 6,045,276</u>	<u>\$ (5,512,741)</u>	<u>\$ 15,932,704</u>

The Corporation's capitalization threshold was \$5,000 for both the years ended June 30, 2011 and 2010.

6. LONG-TERM LIABILITIES

The summary of long-term obligation transactions for the Corporation for the years ended June 30, 2011 and 2010, is as follows:

	2011				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes payable	\$ 2,780,914	\$ -	\$ (119,565)	\$ 2,661,349	\$ 121,953
Deferred rent	<u>994,101</u>	<u> </u>	<u>(99,410)</u>	<u>894,691</u>	49,705
Total long-term liabilities	<u>\$ 3,775,015</u>	<u>\$ -</u>	<u>\$ (218,975)</u>	<u>\$ 3,556,040</u>	

	2010				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes payable	\$ 2,940,926	\$ -	\$ (160,012)	\$ 2,780,914	\$ 119,565
Deferred rent	576,374	417,727		994,101	
Advances from federal sponsors	<u>152,401</u>	<u> </u>	<u>(152,401)</u>	<u> </u>	
Total long-term liabilities	<u>\$ 3,669,701</u>	<u>\$ 417,727</u>	<u>\$ (312,413)</u>	<u>\$ 3,775,015</u>	

Advances from federal sponsors represented amounts refundable, upon cessation of the program, to the U.S. Government under the Marshall University Research Corporation Revolving Loan Fund which was totally liquidated in FY2010.

7. NOTES PAYABLE

In 2008, the Corporation borrowed the proceeds of a bond issuance by the Cabell County Commission for the construction of an addition to the Marshall University Forensic Science Center. The Corporation's repayment terms are the same as the bond repayment term. The Corporation made the first interest payments on October 10, 2008, for the interest due on the loans semi-annually and first annual principal payment on April 1, 2009, based on a hypothetical amortization of the then-remaining principal balance at the then-applicable interest rate for the then-remaining years of the original 20-year amortization period ending April 10, 2028. Any remaining principal balance shall be payable in full on April 10, 2028. However, any unspent mortgage proceeds would go to pay the first amounts due for interest and principal. The interest rate on the bonds was 3.2% at April 10, 2008, and will continue to and include year five, and will change for each subsequent five-year period to the rate per annum equal to 67% of the five-year Treasury Constant Maturity in effect on that date, plus 1.67% per annum.

At June 30, 2011, the scheduled maturities on notes payable are as follows:

Years Ending June 30	Principal	Interest
2012	\$ 121,953	\$ 85,109
2013	124,101	81,261
2014	128,072	77,289
2015	132,170	73,191
2016	136,400	68,962
2017–2021	750,332	276,475
2022–2026	878,317	148,489
2027–2028	<u>390,004</u>	<u>18,788</u>
	<u>\$2,661,349</u>	<u>\$ 829,564</u>

8. LEASES

Future annual minimum lease payments on operating leases for years subsequent to June 30, 2011, are as follows:

Years Ending June 30	
2012	\$ 279,630
2013	122,600
2014	72,600
2015	<u>16,500</u>
Total	<u>\$ 491,330</u>

Total rent expense for the years ended June 30, 2011 and 2010, was \$367,284 and \$353,869, respectively. The Corporation does not have any non-cancelable leases.

9. RELATED-PARTY TRANSACTIONS

A summary of balances and transactions with the University as of and for the years ended June 30, 2011 and 2010, is as follows:

	2011	2010
Grants and contracts receivable	\$2,146,039	\$ 1,927,952
Advances receivable	250,000	250,000
Other sources of revenue	317,656	434,252
Payroll and benefits expense	5,528,775	6,008,055
Other expenses	1,043,962	734,928

10. UNRESTRICTED NET ASSETS

At June 30, 2011 and 2010, the Corporation has no designated net assets.

11. RETIREMENT PLAN

All eligible employees of the Corporation participate in the Teachers Insurance and Annuities Association — College Retirement Equities Fund (TIAA-CREF). The TIAA-CREF is a defined contribution plan in which benefits are based solely upon amounts contributed, plus investment earnings. Each employee who elects to participate in this plan is required to make a contribution equal to 6% of total annual compensation. The Corporation matches the employees' 6% contributions. Contributions are immediately and fully vested. In addition, employees may elect to make additional contributions to TIAA-CREF which is not matched by the Corporation.

Total contributions to the TIAA-CREF for the years ended June 30, 2011, 2010, and 2009, were \$1,907,209, \$1,956,297, and \$1,837,006, respectively, which consisted of \$886,766, \$916,806, and \$843,521, respectively, from the Corporation and \$1,020,443, \$1,039,491, and \$993,485, respectively, from employees.

The Corporation's total payroll for the years ended June 30, 2011 and 2010, was \$18,670,328 and \$19,409,005, respectively. Total covered employees' salaries in TIAA-CREF were \$14,779,431 and \$15,280,105 for the years ended June 30, 2011 and 2010, respectively.

12. CONTINGENCIES

The nature of the educational industry is such that, from time to time, claims will be presented against universities on account of alleged negligence, acts of discrimination, breach of contract, or disagreements arising from the interpretation of laws or regulations. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system. In the opinion of management, all known claims are covered by insurance or are such that an award against the Corporation would not seriously impact the financial status of the Corporation.

Under the terms of federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures. Such audits could lead to reimbursement to the grantor agencies. Corporation management believes disallowances, if any, will not have a significant impact on the Corporation's financial position.

13. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2011 and 2010, the following table represents operating expenses within both natural and functional classifications:

	2011						
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 606,695	\$ 99,034	\$ 568,913	\$ 14	\$ 38,864	\$ -	\$ 1,313,520
Research	6,109,039	1,308,279	10,156,948	72,225	146,325		17,792,816
Public service	8,131,847	1,872,565	7,767,371	146,767	158,649		18,077,199
Academic support	2,226	286	27,683	17,900	35,907		84,002
Student services	279,126	66,757	324,658	6,745	77,573		754,859
General institutional support	3,748,354	952,381	2,497,061	411,865	60,538		7,670,199
Operations and maintenance of plant			61,583				61,583
Depreciation					5,000	2,174,788	2,179,788
Total	<u>\$18,877,287</u>	<u>\$4,299,302</u>	<u>\$21,404,217</u>	<u>\$655,516</u>	<u>\$522,856</u>	<u>\$2,174,788</u>	<u>\$47,933,966</u>

	2010						
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 818,100	\$ 113,366	\$ 698,612	\$ 937	\$ 78,117	\$ -	\$ 1,709,132
Research	7,252,833	1,521,808	7,528,549	245,516	91,329		16,640,035
Public service	7,696,702	1,811,333	6,206,423	125,373	116,950		15,956,781
Academic support	87,695	35,117	109,504	153	3,200		235,669
Student services	222,645	41,938	398,982	2,567	26,105		692,237
General institutional support	3,457,569	921,533	1,778,651	21,551	13,859		6,193,163
Operations and maintenance of plant				190,939			190,939
Depreciation						2,178,606	2,178,606
Total	<u>\$19,535,544</u>	<u>\$4,445,095</u>	<u>\$16,720,721</u>	<u>\$587,036</u>	<u>\$329,560</u>	<u>\$2,178,606</u>	<u>\$43,796,562</u>

* * * * *

SUPPLEMENTAL SCHEDULE

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2011

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
RESEARCH AND DEVELOPMENT:					
National Institute of Food and Agriculture	D	10.200			\$ 364,387
National Institute of Food and Agriculture	I	10.200	West Virginia State University	CR-0636-003	<u>90</u>
		10.200 Subtotal			\$ 364,477
Forest Service	D	10.652			<u>17,772</u>
Total Department of Agriculture					<u>382,249</u>
Office of The Chief of Engineers	D	12.110			323,760
U.S. Army Medical Command	D	12.420			141,211
U.S. Army Material Command	D	12.431			272,104
U.S. Army Material Command	I	12.431	Regents of the University of California	2010-2508	<u>66,749</u>
		12.431 Subtotal			338,853
Department of the Air Force	I	12.800	L.C. Pegasus Corporation	N/A	4,693
Defense Advanced Research Projects Agency	D	12.910			4,431,235
Defense Advanced Research Projects Agency	I	12.910	Parabon Nanolabs, Inc.	W911NF-11-C-0076	<u>814</u>
		12.910 Subtotal			4,432,049
U.S. Army Research Office	D	12.W91237-04-C-0008			16,098
U.S. Army Corps of Engineers	D	12.W91237-06-P-0203			<u>756</u>
Total Department of Defense					<u>5,257,420</u>
Fish and Wildlife Service	D	15.650			(3)
Fish and Wildlife Service	D	15.657			<u>6,066</u>
Total Department of the Interior					<u>6,063</u>
Office of Justice Programs	D	16.560			<u>618,450</u>
Total Department of Justice					<u>618,450</u>

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2011

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
RESEARCH AND DEVELOPMENT (Continued):					
Federal Railroad Administration	I	20.200	WV Department of Transportation	WVDOH RP #260	148,363
Federal Railroad Administration	D	20.313			52,189
Federal Railroad Administration	D	20.314			(630)
Total Department of Transportation					<u>199,922</u>
National Aeronautics and Space Administration	D	43.001			4,120
National Aeronautics and Space Administration	I	43.001	West Virginia University	Various	<u>334,987</u>
43.001 Subtotal					339,107
Total National Aeronautics and Space Administration					<u>339,107</u>
National Science Foundation	D	47.041			5,954
National Science Foundation	D	47.049			29,909
National Science Foundation	D	47.050			5,750
National Science Foundation	D	47.074			126,614
National Science Foundation	D	47.075			79,509
National Science Foundation	D	47.076			12,967
National Science Foundation	I	47.076	University of Kentucky	3048032200-07-251	43,527
National Science Foundation	I	47.076	University of South Carolina	DUE-1022661	17,134
National Science Foundation	I	47.076	WV EPSCoR	Various	113,336
National Science Foundation	I	47.076	WV Higher Education Policy Commission	HEPC.dsr.11.27	<u>48,000</u>
47.076 Subtotal					<u>234,964</u>
National Science Foundation	D	47.079			7,376
National Science Foundation	D	47.080			110,075
National Science Foundation	I	47.081	WV Higher Education Policy Commission	HEPC.dsr.11.05	1,057,483
National Science Foundation	D	47.082ARRA			1,227,890
National Science Foundation	I	47.082ARRA	WV Higher Education Policy Commission	HEPC.dsr.10.02	<u>542,637</u>
47.082 Subtotal					<u>1,770,527</u>
Total National Science Foundation					<u>3,428,161</u>

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2011

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
RESEARCH AND DEVELOPMENT (Continued):					
Office of Research and Development	D	66.516			5,415
Office of Solid Waste and Emergency Response	I	66.814	West Virginia University	08-657-MURC	<u>27,000</u>
Total Environmental Protection Agency					<u>32,415</u>
Department of Energy	D	81.049			735,883
Department of Energy	I	81.108	Los Alamos National Security LLC	79064-001-09	<u>20,247</u>
Total Department of Energy					<u>756,130</u>
Office of Postsecondary Education	D	84.116			<u>90,087</u>
Total Department of Education					<u>90,087</u>
Health Resources and Services Administration	D	93.110			38,655
National Institutes of Health	D	93.121			27,637
National Institutes of Health	I	93.121	Johns Hopkins University	5P50DE019032-07:2000488485	<u>733</u>
93.121 Subtotal					<u>28,370</u>
National Institutes of Health	D	93.389			3,831,826
National Institutes of Health	D	93.393			610,383
National Institutes of Health	D	93.394			98,305
National Institutes of Health	D	93.395			185,689
National Institutes of Health	D	93.701ARRA			1,312,062
National Institutes of Health	D	93.837			277,512
National Institutes of Health	D	93.839			8,755
National Institutes of Health	D	93.847			205,712
National Institutes of Health	D	93.853			17,874
National Institutes of Health	D	93.865			49,617
Health Resources and Services Administration	D	93.887			3,661,190
Health Resources and Services Administration	D	93.888			262,607
Health Resources and Services Administration	I	93.994	WV Department of Health & Human Resources	G100971	<u>86,806</u>
Department of Health and Human Services Total					<u>10,675,363</u>
Subtotal Research and Development					<u>21,785,367</u>

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2011

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
OTHER PROGRAMS:					
Food & Nutrition Service	I	10.561	West Virginia University	Various	<u>321,906</u>
Total Department of Agriculture					<u>321,906</u>
Economic Development Administration	D	11.307			<u>261,487</u>
Total Department of Commerce					<u>261,487</u>
Department of the Army, Office of the Chief of Engineers	D	12.000			53,754
Department of the Army, Office of the Chief of Engineers	D	12.110			137,776
Advanced Research Project	D	12.910			<u>103,152</u>
Total Department of Defense					<u>294,682</u>
Office of Community Planning and Development	D	14.251			<u>2,908</u>
Total Department of Housing and Urban Development					<u>2,908</u>
Geological Survey	D	15.809			<u>52,758</u>
Total Department of the Interior					<u>52,758</u>
Department of Justice	I	16.XXX	WV Division of Criminal Justice Services	08P-DF-03	116,797
National Institute of Justice	D	16.560			4,205,087
Office of Justice Programs	I	16.560	National Forensic Science Technology Ctr	2007-mu-BX-K008	<u>83,566</u>
		16.560 Subtotal			<u>4,288,653</u>
Office of Juvenile Justice and Delinquency Prevention	D	16.727			43,416
Office of Juvenile Justice and Delinquency Prevention	I	16.727	WV Division of Criminal Justice Services	11-400	<u>(100)</u>
		16.727 Subtotal			<u>43,316</u>
Total Department of Justice					<u>4,448,766</u>

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2011

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
OTHER PROGRAMS (Continued):					
Federal Railroad Administration	D	20.000			20,000
Federal Railroad Administration	I	20.205	WV Department of Transportation	Various	919,661
Federal Railroad Administration	D	20.313			(18,362)
Research and Innovative Technology Administration	D	20.701			2,591,412
Maritime Administration	I	20.816	Missouri Highways and Transportation	N/A	<u>8,928</u>
Total Department of Transportation					<u>3,521,639</u>
Appalachian Regional Commission	D	23.001			6,877
Appalachian Regional Commission	D	23.002		45,992	
Appalachian Regional Commission	I	23.002	WV Division of Energy	N/A	<u>64,132</u>
23.002 Subtotal					110,124
Appalachian Regional Commission	D	23.003			145,939
Appalachian Regional Commission	D	23.011			<u>284,354</u>
Total Appalachian Regional Commission					<u>547,294</u>
National Endowment for the Humanities	I	45.129	WV Humanities Council	9050	300
Total National Foundation on the Arts and the Humanities					<u>300</u>
National Science Foundation	I	47.049	University of Kentucky	Various	226,064
National Science Foundation	D	47.076			161,612
National Science Foundation	I	47.082ARRA	WV Higher Education Policy Commission	HEPC.dsr.11.10	<u>71,582</u>
Total National Science Foundation					<u>459,258</u>
Department of Energy	I	81.117	WV Division of Energy	10-203	<u>44,760</u>
Total Department of Energy					<u>44,760</u>

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2011

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
OTHER PROGRAMS (Continued):					
Office of Postsecondary Education	D	84.042			320,544
Office of Postsecondary Education	D	84.044			506,279
Office of Postsecondary Education	D	84.047A			297,340
Office of Postsecondary Education	D	84.066			<u>211,671</u>
TRIO Cluster Subtotal					1,335,834
Office of Postsecondary Education	D	84.116			148,574
Office of Special Education and Rehabilitation	I	84.027	WV Department of Education	Various	80,698
Office of Special Education and Rehabilitation	I	84.027A	WV Department of Education	C336131	1,378
Office of Special Education and Rehabilitation	I	84.173	WV Department of Education	Various	<u>24,032</u>
Special Education (IDEA) Cluster Subtotal					106,108
Office of Special Education and Rehabilitation	I	84.323	WV Department of Education	C334840	2,962
Office of Special Education and Rehabilitation	I	84.359	WV Department of Education	Various	2,860
Office of Special Education and Rehabilitation	I	84.367	WV Department of Education	N/A	1,528
Office of Special Education and Rehabilitation	I	84.367	WV Higher Education Policy Commission	Various	<u>355,839</u>
84.367 Subtotal					357,367
Department of Education	I	84.928A	National Writing Project	Various	87,835
Department of Education	I	84.928A	National Writing Project (92-WV02)	92-WV02	<u>59,412</u>
84.928A Subtotal					<u>147,247</u>
Department of Education Total					<u>2,100,952</u>
Centers for Disease Control and Prevention	I	93.069	WV Higher Education Policy Commission	2010-WVH1N1-6	8,951
Health Resources and Services Administration	I	93.130	West Virginia Primary Care Association	N/A	10,969
Health Resources and Services Administration	I	93.130	WV Bureau of Public Health	2011-066	38,663
Health Resources and Services Administration	I	93.130	WV Department of Health and Human Resources	G110036	<u>240,921</u>
93.130 Subtotal					290,553

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2011

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
OTHER PROGRAMS (Continued):					
Substance Abuse and Mental Health Services	I	93.243	Prestera Center for Mental Health Service	N/A	55,256
Substance Abuse and Mental Health Services	I	93.243	WV Division of Criminal Justice Services	Various	236,684
Substance Abuse and Mental Health Services	D	93.243			<u>1,208,365</u>
		93.243 Subtotal			1,500,305
Centers for Disease Control and Prevention	I	93.283	Center for Appalachian Philanthropy	N/A	33,173
Centers for Disease Control and Prevention	I	93.283	WV Department of Health and Human Resources	Various	117,240
Centers for Disease Control and Prevention	D	93.283			<u>68,848</u>
		93.243 Subtotal			219,261
Health Resources and Services Administration	D	93.358			35,832
Health Resources and Services Administration	D	93.411ARRA			137,139
Administration for Children and Families	I	93.658	WV Department of Health and Human Resources	Various	151,631
Administration for Children and Families	I	93.710ARRA	Southwestern Community Action Council	N/A	61,817
Administration for Children and Families	I	93.713ARRA	WV Department of Health and Human Resources	G100995	22,063
Administration on Aging	I	93.725	WV Department of Health and Human Resources	Various	37,424
Centers for Medicare and Medicaid Services	I	93.793	WV Health Improvement Institute, Inc.	N/A	130,240
National Institutes of Health	I	93.859	Federation of American Societies for Experimental Biology	N/A	2,522
Health Resources and Services Administration	D	93.887			2,147,505
Health Resources and Services Administration	D	93.888			1,086,759
Centers for Disease Control and Prevention	I	93.940	WV Department of Health and Human Resources	G100733	10,532
Substance abuse and Mental Health Services Administration	I	93.958	WV Department of Health and Human Resources	G100035	10,337
Substance abuse and Mental Health Services Administration	I	93.959	WV Department of Health and Human Resources	G100036	339,398
Health Resources and Services Administration	I	93.969	West Virginia University	00-251-MURC	21,307
Centers for Disease Control and Prevention	I	93.988	WV Department of Health and Human Resources	Various	97,727
Health Resources and Services Administration	I	93.994	WV Department of Health and Human Resources	G101023	<u>49,888</u>
Total Department of Health and Human Services					<u>6,361,191</u>
Subtotal Other Programs					<u>18,417,901</u>
Total Federal Expenditures					<u>\$40,203,268</u>
See notes to schedule of expenditures of federal awards.					(Concluded)

MARSHALL UNIVERSITY RESEARCH CORPORATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2011

1. The purpose of the Schedule of Expenditures of Federal Awards (the “Schedule”) is to present a summary of the expenditures of Marshall University Research Corporation (the “Corporation”) for the year ended June 30, 2011, which have been financed by the federal government. For purposes of the Schedule, federal awards have been classified into two types: direct federal funds (D) and indirect federal funds (I) received from nonfederal organizations made under federally sponsored programs conducted by those organizations.
2. The Schedule is prepared on the accrual basis of accounting.
3. Catalog of Federal Domestic Assistance (CFDA) numbers are presented for those programs for which such numbers are available. When CFDA numbers are not available, contract numbers are presented. If a contract number is not available, it is presented as .XXX. Indirect agency award numbers are presented for those programs for which such numbers are available. If an indirect agency award number is not available, it is presented as N/A. See Note 7 for indirect agency award numbers noted as “Various.”
4. U.S. Office of Management and Budget (OMB) Circular A-21 (“A-21”), *Cost Principles for Educational Institutions*, requires submission of a Certificate of Facilities and Administrative (F&A) Costs (the “Certificate”) to an institution’s cognizant agency. The Certificate is prepared by the Corporation and is used in negotiations with its cognizant agency, the Department of Health and Human Services (DHHS), in determining a rate at which the Corporation will be reimbursed for the F&A costs associated with the completion of sponsored research.

The Corporation receives reimbursement of F&A costs as part of the granting agreement either at the rate negotiated with DHHS or at special rates negotiated with the granting agency.

On January 6, 2003, DHHS approved F&A cost recovery rates effective from July 1, 2002 through June 30, 2004. On May 11, 2004, DHHS approved an extension of the recovery rate through June 30, 2008. Negotiation of a new F&A rate was completed in September 2008, resulting in a negotiated rate of 41% beginning July 1, 2008, which increased to 42% effective July 1, 2010.

The F&A cost rate structure is as follows:

Rate Type	Rate as Submitted	
	Within Certificate	Negotiated Rate
Organized research — off-campus	26 %	26 %
Instruction — on-campus	42	42
Organized research — on-campus	42	42

Subrecipient expenditures in the Schedule of Expenditures of Federal Awards at June 30, 2011, include:

Federal Agency	Subrecipient	CFDA	Subrecipient Expenditures
Research and development:			
Department of Defense	Univ of Tennessee	12.110	\$ 234,428
Department of Transportation	WVU Research Corp	20.200	59,675
National Aeronautics and Space Admin	WV State Univ Research & Development Corp	43.001	39,908
Department of Energy	Michigan Technologic University	81.049	142,634
Department of Health and Human Services	Alderson Broaddus College Inc	93.389	9,630
Department of Health and Human Services	Bluefield State College Research and Development	93.389	107,812
Department of Health and Human Services	CAMC Health Education and Research	93.389	50,392
Department of Health and Human Services	University of Kentucky Research Foundation	93.389	89,471
Department of Health and Human Services	Valley Health System	93.389	9,862
Department of Health and Human Services	West Liberty State College	93.389	169,653
Department of Health and Human Services	WV State Univ Research & Development Corp	93.389	375,692
Department of Health and Human Services	WVU Research Corp	93.389	1,867,633
Department of Health and Human Services	Bluefield State College Research and Development	93.701ARRA	26,190
Department of Health and Human Services	Univ of Charleston	93.701ARRA	24,075
Department of Health and Human Services	West Liberty State College	93.701ARRA	49,501
Department of Health and Human Services	WV State Univ Research & Development Corp	93.701ARRA	32,311
Department of Health and Human Services	WV Wesleyan College	93.701ARRA	119,385
Department of Health and Human Services	WVU Research Corp	93.701ARRA	556,988
	Subtotal Research and Development		3,965,240
Other Programs:			
Department of Commerce	Bridgemont Community and Technical College	11.307	39,900
Department of Defense	North Dakota State University	12.110	1,111
Department of Transportation	Burgess and Niple Inc	20.205	39,855
Department of Transportation	Purdue University	20.205	18,328
Appalachian Regional Commission	Randolph County Development Authority	23.002	12,031
Appalachian Regional Commission	Webster County Economic Development	23.002	28,733
Appalachian Regional Commission	Washington University	23.011	128,700
Department of Health and Human Services	New River Health Association Inc	93.793	18,500
Department of Health and Human Services	Primary Care Systems Inc	93.793	18,500
	Subtotal Other Programs		305,658
	Total all Subrecipient		\$4,270,898

5. All American Recovery and Reinvestment Act (ARRA) monies have been marked as "ARRA" on the Schedule.
6. The following table shows other clusters not specifically denoted in the Schedule:

Federal Agency	CFDA Number	Name of Program	Total Expenditures
Highway Planning and Construction Cluster	20.205	Highway Planning and Construction	\$ 919,661
DOT	23.003	Appalachian Development Highway System	145,940
		Total	\$1,065,601

7. The following table details all Indirect Agency Award numbers denoted as “Various” in the Schedule:

CFDA/Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
43.001	West Virginia University	07-810-MURC	\$ 138,331
43.001	West Virginia University	91-175A-MURC	219
43.001	West Virginia University	91-175A-MURC	4,826
43.001	West Virginia University	07-476-MURC	5,957
43.001	West Virginia University	91-175A-MURC	952
43.001	West Virginia University	91-175A-MURC	1,870
43.001	West Virginia University	91-175A-MURC	2,251
43.001	West Virginia University	91-175A-MURC	607
43.001	West Virginia University	91-175A-MURC	3,840
43.001	West Virginia University	91-175A-MURC	2,871
43.001	West Virginia University	91-175-A-MURC	3,924
43.001	West Virginia University	07-476-MURC	385
43.001	West Virginia University	91-175B-MURC	4,816
43.001	West Virginia University	91-175B-MURC	4,644
43.001	West Virginia University	07-476-MURC	7,284
43.001	West Virginia University	91-175B-MURC	9,456
43.001	West Virginia University	91-175B-MURC	11,298
43.001	West Virginia University	91-175B-MURC	8,616
43.001	West Virginia University	91-175B-MURC	9,298
43.001	West Virginia University	91-175B-MURC	12,595
43.001	West Virginia University	91-175B-MURC	11,697
43.001	West Virginia University	91-175B-MURC	9,925
43.001	West Virginia University	91-175B-MURC	12,262
43.001	West Virginia University	91-175B-MURC	9,929
43.001	West Virginia University	91-175B-MURC	5,516
43.001	West Virginia University	91-175B-MURC	9,447
43.001	West Virginia University	91-175B-MURC	9,051
43.001	West Virginia University	91-175B-MURC	4,143
43.001	West Virginia University	2011-113	1,000
43.001	West Virginia University	91-175B-MURC	6,005
43.001	West Virginia University	91-175B-MURC	11,868
43.001	West Virginia University	91-175B-MURC	9,234
43.001	West Virginia University	07-476-MURC	870
	Subtotal		<u>334,987</u>
47.076	WV EPSCoR	EPS-07-02	17,336
47.076	WV EPSCoR	HEPC.dsr.10.14	96,000
	Subtotal		<u>113,336</u>
10.561	West Virginia University	99-046A-MURC2	76,850
10.561	West Virginia University	99-046A-MURC-3	245,056
	Subtotal		<u>321,906</u>
20.205	WV Department of Transportation	T699-GIS-1	71
20.205	WV Department of Transportation	U311-ACS-1.00	826,476
20.205	WV Department of Transportation	U399-WVD/OH-1.00	93,114
	Subtotal		<u>919,661</u>

(Continued)

CFDA/Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
47.049	University of Kentucky	3046635800-07-179	\$ (26)
47.049	University of Kentucky	3048105116-09-228	140,888
47.049	University of Kentucky	3046635800-07-179	<u>85,202</u>
	Subtotal		<u>226,064</u>
84.027	WV Department of Education	C297470	3,766
84.027	WV Department of Education	C321495	31,695
84.027	WV Department of Education	C321494	5,440
84.027	WV Department of Education	C344099	<u>39,797</u>
	Subtotal		<u>80,698</u>
84.173	WV Department of Education	C301211	8,887
84.173	WV Department of Education	C316403	1,317
84.173	WV Department of Education	C334843	<u>13,828</u>
	Subtotal		<u>24,032</u>
84.359	WV Department of Education	C327476	2,170
84.359	WV Department of Education	C335815	<u>690</u>
	Subtotal		<u>2,860</u>
84.367	WV Higher Education Policy Commission	Z-09-MUGC-01	3,843
84.367	WV Higher Education Policy Commission	ITQ-09-MU-02	6,025
84.367	WV Higher Education Policy Commission	ITQ-09-MUGC-04	3,205
84.367	WV Higher Education Policy Commission	ITQ-09-MUGC-02	740
84.367	WV Higher Education Policy Commission	ITQ-09-MUGC-03	1,227
84.367	WV Higher Education Policy Commission	ITQ-10-MUGC-04	70,469
84.367	WV Higher Education Policy Commission	ITQ-10-MU-03	50,553
84.367	WV Higher Education Policy Commission	ITQ-10-MUGC-02	24,303
84.367	WV Higher Education Policy Commission	ITQ-10-MUGC-01	88,229
84.367	WV Higher Education Policy Commission	ITQ-11-MUGC-03	36,809
84.367	WV Higher Education Policy Commission	ITQ-11-MUGC-01	5,470
84.367	WV Higher Education Policy Commission	ITQ-11-MUGC-02	10,683
84.367	WV Higher Education Policy Commission	ITQ-11-MUGC-05	26,584
84.367	WV Higher Education Policy Commission	ITQ-11-MUGC-04	<u>27,699</u>
	Subtotal		<u>355,839</u>
84.928A	National Writing Project	02-WV03	77,290
84.928A	National Writing Project	92-WV02	<u>10,545</u>
	Subtotal		<u>87,835</u>
93.243	WV Division of Criminal Justice Services	09-SIG-00	(2,486)
93.243	WV Division of Criminal Justice Services	10-518	<u>239,170</u>
	Subtotal		<u>236,684</u>

(Continued)

CFDA/Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
93.283	WV Department of Health and Human Resources	G100422	\$ 23
93.283	WV Department of Health and Human Resources	G100341	(19)
93.283	WV Department of Health and Human Resources	G110251	68,541
93.283	WV Department of Health and Human Resources	G100960	<u>48,695</u>
	Subtotal		<u>117,240</u>
93.658	WV Department of Health and Human Resources	G100220	34,473
93.658	WV Department of Health and Human Resources	G110136	<u>117,158</u>
	Subtotal		<u>151,631</u>
93.725	WV Department of Health and Human Resources	G101039	33,078
93.725	WV Department of Health and Human Resources	G110987	<u>4,346</u>
	Subtotal		<u>37,424</u>
93.988	WV Department of Health and Human Resources	G100960	75,893
93.988	WV Department of Health and Human Resources	2011-137	<u>21,834</u>
	Subtotal		<u>97,727</u>
	TOTAL		<u>\$3,107,924</u>

(Concluded)

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Marshall University Research Corporation:

We have audited the combined financial statements of the Marshall University Research Corporation (the "Corporation") as of and for the year ended June 30, 2011, and have issued our report thereon dated October 11, 2011. 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 of America.

Internal Control Over Financial Reporting

Management of the Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Directors and management of the Corporation and Marshall University, federal and state awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte & Touche LLP

October 11, 2011

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON THE MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of
Marshall University Research Corporation:

Compliance

We have audited Marshall University Research Corporation's (the "Corporation") compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget* (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended June 30, 2011. The Corporation's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs are the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Corporation's compliance with those requirements.

In our opinion, the Corporation complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the Board of Directors and management of the Corporation and Marshall University, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte & Touche LLP

October 11, 2011

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

PART I. — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified not considered to be material weakness(es)? _____ Yes X N/A

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified not considered to be material weakness(es)? _____ Yes X N/A

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (Section .510(a))? _____ Yes X No

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
Various	Research and Development Cluster
93.411	Health Resources and Services Administration - ARRA
93.887	Health Resources and Services Administration
93.888	Health Resources and Services Administration

Dollar threshold used to distinguish between Type A and Type B Programs \$ 1,206,098

Auditee qualified as low-risk auditee? X Yes _____ No

PART II. — FINANCIAL STATEMENT FINDINGS SECTION

No matters are reportable

PART III. — FEDERAL AWARD FINDING AND QUESTIONED COSTS SECTION

No matters are reportable.