

**Marshall University Research Corporation**  
Combined Financial Statements as of and for the years ended  
June 30, 2012 and 2011  
Supplemental Schedule for the year ended June 30, 2012  
Independent Auditors' Report and Reports Required by  
OMB Circular A-133 for the year ended  
June 30, 2012

# 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 statement of net assets of Marshall University Research Corporation (the "Corporation") as of June 30, 2012 and the related combined statement of revenues, expenses, and changes in net assets and of cash flow for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the Corporation as of June 30, 2011, were audited by other auditors whose report dated October 11, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2012, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2012, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Huntington, West Virginia  
October 9, 2012

# Marshall University Research Corporation

## Management Discussion and Analysis

### Fiscal Year 2012

#### **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, 2012 as compared to the previous fiscal year. Comparative analysis is also presented for fiscal year 2012 compared to fiscal year 2011.

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, 2012, certain amounts are reserved for specific programs.

**Condensed Combined Statements of Net Assets (in thousands)**

	<b>As of June 30</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Assets:</b>			
Current assets	\$ 26,975	\$ 29,537	\$ 30,306
Other noncurrent assets	17,807	15,668	5,209
Capital assets, net	<u>17,717</u>	<u>19,009</u>	<u>15,933</u>
<b>Total Assets</b>	<b><u>\$ 62,499</u></b>	<b><u>\$ 64,214</u></b>	<b><u>\$ 51,448</u></b>
<b>Liabilities:</b>			
Current liabilities	\$ 6,198	\$ 7,542	\$ 6,640
Noncurrent liabilities	<u>3,210</u>	<u>3,384</u>	<u>3,655</u>
<b>Total Liabilities</b>	<b><u>\$ 9,408</u></b>	<b><u>\$ 10,926</u></b>	<b><u>\$ 10,295</u></b>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	\$ 14,215	\$ 15,337	\$ 12,043
Restricted:			
Non expendable	8,938	7,193	738
Expendable	17,300	18,769	17,593
Unrestricted	<u>12,637</u>	<u>11,989</u>	<u>10,779</u>
<b>Total Net Assets</b>	<b><u>\$ 53,090</u></b>	<b><u>\$ 53,288</u></b>	<b><u>\$ 41,153</u></b>

*Changes to Net Assets*

The decrease in net assets of \$198,036 for FY2012 was the result of a decrease in total assets of \$1,715,229 and a decrease in total liabilities of \$1,517,193. This was primarily attributable to a decrease in accounts receivables of \$5,231,263, which is reflected by an increase of \$2,251,170 in cash, an increase in investments of \$2,158,393 and offset by a decrease in accounts payable of \$ 1,172,009. 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 first component is the Corporation's equity in capital assets, which decreased \$1,291,963 during FY2012 and increased \$3,293,798 during FY2011.

Restricted nonexpendable net assets were earned in connection with the “Bucks for Brains” West Virginia Research Trust fund in the amount of \$1,745,379 during FY2012 and \$6,454,313 during FY2011. 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 decreased by \$1,469,531 during FY2012 and increased \$1,175,799 during FY2011. These monies have been restricted for use by entities outside the Corporation, mainly by granting agencies. This was primarily due to receipts totaling \$ 1,326,057 and \$900,476 in program income for FY2012 and FY2011 respectively.

Finally, unrestricted net assets increased by \$647,977 for FY2012 and \$1,211,322 for FY2011 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.

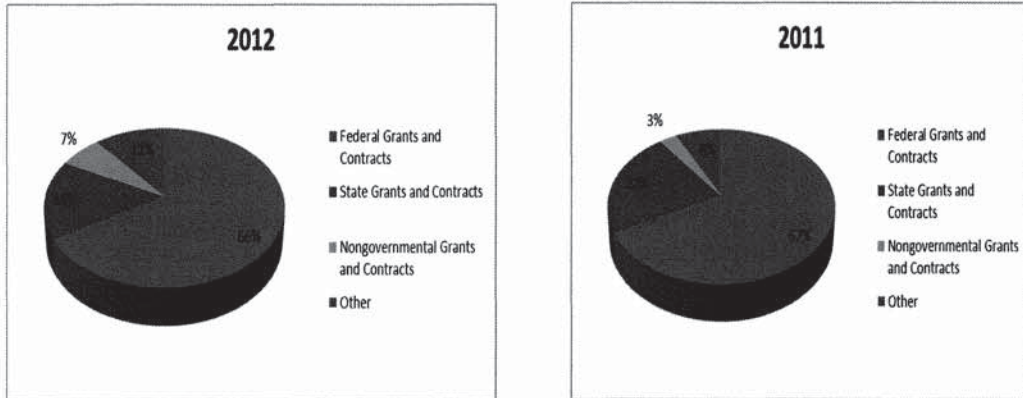
Operating revenues are received for providing goods and services to the various customers and constituencies of the Corporation. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the Corporation. 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		
	2012	2011	2010
Operating revenues	\$ 38,845	\$ 59,746	\$ 44,992
Operating expenses	(39,712)	(47,934)	(43,797)
Operating income	(867)	11,812	1,195
Nonoperating revenues	669	56	99
Income before capital gifts and grants	(198)	11,868	1,294
Capital grants and gifts	0	267	0
Increase in Net Assets	(198)	12,135	1,294
Net Assets at Beginning of Year	53,288	41,153	39,859
Net Assets at End of Year	\$ 53,090	\$ 53,288	\$ 41,153

Revenues:

The following charts illustrate the composition of revenues by source for 2012 and 2011:



*Changes to Operating Revenues and Expenses*

For FY2012, Operating Revenues were \$38,845,001 a decrease of \$20,900,816 compared to FY2011. This decrease was primarily the result of a decrease in federal awards of \$14,440,687 and state awards of \$8,443,438. The decrease in federal funding was primarily due to the end of the COBRE award that accounted for over \$3.5 million in FY2011, the INBRE II and HRSA awards received in FY2011. The decrease in state funding is primarily attributable to the decrease in monies received in connection with the research trust fund.

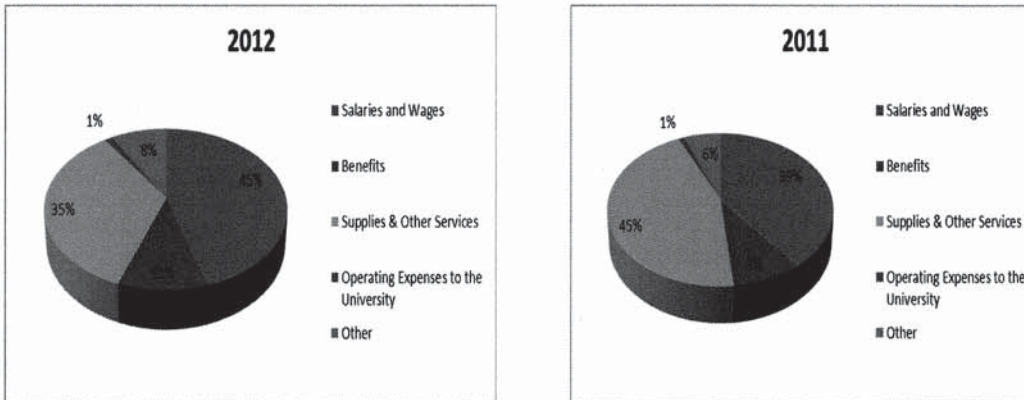
For FY2011, Operating Revenues were \$59,745,817, an increase of \$14,753,682 compared to the previous year. This increase was primarily due to an increase in federal awards of \$7,760,875 and state grants of \$7,245,326. The two largest new federal awards were an INBRE II award for \$3,086,572 and a 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.

Excluding construction related grant revenue, Operating Revenues for FY2012 decreased \$16,224,484 over FY2011 and increased \$10,053,388 over FY2010.



Expenses:

The following is a graphic comparison of total expenses by category between 2012 and 2011:



Operating Expenses were \$39,711,894 for FY2012 as compared to \$47,933,966 for FY2011, a decrease of \$8,222,072. For FY2012, salaries and benefits decreased by \$ 991,756 and expenditures for supplies and other services decreased by \$7,680,387 both attributable to decreased grant activity.

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 increased grant activity.

## Statement of Cash Flows

The statement of cash flows presents detailed information about the cash activity during the year. The 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		
	2012	2011	2010
Cash provided (used) by:			
Operating activities	\$ 5,160	\$ 14,354	\$ 764
Capital and related financing activities	(1,472)	(5,179)	(2,133)
Investing activities	<u>(1,437)</u>	<u>(10,279)</u>	<u>(2,957)</u>
Net (decrease) increase in cash and cash equivalents	2,251	(1,104)	(4,326)
Cash and cash equivalents, beginning			
of year	<u>15,436</u>	<u>16,540</u>	<u>20,866</u>
Cash and cash equivalents, end of year	<u>\$ 17,687</u>	<u>\$ 15,436</u>	<u>\$ 16,540</u>

The increase in cash balance in 2012 is primarily due to the collection of cash receipts in the amount of \$5,231,263. This increase was offset by the purchase of capital assets totaling \$1,346,443 and the payment of accounts payable in the amount of \$1,172,010. 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.

## **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 \$2,539,397 at June 30, 2012. 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 FY2012, \$1,346,443 in capital assets was purchased which was primarily research equipment. The Corporation has no other debt obligations.

## **Economic Outlook**

It has been an exceptional year for MURC. Although our grant activity has decreased as the result of timing of some awards and the ending of the stimulus funding, our research enterprise continues to grow and gives us this opportunity to boast of many new exciting achievements and impressive milestones.

- MURC joined with the University of Kentucky as a key partner in their Clinical and Translational Science Award (CTSA) from the National Institute of Health. The first grants were awarded through the Joint Pilot Research Program set up by Marshall and the University of Kentucky by the National Institutes of Health
- Marshall University opened the School of Pharmacy and the faculty had robust grant application activity
- Marshall received a significant award for community-based diabetes research from Bristol-Meyers Squibb setting a path for future funding
- The Robert C. Byrd Institute for Advanced Flexible Manufacturing has joined forces with Concord University to help entrepreneurs, small business and manufacturers in southern West Virginia develop and commercialize new products. The goal of the partnership's new West Virginia EDA University Center is to help increase business productivity, spur innovation and entrepreneurship, and improve long-term regional competitiveness and economic diversification across the state.
- The Rahall Transportation Institute (RTI) was chose by the US Department of Transportation to lead the "Multimodal Transportation and Infrastructure Consortium (MTIC). MTIC, which includes the University of Kentucky, the University of Louisville and Hampton University, will promote economic development by research, analysis and education devoted to exploring how transportation can promote commerce
- Two official patents were awarded from the US Patent and Trademark office – "Railroad Surveying and Monitoring System", and "Methods of Detecting and Controlling Pseudomonas Biofilm Production"

- Our internationally recognized Forensic Science Center completed a DNA analysis project that eliminated the New Orleans Police Departments backlog of 800 untested sexual assault kits. The success of this engagement has led to a similar project with the Detroit Police Department
- Paleontologist Dr. F. Robin O’Keefe and a colleague were published in the prestigious journal of *Science* for their findings concerning the first evidence that plesiosaurs gave birth to live young. Dr. O’Keefe and his colleague were also featured in a national news segment which brought recognition to the work of our scientists here at Marshall University

These are just a few examples of the wide array of exciting accomplishments that attest to the growth of our research enterprise. Marshall’s approach to expanding its research activity is five-fold:

- Recruit research-active faculty at junior and senior levels and provide mentoring and support
- Focus research investments in areas of excellence and strategically developing new foci in a programmed manner
- Incentivize research activity
- Develop physical and cyber infrastructure necessary to support and sustain research activity
- Form broader collaborations and partnerships and educate funding agencies about Marshall’s capacity and capabilities

Marshall’s strategy for increasing the scope and capability of its research enterprise is embodied in the Marshall University Strategic Initiatives, endorsed by the Marshall University Board of Governors and under implementation since early 2006. This vision establishes the University’s foremost priorities and serves as the integrated roadmap for advancing the University. Holistically, furthering economic development in West Virginia, nationally, and internationally through entrepreneurial research in targeted areas of scientific strength is one of the fundamental expectations of this plan.

While we realize we face the contingency of an uncertain economic climate which may impact the market value of investments and perhaps a decline in funding from recent years, we remain very confident in our ability to seek and acquire funding opportunities due to talent and dedication of our faculty and staff. We remain unwavering in our commitment to provide the finest service to both Marshall and our community.

# MARSHALL UNIVERSITY RESEARCH CORPORATION

## COMBINED STATEMENTS OF NET ASSETS AS OF JUNE 30, 2012 AND 2011

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	2012	2011
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 17,686,827	\$ 15,435,657
Grants and contracts receivable — net of allowance of \$349,554 and \$392,105 in 2012 and 2011, respectively	8,447,942	13,679,205
Other accounts receivable	55,954	67,480
Prepaid expenses	<u>323,008</u>	<u>354,894</u>
 Total current assets	 <u>26,513,731</u>	 <u>29,537,236</u>
<b>NONCURRENT ASSETS:</b>		
Other accounts receivable		17,264
Deferred charges — debt issuance costs	38,000	40,375
Investments	17,768,595	15,610,202
Deposits	461,485	
Capital assets — net	<u>17,716,855</u>	<u>19,008,818</u>
 Total noncurrent assets	 <u>35,984,935</u>	 <u>34,676,659</u>
 <b>TOTAL</b>	 <u><b>\$ 62,498,666</b></u>	 <u><b>\$ 64,213,895</b></u>

# MARSHALL UNIVERSITY RESEARCH CORPORATION

## COMBINED STATEMENTS OF NET ASSETS AS OF JUNE 30, 2012 AND 2011

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	2012	2011
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 1,225,063	\$ 2,397,072
Accrued liabilities	728,746	839,156
Notes payable — current portion	124,101	121,953
Compensated absences	856,518	872,142
Deferred revenue	<u>3,263,835</u>	<u>3,311,328</u>
Total current liabilities	<u>6,198,263</u>	<u>7,541,651</u>
<b>NONCURRENT LIABILITIES:</b>		
Notes payable	2,415,296	2,539,396
Deferred rent revenue	<u>795,281</u>	<u>844,986</u>
Total noncurrent liabilities	<u>3,210,577</u>	<u>3,384,382</u>
Total liabilities	<u>9,408,840</u>	<u>10,926,033</u>
<b>NET ASSETS:</b>		
Invested in capital assets — net of related debt	14,214,803	15,336,664
Restricted for:		
Nonexpendable	8,937,884	7,192,505
Expendable — sponsored projects	17,299,498	18,769,029
Unrestricted	<u>12,637,641</u>	<u>11,989,664</u>
Total net assets	<u>53,089,826</u>	<u>53,287,862</u>
<b>TOTAL</b>	<u><u>\$62,498,666</u></u>	<u><u>\$64,213,895</u></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, 2012 AND 2011

	2012	2011
OPERATING REVENUES:		
Contracts and grants:		
Federal	\$25,769,632	\$40,210,319
State	6,293,174	13,397,306
Private and local	2,537,800	1,658,085
Program income	1,326,057	1,477,726
Miscellaneous — net	2,918,338	3,002,381
	<u>38,845,001</u>	<u>59,745,817</u>
OPERATING EXPENSES:		
Salaries and wages	17,885,531	18,877,287
Benefits	4,187,543	4,299,302
Supplies and other services	13,723,830	21,404,217
Utilities	779,220	655,516
Student financial aid — scholarships and fellowships	509,689	522,856
Depreciation	2,626,081	2,174,788
	<u>39,711,894</u>	<u>47,933,966</u>
OPERATING INCOME (LOSS)	<u>(866,893)</u>	<u>11,811,851</u>
NONOPERATING REVENUES (EXPENSES):		
Investment income — including unrealized gain of \$228,168 and \$32,082 in 2012 and 2011, respectively	721,372	221,935
Interest on indebtedness	(86,689)	(90,257)
Loss on disposal of equipment	34,174	(75,623)
	<u>668,857</u>	<u>56,055</u>
INCOME (LOSS) BEFORE CAPITAL GIFTS AND GRANTS	(198,036)	11,867,906
CAPITAL GRANTS AND GIFTS		<u>267,327</u>
INCREASE (DECREASE) IN NET ASSETS	(198,036)	12,135,233
NET ASSETS — Beginning of year	<u>53,287,862</u>	<u>41,152,629</u>
NET ASSETS — End of year	<u>\$53,089,826</u>	<u>\$53,287,862</u>

See notes to combined financial statements.

# MARSHALL UNIVERSITY RESEARCH CORPORATION

## COMBINED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Contracts and grants	\$ 39,826,928	\$ 55,682,586
Payments to and on behalf of employees	(22,535,990)	(23,245,264)
Payments to suppliers	(15,086,632)	(21,265,692)
Payments for utilities	(779,220)	(655,516)
Payments for scholarships and fellowships	(509,689)	(522,856)
Program income	1,326,057	1,477,726
Other receipts — net	<u>2,918,339</u>	<u>2,882,618</u>
Net cash provided by operating activities	<u>5,159,793</u>	<u>14,353,602</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Payments on notes payable	(121,952)	(119,565)
Purchases of capital assets	(1,346,443)	(5,259,198)
Deferred rent revenue collected	(49,705)	
Proceeds from disposal of equipment	<u>46,500</u>	<u>200,000</u>
Net cash used in financing activities	<u>(1,471,600)</u>	<u>(5,178,763)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(10,357,049)	(10,468,579)
Sale/maturity of investments	8,198,654	
Investment income	<u>721,372</u>	<u>189,853</u>
Net cash used in investing activities	<u>(1,437,023)</u>	<u>(10,278,726)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,251,170	(1,103,887)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>\$ 15,435,657</u>	<u>16,539,544</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 17,686,827</u>	<u>\$ 15,435,657</u>

(Continued)



# MARSHALL UNIVERSITY RESEARCH CORPORATION

## COMBINED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

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	2012	2011
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (866,893)	\$11,811,851
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation expense	2,626,081	2,174,788
Gain on disposal of equipment	(34,175)	
Changes in assets and liabilities:		
Accounts receivable — net	5,259,620	(278,036)
Prepaid expenses and deposits	(429,599)	(17,347)
Accounts payable	(1,172,009)	203,149
Accrued liabilities	(110,410)	(136,565)
Deferred revenue	(97,198)	597,090
Compensated absences	(15,624)	(1,328)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 5,159,793</u>	<u>\$14,353,602</u>
NONCASH TRANSACTIONS:		
(Loss) on disposal of equipment	<u>\$</u>	<u>\$ (75,623)</u>
Donated assets	<u>\$</u>	<u>\$ 267,327</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, 2012 AND 2011

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### 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 subsequent to 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, 2012, the Corporation recorded accounts receivable of \$2,763,821 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 2012, the Corporation adopted issued Statement No. 61, *The Financial Reporting Entity: Omnibus — an amendment of GASB Statements No. 14 and No. 34*. 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 adoption of this statement did not have a material impact on the financial statements.

The Corporation also adopted Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates 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 improves financial reporting by contribution 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 adoption of this statement did not have a material impact on the financial statements.

The Corporation also adopted Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. This statement improves 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 adoption of this statement did not have a material impact on the financial statements.

**Recent Statements Issued by the Governmental Accounting Standards Board** — The Governmental Accounting Standards Board has 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 GASB has also issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for fiscal years beginning after December 15, 2012. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 65 may have on its financial statements.

The GASB has also issued Statement No. 66, *Technical Corrections — 2012: An Amendment of GASB Statements No. 10 and No. 64*, effective for fiscal years beginning after December 15, 2012. This statement improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November, 1989 FASB and AICPA Pronouncements*. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 66 may have on its financial statements.

The GASB has also issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for fiscal years beginning after June 15, 2014. This statement enhances the information provided in the financial statements regarding the effects of pension-related transactions, the pension obligations of the entity, and the resources available to satisfy those obligations. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 68 may have on its financial statements.

### 3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of June 30, 2012 and 2011, is as follows:

	2012	2011
Money market and cash equivalents	\$ 17,669,690	\$ 15,428,747
In bank	<u>17,137</u>	<u>6,910</u>
	<u>\$ 17,686,827</u>	<u>\$ 15,435,657</u>

The carrying amount of cash in bank at June 30, 2012 and 2011 was \$17,137 and \$6,910 respectively, as compared with a bank balance of \$6,910 and \$16,924, 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, 2013.

In January 2011, the monies were invested through Smith Barney. At June 30, 2012 and 2011, \$364,717 and \$381,249, respectively was held in a cash account insured by the Security Investor Protection Corporation (SIPC).

Cash equivalents totaling \$17,304,973 and \$14,445,806 at June 30, 2012 and 2011, respectively, are held in repurchase agreements, and a business savings account collateralized at 110% and 112%, respectively. The collateral was held in the name of the Corporation.

#### 4. INVESTMENTS

Investments at June 30, 2012 and 2011, consist of the following:

	2012	2011
U.S. Government national mortgage association securities	\$ 15,053,174	\$ 13,463,876
Jeffries & Company, Inc. - Alternative Investments	2,715,421	
Common fund — intermediate-term fund	<u>                    </u>	<u>2,146,326</u>
Total investments	<u>\$ 17,768,595</u>	<u>\$ 15,610,202</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	2012			Fair Value
	Level 1	Level 2	Level 3	
Jeffries & Company, Inc. Alternative Investments	\$	\$	\$ 2,715,421	\$ 2,715,421
U.S. Government National Mortgage Association Securities	<u>                    </u>	<u>15,053,174</u>	<u>                    </u>	<u>15,053,174</u>
	<u>\$</u>	<u>\$15,053,174</u>	<u>\$ 2,715,421</u>	<u>\$17,768,595</u>
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>

The following table displays the changes in the fair value of the Corporation's Level 3 assets for the year ended June 30, 2012:

Balance, beginning of year	\$ 7,888
Unrealized (losses)	(74,341)
Purchases, sales, issuances and settlements (net)	<u>2,781,874</u>
Balance, end of year	<u>\$ 2,715,421</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 years and 2.5 years, respectively, for fiscal year 2012 and 2011. The Intermediate Term Fund had an average maturity of 1.6 years for fiscal year 2011. The Intermediate Term Fund holdings were moved to an alternate investment portfolio in Jeffries & Company Inc., in 2012. At both June 30, 2012 and 2011, the Corporation's investment in U.S. Government National Mortgage Association Securities were rated AAA as government-backed securities. The alternative investments held by Jeffries & Company do not have an assigned rating. The average rating of the Intermediate Term Fund was AA at June 30, 2011.

**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, 2012 and 2011 is as follows:

	2012			Ending Balance
	Beginning Balance	Additions	Reductions	
Capital assets:				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Building	4,932,619			4,932,619
Equipment	31,648,274	1,346,443	(474,737)	32,519,980
Total capital assets	36,580,893	1,346,443	(474,737)	37,452,599
Less accumulated depreciation — building	(172,641)	(98,652)		(271,293)
Less accumulated depreciation — equipment	(17,399,434)	(2,527,429)	462,412	(19,464,451)
Total accumulated depreciation	(17,572,075)	(2,626,081)	462,412	(19,735,744)
Capital assets — net	<u>\$ 19,008,818</u>	<u>\$ (1,279,638)</u>	<u>\$ (12,325)</u>	<u>\$ 17,716,855</u>
	2011			Ending Balance
	Beginning Balance	Additions	Reductions	
Capital assets:				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Building	4,932,619			4,932,619
Equipment	27,867,240	5,526,525	(1,745,491)	31,648,274
Total capital assets	32,799,859	5,526,525	(1,745,491)	36,580,893
Less accumulated depreciation — building	(73,989)	(98,652)		(172,641)
Less accumulated depreciation — equipment	(16,793,166)	(2,076,136)	1,469,868	(17,399,434)
Total accumulated depreciation	(16,867,155)	(2,174,788)	1,469,868	(17,572,075)
Capital assets — net	<u>\$ 15,932,704</u>	<u>\$ 3,351,737</u>	<u>\$ (275,623)</u>	<u>\$ 19,008,818</u>

The Corporation's capitalization threshold was \$5,000 for the years ended June 30, 2012 and June 30, 2011.



## 6. LONG-TERM LIABILITIES

The summary of long-term obligation transactions for the Corporation for the years ended June 30, 2012 and June 30, 2011 is as follows:

	2012				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes payable	\$2,661,349	\$	\$(121,952)	\$2,539,397	\$124,101
Deferred rent	<u>894,691</u>	<u>          </u>	<u>(49,705)</u>	<u>844,986</u>	<u>49,705</u>
Total long-term liabilities	<u>\$3,556,040</u>	<u>\$</u>	<u>\$(171,657)</u>	<u>\$3,384,383</u>	

	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>	<u>49,705</u>
Total long-term liabilities	<u>\$3,775,015</u>	<u>\$ -</u>	<u>\$(218,975)</u>	<u>\$3,556,040</u>	

## 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, 2012, the scheduled maturities on notes payable are as follows:

Years Ending June 30	Principal	Interest
2013	\$ 124,101	\$ 81,261
2014	128,073	77,289
2015	132,170	73,191
2016	136,400	68,962
2017	140,764	64,597
2018-2022	774,342	252,465
2023-2027	906,424	120,383
2028	<u>197,123</u>	<u>6,309</u>
	<u>\$2,539,397</u>	<u>\$744,457</u>

## 8. LEASES

Future annual minimum lease payments on operating leases for years subsequent to June 30, 2012, are as follows:

<b>Years Ending June 30</b>	
2013	\$ 84,600
2014	18,000
2015	<u>16,500</u>
Total	<u>\$119,100</u>

Total rent expense for the years ended June 30, 2012 and 2011, was \$370,728 and \$367,284, 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, 2012 and 2011 is as follows:

	<b>2012</b>	<b>2011</b>
Grants and contracts receivable	\$2,763,821	\$2,146,039
Advances receivable	250,000	250,000
Other sources of revenue	400,645	317,656
Payroll and benefits expense	5,430,321	5,528,775
Other expenses	890,287	1,043,962

## 10. UNRESTRICTED NET ASSETS

At June 30, 2012 and 2011, 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, 2012, 2011 and 2010, were \$1,814,090, \$1,907,209, and \$1,956,297, respectively, which consisted of \$846,434, \$886,766, and \$916,806, respectively, from the Corporation and \$967,655, \$1,020,443, and \$1,039,491, respectively, from employees.

The Corporation's total payroll for the years ended June 30, 2012 and 2011 was \$17,620,254 and \$18,670,328, respectively. Total covered employees' salaries in TIAA-CREF were \$14,107,240 and \$14,779,431 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011, the following table represents operating expenses within both natural and functional classifications:

	2012						Total
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	
Instruction	\$ 612,296	\$ 144,178	\$ 754,089	\$ -	\$ 48,691	\$ -	\$ 1,559,254
Research	4,502,686	916,251	5,679,177	27,546	190,453	-	11,316,113
Public service	8,530,259	2,014,728	4,576,209	158,690	118,955	-	15,398,841
Academic support	232	17	15,325	-	34,730	-	50,304
Student services	288,755	70,854	204,546	3,528	72,900	-	640,583
General institutional support	3,951,303	1,041,515	2,312,009	589,456	43,960	-	7,938,243
Operations and maintenance of plant	-	-	-	-	-	-	182,475
Depreciation	-	-	-	-	-	2,626,081	2,626,081
<b>Total</b>	<b>\$ 17,885,531</b>	<b>\$ 4,187,543</b>	<b>\$ 13,723,830</b>	<b>\$ 779,220</b>	<b>\$ 509,689</b>	<b>\$ 2,626,081</b>	<b>\$ 39,711,894</b>

	2011						Total
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	
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
Depreciation	-	-	-	-	-	2,174,788	2,179,788
<b>Total</b>	<b>\$ 18,877,287</b>	<b>\$ 4,299,302</b>	<b>\$ 21,404,217</b>	<b>\$ 655,516</b>	<b>\$ 522,856</b>	<b>\$ 2,174,788</b>	<b>\$ 47,933,966</b>

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**SUPPLEMENTAL SCHEDULE**

**MARSHALL UNIVERSITY RESEARCH CORPORATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
<b>RESEARCH AND DEVELOPMENT:</b>					
National Institute of Food and Agriculture	D	10.200			\$ 199,626
National Institute of Food and Agriculture	I	10.200	West Virginia State University	CR-0636-003	18,090
		10.200 Subtotal			\$ 217,716
Forest Service	D	10.652			5,442
					223,158
Total Department of Agriculture					
U.S. Army RDECOM	I	12.000	Parabon Nanolabs, Inc	0511-0897-351-01, A11A-021-0220	24,193
U.S. Army Corps of Engineers	D	12.107			20,825
Office of The Chief of Engineers	D	12.110			303,768
U.S. Army Medical Command	D	12.420			349,337
U.S. Army Material Command	D	12.431			375,941
U.S. Army Material Command	I	12.431	Regents of the University of California	2010-2508	172,573
		12.431 Subtotal			548,514
Department of the Air Force	D	12.800			510
Department of the Air Force	I	12.800	L.C. Pegasus Corporation	N/A	15,383
		12.800 Subtotal			15,893
Defense Advanced Research Projects Agency	D	12.910			2,416,305
Defense Advanced Research Projects Agency	I	12.910	Parabon Nanolabs, Inc.	W911NF-11-C-0076	32,755
		12.910 Subtotal			2,449,060
Total Department of Defense					
Fish and Wildlife Service	D	15.657			3,711,590
Total Department of the Interior					
Office of Justice Programs	D	16.560			258
					258
Total Department of Justice					
					193,160
					193,160

(Continued)

**MARSHALL UNIVERSITY RESEARCH CORPORATION  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2012**

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	32,680
Federal Highway Administration	I	20.205	WV Department of Transportation	SPR-12;SPR-FL-0001(0046)	232
Federal Railroad Administration	D	20.313			541
Federal Railroad Administration	I	20.515	WV Department of Transportation Virginia Center for Transportation Innovation and Research	X241-121-0-7800	31,942
Research and Innovative Technology Administration Department of Transportation	I	20.931	WV Department of Transportation	102142	13,092
	I	20.999	WV Department of Transportation	ATI-TRP99-04	(5,651)
Total Department of Transportation					<u>72,836</u>
National Aeronautics and Space Administration	I	43.001	West Virginia University	Various	119,809
	I	43.007	West Virginia University	07-476-MURC	9,990
	I	43.008	West Virginia University	11-542-MURC	174,373
Total National Aeronautics and Space Administration					<u>304,172</u>
National Science Foundation	D	47.041			2,587
National Science Foundation	D	47.049	Appalachian State University	I-0125/A12-0036-S0C	26,966
National Science Foundation	I	47.049			14,216
		47.049 Subtotal			<u>41,182</u>
National Science Foundation	D	47.074			128,986
National Science Foundation	D	47.075			89,281
National Science Foundation	D	47.076			58,735
National Science Foundation	I	47.076	University of Kentucky	3048032200-07-251	20,527
National Science Foundation	I	47.076	University of South Carolina	DUE-1022661	23,520
		47.076 Subtotal			<u>102,782</u>
National Science Foundation	D	47.079			13,413
National Science Foundation	D	47.080			96,176
National Science Foundation	I	47.081	WV Higher Education Policy Commission	HEPC.dsr.11.05	641,008
National Science Foundation	D	47.082ARRA			260,672
National Science Foundation	I	47.082ARRA	WV Higher Education Policy Commission	HEPC.dsr.10.02	275,904
		47.082 Subtotal			<u>536,576</u>
Total National Science Foundation					<u>1,651,991</u>

(Continued)

**MARSHALL UNIVERSITY RESEARCH CORPORATION  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2012**

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			5,063
Total Environmental Protection Agency					
Department of Energy	D	81.049			943,812
Department of Energy	I	81.108	Los Alamos National Security LLC	79064-001-09	14,323
Department of Energy	I	81.128ARRA	WV Division of Energy	11-081	16,810
Total Department of Energy					
Office of Postsecondary Education	D	84.116			974,945
Total Department of Education					
Health Resources and Services Administration	D	93.110			6,505
National Institutes of Health	D	93.121			2,976
National Institutes of Health	D	93.389			3,231,865
National Institutes of Health	I	93.389	University of Kentucky	3048108253-11-405	40,672
Total Department of Health					
93.389 Subtotal					
National Institutes of Health	D	93.393			280,169
National Institutes of Health	D	93.394			52,880
National Institutes of Health	D	93.395			81,331
National Institutes of Health	D	93.701ARRA			455,663
National Institutes of Health	D	93.837			191,689
National Institutes of Health	D	93.847			266,259
National Institutes of Health	D	93.853			14,052
National Institutes of Health	D	93.865			33,798
National Institutes of Health	I	93.865	The Children's Hoepital of Philadelphia	PO950563RSUB	210
93.865 Subtotal					
Health Resources and Services Administration	D	93.866			34,008
Health Resources and Services Administration	D	93.887			(8,354)
Health Resources and Services Administration	I	93.888			109,618
Total Department of Health and Human Services					
93.865 Subtotal					
Department of Health and Human Services Total					
34,008					
(8,354)					
109,618					
65,414					
4,824,747					
12,072,020					
Subtotal Research and Development					
12,072,020					

(Continued)



**MARSHALL UNIVERSITY RESEARCH CORPORATION  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2012**

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
<b>OTHER PROGRAMS:</b>					
Food & Nutrition Service	I	10.561	West Virginia University	99-046A-MURC	561,650
Total Department of Agriculture					561,650
Economic Development Administration	D	11.303			38,304
Total Department of Commerce					38,304
Department of the Army, Office of the Chief of Engineers	D	12.000			43,978
US Army Corps of Engineers	D	12.107			86,184
Department of the Army, Office of the Chief of Engineers	D	12.110			219,701
Advanced Research Project	D	12.910			74,421
Total Department of Defense					424,284
Geological Survey	D	15.809			12,216
Office of Surface Mining Reclamation and Enforcement	D	15.XXX			98
Total Department of the Interior					12,314
Department of Justice	I	16.XXX	MPRI a Division of L-3 Services, Inc.	DJJ11-C-2180/TO 20	8,042
Department of Justice	I	16.000	WV Division of Criminal Justice Services	Various	78,814
National Institute of Justice	D	16.560			3,120,390
Office of Justice Programs	I	16.560	National Forensic Science Technology Ctr	2007-mu-BX-K008	5,193
		16.560 Subtotal			3,125,583
Office of Juvenile Justice and Delinquency Prevention	D	16.727			(47)
Office of Juvenile Justice and Delinquency Prevention	I	16.727	WV Division of Criminal Justice Services	11-400	41,198
		16.727 Subtotal			41,151
Department of Justice	D	17.603			69,002
Total Department of Justice					3,322,592

(Continued)

**MARSHALL UNIVERSITY RESEARCH CORPORATION  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2012**

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
OTHER PROGRAMS (Continued):					
Department of Transportation	I	20.XXX	WV Department of Transportation	19-CRA/SH-4.00/OCRO-2011 (076)	181,252
Federal Railroad Administration	I	20.205	WV Department of Transportation	U311-ACS-1.00	833,054
Federal Railroad Administration	I	20.205	WV Department of Transportation	U399-WVD/OH-1.00	157,213
		20.205 Subtotal			990,267
Federal Railroad Administration	I	20.232	WV Department of Transportation	N/A	920
Research and Innovative Technology Administration	D	20.701			3,255,465
Research and Special Programs Administration	I	20.701	WV Department of Transportation	TTP 0505	(17,169)
		20.701 Subtotal			3,238,296
Maritime Administration	I	20.816	Missouri Highways and Transportation	N/A	(8,928)
					4,401,807
Total Department of Transportation					3,123
Appalachian Regional Commission	D	23.001			
Appalachian Regional Commission	D	23.002	WV Division of Energy	WV-16454-09	98,448
Appalachian Regional Commission	I	23.002			51,841
		23.002 Subtotal			150,289
Appalachian Regional Commission	D	23.003			123,228
Appalachian Regional Commission	D	23.011			213,705
Total Appalachian Regional Commission					490,345
Library of Congress	I	42.001	Waynesburg University	GA GA08C016	333
Total Library of Congress					333
National Endowment for the Humanities	I	45.129	WV Humanities Council	11554	2,301
Total National Foundation on the Arts and the Humanities					2,301
National Science Foundation	I	47.049	University of Kentucky	3046635800-07-179	180,281
National Science Foundation	D	47.076			350,400
National Science Foundation	I	47.082ARRA	WV Higher Education Policy Commission	HEPC.dsr.11.10	328,813
Total National Science Foundation					859,494
Environmental Protection Agency	I	66.818	WV Department of Environmental Protection	AGM-052	5,947
Total Environmental Protection Agency					5,947

(Continued)

**MARSHALL UNIVERSITY RESEARCH CORPORATION  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2012**

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
OTHER PROGRAMS (Continued):					
Department of Energy	I	81.041	WV Division of Energy	229330/8201	53,522
Department of Energy	I	81.117	WV Division of Energy	10-303-P1101410	1,790
Total Department of Energy					<u>55,312</u>
Office of Postsecondary Education	D	84.042			285,502
Office of Postsecondary Education	D	84.044			703,576
Office of Postsecondary Education	D	84.047A			34,877
Office of Postsecondary Education	D	84.066			210,360
TRIO Cluster Subtotal					<u>1,234,315</u>
Office of Postsecondary Education	D	84.116			102,530
Office of Special Education and Rehabilitation	I	84.027	WV Department of Education	Various	354,263
Office of Special Education and Rehabilitation	I	84.027A	WV Department of Education	C336131	41,553
Special Education (IDEA) Cluster Subtotal					<u>395,816</u>
Office of Elementary and Secondary Education	I	84.367	WV Department of Education	N/A	(4)
Office of Elementary and Secondary Education	I	84.367	WV Higher Education Policy Commission	Various	357,570
Department of Education					<u>357,566</u>
Department of Education	I	84.928A	National Writing Project	02-WV03	38,928
Department of Education	I	84.928A	National Writing Project (92-WV02)	92-WV02	13,608
Department of Education					<u>52,536</u>
Total Department of Education					<u>2,142,763</u>
Centers for Disease Control and Prevention	I	93.069	WV Higher Education Policy Commission	2010-WVHINI-6	(126)
Substance Abuse and Mental Health Services	I	93.104	Prestra Center for Mental Health Services	N/A	1,534
Health Resources and Services Administration	I	93.130	West Virginia Primary Care Association	N/A	33,894
Health Resources and Services Administration	I	93.130	WV Department of Health and Human Resources	G110036	(2,761)
Health Resources and Services Administration					<u>31,133</u>

(Continued)

**MARSHALL UNIVERSITY RESEARCH CORPORATION  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2012**

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
<b>OTHER PROGRAMS (Continued):</b>					
Substance Abuse and Mental Health Services	I	93.243	Prestera Center for Mental Health Service	N/A	55,857
Substance Abuse and Mental Health Services	I	93.243	WV Division of Criminal Justice Services	5U79SP011191-05: 10-518	(554)
Substance Abuse and Mental Health Services	D	93.243			<u>639,011</u>
		93.243 Subtotal			694,314
Centers for Disease Control and Prevention	I	93.283	Center for Appalachian Philanthropy	N/A	14,019
Centers for Disease Control and Prevention	I	93.283	West Virginia University	N/A	(3,484)
Centers for Disease Control and Prevention	I	93.283	WV Department of Health and Human Reso	Various	82,898
Centers for Disease Control and Prevention	D	93.283			<u>68,791</u>
		93.243 Subtotal			162,224
Health Resources and Services Administration	D	93.358			34,730
Health Resources and Services Administration	D	93.411ARRA			1,886
Administration for Children and Families	I	93.658	WV Department of Health and Human Reso	Various	116,306
Administration for Children and Families	I	93.710ARRA	Southwestern Community Action Council	N/A	715
Administration for Children and Families	I	93.713ARRA	WV Department of Health and Human Reso	G100995	239
Administration on Aging	I	93.725	WV Department of Health and Human Reso	G110987	32,707
National Institutes of Health	I	93.859	Federation of American Societies for Experimental Biology	N/A	8,095
Health Resources and Services Administration	D	93.887			(11,838)
Health Resources and Services Administration	D	93.888			(33,253)
Substance abuse and Mental Health Services Administration	I	93.958	WV Department of Health and Human Reso	Various	241,930
Health Resources and Services Administration	I	93.969	West Virginia University	00-251-MURC	11,697
Centers for Disease Control and Prevention	I	93.988	WV Department of Health and Human Reso	G110946	76,374
Health Resources and Services Administration	I	93.994	WV Department of Health and Human Reso	G101023	10,844
		Total Department of Health and Human Services			<u>1,379,511</u>
		Subtotal Other Programs			13,696,957
		Total Federal Expenditures			<u>\$25,768,977</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, 2012

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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, 2012, 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:

<b>Rate Type</b>	<b>Rate as Submitted Within Certificate</b>	<b>Negotiated Rate</b>
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, 2012, include:

Federal Agency	Subrecipient	CFDA	Subrecipient Expenditures
Research and development:			
Department of Defense	Univ of Tennessee	12.110	\$ 253,118
Department of Defense	Polytechnic Institute of New York University	12.431	34,524
Department of Defense	Wright State University	12.431	50,000
Department of Justice	Research Foundation of the City of New York	16.560	73,163
Department of Transportation	WVU Research Corp	20.200	15,340
Department of Energy	Michigan Technologic University	81.049	364,938
Department of Health and Human Services	Bluefield State College Research and Development	93.389	219,299
Department of Health and Human Services	CAMC Health Education and Research	93.389	55,381
Department of Health and Human Services	University of Kentucky Research Foundation	93.389	85,958
Department of Health and Human Services	West Liberty State College	93.389	202,611
Department of Health and Human Services	WV State Univ Research & Development Corp	93.389	307,021
Department of Health and Human Services	WVU Research Corp	93.389	1,294,179
Department of Health and Human Services	West Liberty State College	93.701ARRA	26,092
Department of Health and Human Services	WV State Univ Research & Development Corp	93.701ARRA	24,760
Department of Health and Human Services	WV Wesleyan College	93.701ARRA	17,481
Department of Health and Human Services	WVU Research Corp	93.701ARRA	154,662
	Subtotal Research and Development		3,178,527
Other Programs:			
Department of Defense	North Dakota State University	12.110	34,725
Department of Defense	Texas A & M Research Foundation	12.110	33,771
Department of Defense	University of Toledo	12.110	39,922
Department of Transportation	Burgess and Niple Inc	20.205	745
Department of Transportation	Purdue University	20.205	240,643
Department of Transportation	WVU Research Corporation	20.205	41,985
Department of Transportation	Center for Applied Research	20.701	77,439
Department of Transportation	Univ of Kentucky Research Foundation	20.701	93,624
Department of Transportation	WV University	20.701	47,309
Department of Transportation	Alpha Technologies, Inc	20.xxx	88,390
Appalachian Regional Commission	WVU Research Corporation	23.002	30,416
Appalachian Regional Commission	Lawrence County Health Department	23.011	16,000
Appalachian Regional Commission	Meigs County Board of Education	23.011	16,000
Appalachian Regional Commission	Washington University	23.011	14,300
National Science Foundation	WV State Univ Research & Development Corp	47.076	52,411
Department of Education	Morehead State University	84.116	19,067
Department of Education	Univ of Charleston	84.116	21,430
	Subtotal Other Programs		868,177
	Total all Subrecipient		\$4,046,704

- All American Recovery and Reinvestment Act (ARRA) monies have been marked as "ARRA" on the Schedule.
- The accompanying schedule reflects certain adjustments resulting from final adjustments to closed grants and transfers between grants. As a result, certain grants show negative expenditures.

6. 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	07-476-MURC	\$ 21,458
43.001	West Virginia University	91-175A-MURC	(337)
43.001	West Virginia University	91-175B-MURC	42,121
43.001	West Virginia University	91-175B-MURC	52,472
43.001	West Virginia University	07-476-MURC	4,095
	Subtotal		<u>119,809</u>
16.000	WV Division of Criminal Justice Services	08P-DF-03;09-11-011:INI-#11:05	12,635
16.000	WV Division of Criminal Justice Services	66179	66,179
	Subtotal		<u>78,814</u>
84.027	WV Department of Education	C301209	(43)
84.027	WV Department of Education	C321494	976
84.027	WV Department of Education	C321495	20,723
84.027	WV Department of Education	C344099	7,254
84.027	WV Department of Education	C344100 & C344099	180,496
84.027	WV Department of Education	C364164	144,857
	Subtotal		<u>354,263</u>
84.367	WV Higher Education Policy Commission	ITQ-10-MU-03	20,688
84.367	WV Higher Education Policy Commission	ITQ-10-MUGC-01	27,972
84.367	WV Higher Education Policy Commission	ITQ-10-MUGC-02	3,174
84.367	WV Higher Education Policy Commission	ITQ-10-MUGC-04	1,341
84.367	WV Higher Education Policy Commission	ITQ-11-MUGC-01	38,512
84.367	WV Higher Education Policy Commission	ITQ-11-MUGC-02	38,886
84.367	WV Higher Education Policy Commission	ITQ-11-MUGC-03	46,102
84.367	WV Higher Education Policy Commission	ITQ-11-MUGC-04	20,886
84.367	WV Higher Education Policy Commission	ITQ-11-MUGC-05	23,621
84.367	WV Higher Education Policy Commission	ITQ-12-MU-01	10,897
84.367	WV Higher Education Policy Commission	ITQ-12-MU-02	17,224
84.367	WV Higher Education Policy Commission	ITQ-12-MU-03	25,979
84.367	WV Higher Education Policy Commission	ITQ-12-MU-04	24,740
84.367	WV Higher Education Policy Commission	ITQ-12-MUGC-01	26,788
84.367	WV Higher Education Policy Commission	ITQ-12-MUGC-02	30,760
	Subtotal		<u>357,570</u>
93.283	WV Department of Health and Human Resources	G110251	\$ (420)
93.283	WV Department of Health and Human Resources	G120337	61,888
93.283	WV Department of Health and Human Resources	G120782	21,430
	Subtotal		<u>82,898</u>

Continued

CFDA/Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
93.658	WV Department of Health and Human Resources	G110136	36,580
93.658	WV Department of Health and Human Resources	G120445	<u>79,726</u>
	Subtotal		<u>116,306</u>
93.958	WV Department of Health and Human Resources	G090284	(877)
93.958	WV Department of Health and Human Resources	G120101	<u>242,807</u>
	Subtotal		<u>241,930</u>
	TOTAL		<u>\$1,351,590</u>



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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, 2012, and have issued our report thereon dated October 9, 2012. 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.

A handwritten signature in black ink, appearing to read "Kafi & Strickland, CPA's, PLLC". The signature is written in a cursive, flowing style.

Huntington, West Virginia  
October 9, 2012

**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, 2012. 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, 2012.

**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.

A handwritten signature in black ink, reading "Kylene E. Stig, COA, LLC". The signature is written in a cursive, flowing style.

Huntington, West Virginia  
October 9, 2012

# MARSHALL UNIVERSITY RESEARCH CORPORATION

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

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### 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        \$   773,069  

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.