

Marshall University Research Corporation

Financial Statements as of and for the
Years Ended June 30, 2015 and 2014,
Supplemental Schedule for the Year Ended
June 30, 2015, Independent Auditors' Report,
and Reports Required by OMB Circular A-133
for the Year Ended June 30, 2015

MARSHALL UNIVERSITY RESEARCH CORPORATION

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)	3-8
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014:	
Statements of Net Position	9-10
Statements of Revenues, Expenses, and Changes in Net Position	11
Statements of Cash Flows	12-13
Notes to Financial Statements	14-24
SUPPLEMENTAL SCHEDULE FOR THE YEAR ENDED JUNE 30, 2015:	
Schedule of Expenditures of Federal Awards	26-31
Notes to Schedule of Expenditures of Federal Awards	32-34
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	35-36
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133	37-38
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	39-40
STATUS OF PRIOR AUDIT FINDINGS	NONE

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Marshall University Research Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Marshall University Research Corporation (the "Corporation"), which comprise the statements of net position as of June 30, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2015 and 2014, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 8 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 audits 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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2015, 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* in considering the Corporation's internal control over financial reporting and compliance.

Hayflich CPAs

Huntington, West Virginia
November 2, 2015

Marshall University Research Corporation

Management's Discussion and Analysis

Fiscal Year 2015

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, 2015 as compared to the previous fiscal year. Comparative analysis is also presented for fiscal year 2014 compared to fiscal year 2013.

The Corporation's financial report consists of three basic financial statements: the statement of net position, the statement of revenues, expenses and changes in net position, 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 position

The statements of net position present the assets (current and noncurrent), liabilities (current and noncurrent), and net position (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 position measures the equity or the availability of funds of the Corporation for future periods.

Net position is displayed in three major categories:

Net Investments in Capital Assets. 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 position. This category includes net position, 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 components of restricted net position 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 components of restricted net position 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 position. 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 components of net position 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 Position balances at June 30, 2015, certain amounts are reserved for specific programs.

Condensed Statements of Net Position (in thousands)

	As of June 30		
	2015	2014	2013
Assets:			
Current assets	\$ 13,845	\$ 19,105	\$ 25,411
Other noncurrent assets	34,220	31,096	24,357
Capital assets, net	<u>14,185</u>	<u>15,893</u>	<u>17,264</u>
Total Assets	<u>\$ 62,250</u>	<u>\$ 66,094</u>	<u>\$ 67,032</u>
Liabilities:			
Current liabilities	\$ 6,816	\$ 7,801	\$ 7,317
Noncurrent liabilities	<u>2,580</u>	<u>2,793</u>	<u>3,000</u>
Total Liabilities	<u>\$ 9,396</u>	<u>\$ 10,594</u>	<u>\$ 10,317</u>
Net Assets:			
Net Investment in Capital Assets	\$ 12,079	\$ 13,622	\$ 14,839
Restricted:			
Non expendable	15,000	15,000	15,000
Expendable	16,523	15,734	15,645
Unrestricted	<u>9,252</u>	<u>11,144</u>	<u>11,231</u>
Total Net Position	<u>\$ 52,854</u>	<u>\$ 55,500</u>	<u>\$ 56,715</u>

Changes to Net position

The decrease in net position of \$2,645,421 in FY2015 was primarily the use of unrestricted funds totaling \$1,891,399. The decrease in net position of \$1,215,213 in FY2014 was primarily the result of a decrease in capital asset additions in FY2014 compared to FY2013 totaling \$892,279.

The first component is the Corporation's equity in capital assets, which decreased \$1,542,817 during FY2015 and decreased \$1,216,684 during FY2014.

Restricted nonexpendable net assets were earned in connection with the "Bucks for Brains" West Virginia Research Trust Fund. 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 assets increased \$788,795 increased during FY2015 and increased \$88,961 during FY2014. These monies have been restricted for use by entities outside the Corporation, mainly by granting agencies. Restricted expendable assets are generally produced through program income which

totaled \$1,053,711 for FY2015 and \$1,078,570 for FY2014 respectively. The increase in restricted expendable assets is the result of the use of these monies.

Finally, unrestricted net assets decreased by \$1,891,399 for FY2015 and by \$87,491 for FY2014 over the prior year total. Surplus activity in Cost Recovery and Operating Funds accounts for the monies attributable to this component. These monies can be expended for any legal purpose.

Statement of Revenues, Expenses and Changes in Net Position

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

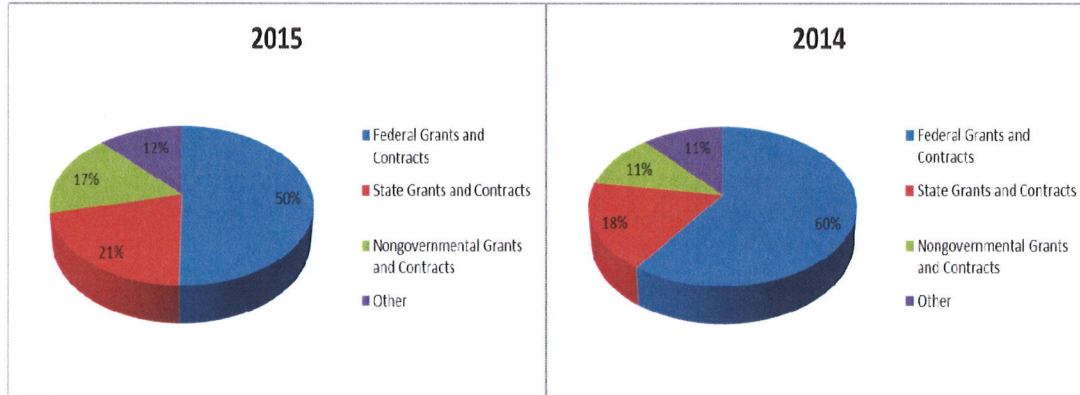
Operating revenues are received for providing goods and services to the various customers and constituencies of the Corporation. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the Corporation. 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 Statements of Revenues, Expenses and Changes in Net Assets (in thousands)

	Years Ended June 30		
	2015	2014	2013
Operating revenues	\$ 33,279	\$ 35,152	\$ 42,612
Operating expenses	(36,850)	(37,478)	(38,907)
Operating income (loss)	(3,571)	(2,326)	3,705
Nonoperating revenues(expenses)	925	1,111	(57)
Income (loss) before capital gifts and grants	(2,646)	(1,215)	3,648
Capital grants and gifts	0	0	15
Increase (Decrease) in Net Assets	(2,646)	(1,215)	3,663
Net Position at Beginning of Year	55,500	56,715	53,052
Net Position at End of Year	\$ 52,854	\$ 55,500	\$ 56,715

Revenues:

The following charts illustrate the composition of revenues by source for 2015 and 2014:



Changes to Operating Revenues and Expenses

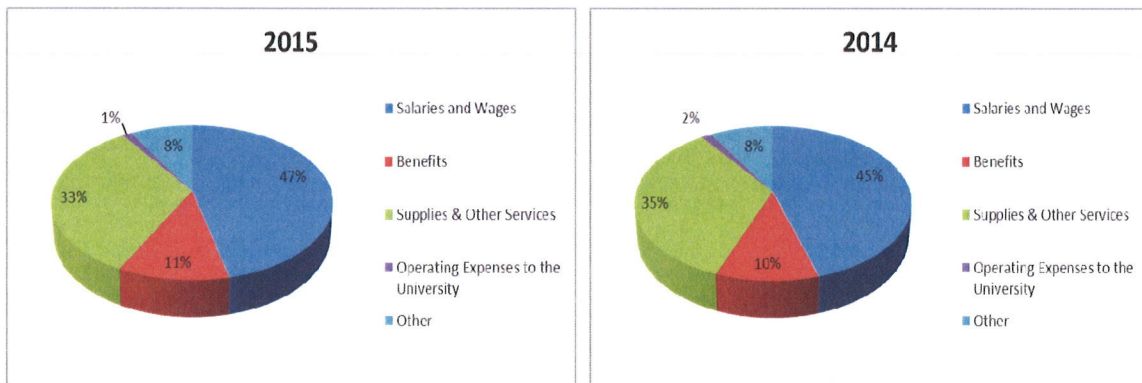
For FY2015, Operating Revenues were \$33,278,763, a decrease of \$1,873,576 compared to FY2014. This is the result of a decrease in federal revenues of \$4,244,186, offset by an increase in private awards of \$1,713,791.

For FY2014, Operating Revenues were \$35,152,339, a decrease of \$7,459,322 compared to FY2013. This is primarily the result of fluctuations in state awards received as compared to FY2013. This was the result of research trust monies received totaling \$6,063,266 in FY2013.

Excluding construction related grant revenue, Operating Revenues decreased \$1,873,576 over FY2014 and \$7,759,322 over FY2013.

Expenses:

The following is a graphic comparison of total expenses by category between 2015 and 2014:



Operating Expenses were \$36,850,177 for FY2015 as compared to \$37,478,281 for FY2014, a decrease of \$628,104 primarily due to a decrease in grant activity.

Operating Expenses were \$37,478,281 for FY2014 as compared to \$38,906,937 for FY2013, a decrease of \$1,428,656. For FY2014, salaries and benefits decreased by \$319,752 and expenditures for supplies and other services decreased by \$1,048,599, both attributable to decreased 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 Statements of Cash Flows (in thousands)

	Years ended June 30		
	2015	2014	2013
Cash provided (used) by:			
Operating activities	\$ (2,369)	\$ 2,485	\$ 7,356
Noncapital financing activities	0	0	15
Capital and related financing activities	(1,032)	(1,539)	(2,463)
Investing activities	<u>(2,125)</u>	<u>(5,780)</u>	<u>(6,214)</u>
Net decrease in cash and cash equivalents	(5,526)	(4,834)	(1,306)
Cash and cash equivalents, beginning of year	<u>11,547</u>	<u>16,381</u>	<u>17,687</u>
Cash and cash equivalents, end of year	<u>\$ 6,021</u>	<u>\$ 11,547</u>	<u>\$ 16,381</u>

The decrease in cash balance in 2015 is primarily due to the transfer of cash to investments totaling \$2,500,000 and the increased use of unrestricted monies of \$1,893,073 and an increase in accounts receivable of \$710,228.

The decrease in cash balance in 2014 is primarily due to the transfer of cash to investments totaling \$7,000,000. This decrease was offset by the collection of receivables totaling \$1,535,985 and the receipt of program income totaling \$1,078,570.

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 \$2,093,235 at June 30, 2015. 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 FY2015, \$849,033 in capital assets was purchased which was research equipment. The Corporation has no other debt obligations.

Economic Outlook

Despite the continued existence of economic challenges related to declining federal and state funding, the research enterprise continues to grow and it is our distinct pleasure to share some of our latest accomplishments:

- Dr. Pier Paolo Claudio and Dr. Jagan Valluri patented ChemOID, a testing process which allows doctors to personalize cancer treatment by predicting the drugs that will be the most effective in tumor treatments
- Dr. Zijian Xie, Director of the Marshall Institute of Interdisciplinary Research, and the Joan C. Edwards School of Medicine entered into a partnership with internationally based biosciences company, HD Biosciences Co Ltd, to discover and develop new drugs. This partnership will significantly reduce the time and costs traditionally associated with drug discovery and development
- Dr. Gary Rankin has received a five year renewal grant totaling more than \$17 million for the West Virginia IDeA Network of Biomedical Research Excellence. Dr. Rankin serves as the principal investigator on this project and works in collaboration with institutions around West Virginia to study many important health issues that concern West Virginia including cancer and cardiovascular disease
- “Clio” a new website and mobile application for the study of history was launched after a two year project led by Dr. David Trowbridge and his students. Clio picks up a user’s location and provides historical and cultural information on nearly 4,000 museums, art galleries, monuments, sculptures and historical sites. Contributors from across the nation add hundreds of sites each month
- The Arthur Weisberg Family Applied Engineering Complex is now open and the MURC administrative offices relocated to the new facility in May. The impressive facility provides a state of the art learning environment for Science, Technology, Engineering and Mathematics majors.

MARSHALL UNIVERSITY RESEARCH CORPORATION

STATEMENTS OF NET POSITION AS OF JUNE 30, 2015 AND 2014

	2015	2014
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,021,311	\$ 11,547,395
Grants and contracts receivable — net of allowance of \$841,500 and \$369,633 in 2015 and 2014, respectively	7,037,031	6,798,670
Other accounts receivable	433,697	392,993
Prepaid expenses	<u>352,740</u>	<u>365,727</u>
Total current assets	<u>13,844,779</u>	<u>19,104,785</u>
NONCURRENT ASSETS:		
Investments	34,220,316	31,096,415
Capital assets — net	<u>14,185,243</u>	<u>15,892,797</u>
Total noncurrent assets	<u>48,405,559</u>	<u>46,989,212</u>
Total Assets	<u>62,250,338</u>	<u>66,093,997</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES		
	<u> </u>	<u> </u>
TOTAL	<u>\$ 62,250,338</u>	<u>\$ 66,093,997</u>

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

STATEMENTS OF NET POSITION AS OF JUNE 30, 2015 AND 2014

	2015	2014
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,018,026	\$ 905,374
Accrued liabilities	706,412	868,543
Notes payable — current portion	164,264	164,076
Compensated absences	914,538	855,408
Unearned revenue	<u>4,013,129</u>	<u>5,007,236</u>
Total current liabilities	<u>6,816,369</u>	<u>7,800,637</u>
NONCURRENT LIABILITIES:		
Notes payable	1,933,341	2,097,605
Unearned rent revenue	<u>646,164</u>	<u>695,870</u>
Total noncurrent liabilities	<u>2,579,505</u>	<u>2,793,475</u>
Total liabilities	<u>9,395,874</u>	<u>10,594,112</u>
TOTAL DEFERRED INFLOWS OR RESOURCES	<u> </u>	<u> </u>
TOTAL	<u>9,395,874</u>	<u>10,594,112</u>
NET POSITION:		
Net investment in capital assets	12,079,045	13,621,862
Restricted for:		
Nonexpendable	15,000,000	15,000,000
Expendable — sponsored projects	16,523,201	15,734,406
Unrestricted	<u>9,252,218</u>	<u>11,143,617</u>
Total net position	<u>52,854,464</u>	<u>55,499,885</u>
TOTAL	<u>\$62,250,338</u>	<u>\$66,093,997</u>

See notes to financial statements.

(Concluded)

MARSHALL UNIVERSITY RESEARCH CORPORATION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
OPERATING REVENUES:		
Contracts and grants:		
Federal	\$ 16,724,259	\$ 20,968,445
State	6,931,729	6,275,726
Private and local	5,647,740	3,933,949
Program income	1,053,711	1,078,570
Miscellaneous — net	<u>2,921,324</u>	<u>2,895,649</u>
Total operating revenues	<u>33,278,763</u>	<u>35,152,339</u>
OPERATING EXPENSES:		
Salaries and wages	17,126,362	16,989,532
Benefits	4,104,758	3,901,488
Supplies and other services	12,117,040	12,899,557
Utilities	528,652	502,112
Student financial aid — scholarships and fellowships	471,156	545,825
Depreciation	<u>2,502,209</u>	<u>2,639,767</u>
Total operating expenses	<u>36,850,177</u>	<u>37,478,281</u>
OPERATING LOSS	<u>(3,571,414)</u>	<u>(2,325,942)</u>
NONOPERATING REVENUES (EXPENSES):		
Investment income — including unrealized gain of \$235,640 and \$564,433 in 2015 and 2014, respectively	999,321	1,227,180
Interest on indebtedness	(36,343)	(39,090)
Loss on disposal of equipment	<u>(36,985)</u>	<u>(77,361)</u>
Net nonoperating revenues (expenses)	<u>925,993</u>	<u>1,110,729</u>
LOSS BEFORE CAPITAL GIFTS AND GRANTS	(2,645,421)	(1,215,213)
CAPITAL GRANTS AND GIFTS	-	-
DECREASE IN NET POSITION	(2,645,421)	(1,215,213)
NET POSITION — Beginning of year	<u>55,499,885</u>	<u>56,715,098</u>
NET POSITION — End of year	<u>\$ 52,854,464</u>	<u>\$ 55,499,885</u>

See notes to financial statements.

MARSHALL UNIVERSITY RESEARCH CORPORATION

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Contracts and grants	\$ 27,599,393	\$ 34,188,469
Payments to and on behalf of employees	(21,291,696)	(21,132,948)
Payments to suppliers	(11,602,663)	(13,447,113)
Payments for utilities	(528,652)	(502,112)
Payments for scholarships and fellowships	(471,156)	(545,825)
Program income	1,053,711	1,078,570
Other receipts — net	<u>2,871,618</u>	<u>2,845,943</u>
Net cash provided by (used in) operating activities	<u>(2,369,445)</u>	<u>2,484,984</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Payments on notes payable	(164,076)	(162,957)
Purchases of capital assets	(849,033)	(1,366,824)
Unearned rent revenue collected	(36,343)	(39,090)
Proceeds from disposal of equipment	<u>17,393</u>	<u>30,000</u>
Net cash used in financing activities	<u>(1,032,059)</u>	<u>(1,538,871)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(10,399,233)	(12,398,205)
Sale/maturity of investments	7,510,972	5,955,863
Investment income	<u>763,681</u>	<u>662,747</u>
Net cash used in investing activities	<u>(2,124,580)</u>	<u>(5,779,595)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(5,526,084)	(4,833,482)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>11,547,395</u>	<u>16,380,877</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 6,021,311</u>	<u>\$ 11,547,395</u>

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating loss	\$ (3,571,414)	\$ (2,325,942)
Adjustments to reconcile net operating loss to net cash provided by (used in) operating activities:		
Depreciation expense	2,502,209	2,639,767
Changes in assets and liabilities:		
Accounts receivable — net	(279,065)	1,490,562
Prepaid expenses	12,987	249,491
Accounts payable	112,652	(533,678)
Accrued liabilities	(162,131)	(484,131)
Unearned revenue	(994,107)	1,504,311
Unearned rent revenue	(49,706)	(49,706)
Compensated absences	59,130	(5,690)
	<u> </u>	<u> </u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ (2,369,445)</u>	<u>\$ 2,484,984</u>
NONCASH TRANSACTIONS:		
Acquisition of assets under capital lease arrangement	<u>\$</u>	<u>\$ 9,367</u>
Loss on disposal of equipment	<u>\$ (36,985)</u>	<u>\$ (77,361)</u>
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest	<u>\$ 37,004</u>	<u>\$ 39,750</u>
See notes to financial statements.		(Concluded)

MARSHALL UNIVERSITY RESEARCH CORPORATION

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

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, designated by the University, fulfills 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 a component unit of the University.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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 position, revenues, expenses, changes in net position, and cash flows, and replaces the fund-group perspective previously required.

Reporting Entity — The Corporation is included 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 a component unit of the State, and its financial statements are discretely presented in the State's comprehensive annual financial report.

The accompanying 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 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 to be presented on a combined basis to focus on the Corporation as a whole. The components of net position are classified into four categories according to external donor restrictions or availability of assets for satisfaction of Corporation obligations. The Corporation's components of net position are classified as follows:

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

Restricted, 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, 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 — This represents 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 position, 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 statements of cash flows.

Investments — Investments in government securities 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 Corporation management and are primarily based on quoted market prices for the underlying investments or other observable market data. The Corporation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value. Because a portion of alternative investments is 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. The Corporation has other investments recorded at cost.

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.

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

Unearned Rent Revenue — Unearned 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 unearned rent 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 these 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 Components of Net Position — 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 resources 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, 2015, the Corporation recorded accounts receivable of \$1,569,747 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 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 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 financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of June 30, 2015 and 2014, is as follows:

	2015	2014
Money market and cash equivalents	\$ 6,006,656	\$11,530,921
In bank	<u>14,655</u>	<u>16,474</u>
	<u>\$ 6,021,311</u>	<u>\$11,547,395</u>

The carrying amount of cash in bank at June 30, 2015 and 2014 was \$14,655 and \$16,474 respectively, as compared with a bank balance of \$14,655 and \$16,474, respectively. The bank balances were secured by federal depository insurance, as noted below, or collateralized by securities held by the State's agent. Interest bearing accounts are insured by the Federal Deposit Insurance Corporation (FDIC) for \$250,000.

At June 30, 2015 and 2014, \$1,470,296 and \$1,056,195, respectively was held in a cash account insured by the Security Investor Protection Corporation (SIPC). These funds are held in nineteen distinct accounts, each having \$250,000 of SIPC coverage. In addition, Smith-Barney provides an overriding insurance policy that protects all cash held up to the amount held on deposit.

Cash equivalents totaling \$4,536,360 and \$10,474,726 at June 30, 2015 and 2014, respectively, are held in repurchase agreements, and a business savings account collateralized at 112% and 103%, respectively. The collateral was held in the name of the Corporation.

4. INVESTMENTS

Investments at June 30, 2015 and 2014, consist of the following:

	2015	2014
U.S. Government National Mortgage Association securities and FDIC Insured National Certificates of Deposit	\$ 30,188,038	\$27,092,977
Jeffries & Company, Inc. - Alternative Investments	3,932,278	4,003,438
Progenesis Technologies, LLC - at cost	<u>100,000</u>	<u> </u>
Total investments	<u>\$ 34,220,316</u>	<u>\$31,096,415</u>

Credit Risk – The U.S. Government National Mortgage Association Securities held by the corporation have an average maturity of between 7 and 29 years, respectively, for fiscal year 2015 and 2014 and the FDIC Insured National Certificates of Deposit, acquired in FY2014, have an average maturity of 8-10 years. At both June 30, 2015 and 2014, the Corporation’s investment in U.S. Government National Mortgage Association Securities and FDIC Insured National Certificates of Deposit, were AAA/AA+/AAA rated government-backed securities. The alternate investments held by Jeffries & Company and the investment in Progenesis Technologies, LLC do not have assigned rates.

Concentration of Credit Risk – The Corporation’s investment policy (not approved by the Board of Directors as of June 30, 2015 and 2014) will be to invest according to an asset allocation strategy that is designed to meet the goals of the Investment Objective. As a result, the following asset allocation targets and ranges have been presented for the Investment Pool:

<u>Representative Asset Class</u>	<u>Target Weight</u>	<u>Maximum Weight</u>
Fixed Income/Government Securities	60	100
Money Market	20	20
Equity Securities/Derivatives/Hedge	20	20

5. CAPITAL ASSETS

The summary of capital asset transactions for the Corporation for the years ended June 30, 2015 and 2014 is as follows:

	2015			Ending Balance
	Beginning Balance	Additions	Reductions	
Capital assets:				
Building	\$ 4,932,619			\$ 4,932,619
Equipment	25,210,167	\$ 849,033	\$ (54,378)	26,004,822
Total capital assets	30,142,786	849,033	(54,378)	30,937,441
Less accumulated depreciation — building	(468,597)	(98,652)	-	(567,249)
Less accumulated depreciation — equipment	(13,781,392)	(2,417,232)	13,675	(16,184,949)
Total accumulated depreciation	(14,249,989)	(2,515,884)	13,675	(16,752,198)
Capital assets — net	\$ 15,892,797	\$ (1,666,851)	\$ (40,703)	\$ 14,185,243
	2014			Ending Balance
	Beginning Balance	Additions	Reductions	
Capital assets:				
Building	\$ 4,932,619			\$ 4,932,619
Equipment	32,936,675	\$ 1,376,191	\$ (9,102,699)	25,210,167
Total capital assets	37,869,294	1,376,191	(9,102,699)	30,142,786
Less accumulated depreciation — building	(369,945)	(98,652)	-	(468,597)
Less accumulated depreciation — equipment	(20,235,619)	(2,541,113)	8,995,340	(13,781,392)
Total accumulated depreciation	(20,605,564)	(2,639,765)	8,995,340	(14,249,989)
Capital assets — net	\$ 17,263,730	\$ (1,263,574)	\$ (107,359)	\$ 15,892,797

The Corporation's capitalization threshold was \$5,000 for the years ended June 30, 2015 and 2014.

6. LONG-TERM LIABILITIES

The summary of long-term obligation transactions for the Corporation for the years ended June 30, 2015 and 2014, is as follows:

	2015				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes payable	\$ 2,254,253	\$	\$ (161,018)	\$ 2,093,235	\$ 161,018
Capital lease payable	7,428		(3,058)	4,370	3,246
Unearned rent	<u>745,576</u>	<u></u>	<u>(49,706)</u>	<u>695,870</u>	<u>49,705</u>
Total long-term liabilities	<u>\$ 3,007,257</u>	<u>\$</u>	<u>\$ (213,782)</u>	<u>\$ 2,793,475</u>	

	2014				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes payable	\$ 2,415,271	\$ -	\$ (161,018)	\$ 2,254,253	\$ 161,018
Capital lease payable		9,367	(1,939)	7,428	3,058
Unearned rent	<u>795,281</u>	<u></u>	<u>(49,705)</u>	<u>745,576</u>	<u>49,705</u>
Total long-term liabilities	<u>\$ 3,210,552</u>	<u>\$ -</u>	<u>\$ (212,662)</u>	<u>\$ 3,007,257</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 rate for the period of April 10, 2013 – April 10, 2018 is 1.6415%. The rate is subject to change 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, 2015, the scheduled maturities on notes payable are as follows:

Years Ending June 30	Principal	Interest
2016	\$ 161,018	\$ 34,360
2017	161,018	31,717
2018	161,018	29,074
2019	161,018	26,431
2020	161,018	23,788
2021–2025	805,090	79,293
2026–2028	483,054	15,859
	<u>\$ 2,093,234</u>	<u>\$ 240,522</u>

8. CAPITAL LEASE OBLIGATION

The Corporation leases various equipment. These obligations are accounted for as capital leases. The following is a schedule by year of future annual minimum payments required under the lease obligations existing at June 30, 2015:

Years Ending June 30	Principal	Interest	Total
2016	\$ 3,246	\$ 174	\$ 3,420
2017	1,124	16	1,140
			<u>4,560</u>
Less Interest			190
			<u>\$ 4,370</u>

The net book value of leased assets was \$6,765 and \$8,326 as of June 30, 2015 and 2014.

9. LEASES

Future annual minimum lease payments on operating leases for years subsequent to June 30, 2015, are as follows:

Years Ending June 30	
2016	\$ 358,476
2017	331,276
2018	312,230
2019	237,000
2020	237,000
2021 - 2024	750,500
Total	<u>\$ 2,226,482</u>

Total rent expense for the years ended June 30, 2015 and 2014, was \$423,970 and \$306,002, respectively. The Corporation does not have any non-cancelable leases.

10. RELATED-PARTY TRANSACTIONS

A summary of balances and transactions with the University as of and for the years ended June 30, 2015 and 2014 is as follows:

	2015	2014
Grants and contracts receivable	\$ 1,569,747	\$ 3,256,294
Advances receivable	250,000	250,000
Other sources of revenue	142,860	438,471
Payroll and benefits expense	3,988,422	4,630,257
Other expenses	887,403	900,543

11. UNRESTRICTED COMPONENTS OF NET POSITION

At June 30, 2015 and 2014, the Corporation has no designated components of net position.

12. 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 participating in this plan is required to contribute 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 not matched by the Corporation.

Total contributions to the TIAA-CREF for the years ended June 30, 2015, 2014 and 2013, were \$1,855,212, \$1,713,752, and \$1,728,199, respectively, which consisted of \$867,935, \$806,642, and \$814,662, respectively, from the Corporation and \$987,278, \$907,110, and \$913,537, respectively, from employees.

The Corporation's total payroll for the years ended June 30, 2015, 2014 and 2013 was \$17,059,455, \$16,774,855 and \$16,837,337 respectively. Total covered employees' salaries in TIAA-CREF were \$14,465,577, \$13,444,024 and \$13,577,701 for the years ended June 30, 2015, 2014 and 2013, respectively.

13. 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.

14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2015 and 2014, the following table represents operating expenses within both natural and functional classifications:

	2015						
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 361,709	\$ 40,260	\$ 522,867	\$ 11	\$ 1,400	\$ -	\$ 926,247
Research	4,551,346	988,315	4,813,055	10,947	245,650	-	10,609,313
Public service	7,298,759	1,808,719	4,576,014	124,854	117,150	-	13,925,496
Academic support	56,055	11,431	54,763	976	-	-	123,225
Student services	303,942	71,351	222,866	4,778	64,044	-	666,981
General institutional support	4,554,551	1,184,682	1,927,475	387,086	42,912	-	8,096,706
Depreciation	-	-	-	-	-	2,502,209	2,502,209
Total	\$ 17,126,362	\$ 4,104,758	\$ 12,117,040	\$ 528,652	\$ 471,156	\$ 2,502,209	\$ 36,850,177

	2014						
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 274,416	\$ 45,343	\$ 640,533	\$ 327	\$ 12,180	\$ -	\$ 972,799
Research	4,688,045	981,270	4,658,270	12,282	218,715	-	10,558,582
Public service	7,790,800	1,835,428	5,282,493	166,779	196,981	-	15,272,481
Academic support	5,912	786	27,488	400	-	-	34,586
Student services	325,879	85,306	198,679	5,179	85,629	-	700,672
General institutional support	3,904,480	953,355	2,073,205	317,145	32,320	-	7,280,505
Operations and maintenance of plant	-	-	-	-	-	2,639,767	18,889
Depreciation	-	-	-	-	-	2,639,767	2,639,767
Total	\$ 16,989,532	\$ 3,901,488	\$ 12,899,557	\$ 502,112	\$ 545,825	\$ 2,639,767	\$ 37,478,281

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SUPPLEMENTAL SCHEDULE

MARSHALL UNIVERSITY RESEARCH CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
RESEARCH AND DEVELOPMENT:					
National Institute of Food and Agriculture	I	10.200	West Virginia State University	CR-0636-0003	\$ (680)
Total Department of Agriculture					(680)
U.S. Army RDECOM	I	12.000	Parabon Nanolabs	MURC-0511-0897-351-01	105,940
U.S. Army Corps of Engineers	D	12.300			16,247
U.S. Army Medical Command	D	12.420			(23,567)
U.S. Army Material Command	D	12.431		213,838	
U.S. Army Material Command	I	12.431	Regents of the University of California	W911NF-11-1-0024	116,924
		12.431 Subtotal			330,762
Office of Economic Adjustment	D	12.615			9,453
Office of the Secretary	D	12.630			85,288
Defense Advanced Research Projects Agency	D	12.910		977,047	
Defense Advanced Research Projects Agency	I	12.910	Parabon Nanolabs, Inc.	0511-0897-351-01	40,659
Defense Advanced Research Projects Agency	I	12.910	Parabon Nanolabs, Inc.	W911NF-13-C0016	122,503
		12.910 Subtotal			1,140,209
Total Department of Defense					1,664,331
Federal Highway Administration	I	20.205	WV Department of Transportation	T699-SPR-21:SPR-PL-0001(046)	28,963
Federal Highway Administration	I	20.205	WV Department of Transportation	UF2419T	447,233
Federal Highway Administration	I	20.205	WV Department of Transportation	RP-284	12,027
		20.205 Subtotal			488,223
Total Department of Transportation					488,223
National Aeronautics and Space Administration	I	43.001	West Virginia University	91-175B; 07-476	86,481
National Aeronautics and Space Administration	I	43.008	West Virginia University	11-542; NNX07AL53A; 13-719	252,865
National Aeronautics and Space Administration	I	43.011	West Virginia University	91-175B	(725)
Total National Aeronautics and Space Administration					338,622

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
RESEARCH AND DEVELOPMENT (Continued):					
National Science Foundation	D	47.049			780
National Science Foundation	I	47.049	Appalachian State University	11-0125-A12-0036-S01	16,584
		47.049 Subtotal			17,364
National Science Foundation	D	47.074			62,512
National Science Foundation	D	47.076			33,376
National Science Foundation	I	47.076	University of South Carolina	DUE-1022661	1,193
		47.076 Subtotal			34,569
National Science Foundation	D	47.079			900
National Science Foundation	I	47.079	WV Higher Education Policy Commission	HEPC.dsr.14.14;EPS-1003907	1,632,612
		47.079 Subtotal			1,633,512
Total National Science Foundation					1,747,956
Department of Energy	I	81.041			28,921
Department of Energy	D	81.049		P1501134	585,703
					614,624
Total Department of Energy					643,525
Food and Drug Administration	I	93.103			52,716
National Institutes of Health	I	93.350	University of Cincinnati	IU01FD004942-01/008810	82,412
National Institutes of Health	D	93.389	University of Kentucky	5UL1TR000117-04; 3048	(10,310)
National Institutes of Health	I	93.389	University of Kentucky	3048108253-11-406	31,859
		93.389 Subtotal			21,549
National Institutes of Health	D	93.393			132,409
National Institutes of Health	D	93.396			108,406
National Institutes of Health	D	93.837			446,202
National Institutes of Health	I	93.837	New York Medical College	41-675-7/SP01HL034300-28; 5P01HL034300-29	40,351
		93.837 Subtotal			486,553
National Institutes of Health	D	93.846			116,589
National Institutes of Health	D	93.847			213,828
National Institutes of Health	D	93.859			3,245,443
National Institutes of Health	D	93.865			72,141
Health Resources and Services Administration	I	93.994	WV Dept of Health & Human Resources	N/A	33,832
Total Department of Health and Human Services					4,565,878
Subtotal Research and Development					9,418,954

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2015

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
OTHER PROGRAMS:					
Rural Housing Service	D	10.446			27,607
Food & Nutrition Service	I	10.561	West Virginia University	99-046A-MURC	212,779
Food & Nutrition Service	I	10.561	West Virginia University	G150473	735,942
Total Department of Agriculture					<u>763,550</u>
Economic Development Administration	D	11.303			94,821
Economic Development Administration	D	11.307			74,454
Total Department of Commerce					<u>169,275</u>
U.S. Army Corps of Engineers	I	12.000	Oneida Total Integrated Enterprises	W91237-14-C-0004	32
U.S. Army Corps of Engineers	D	12.000			36,453
Department of the Army, Office of the Chief of Engineers	I	12.800	Northrop Grumman	FA8650-12-7230; 2847752	26,586
Department of the Army, Office of the Chief of Engineers	I	12.910	Advanced Research Projects Agency	W91237-08-C	8,116
Total Department of Defense					<u>71,187</u>
National Park Service	I	15.939	National Coal Heritage Area Authority	N/A	10,064
Total Department of Interior					<u>10,064</u>
National Institute of Justice	D	16.560			1,712,978
Total Department of Justice					<u>1,712,978</u>

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2015

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	09-CRASH/SH4.00/ OCRO-2011(076)	42,961
Federal Highway Administration	I	20.205	WV Department of Transportation	U311-ACS-1.00	234,567
Federal Motor Carrier Safety Administration	I	20.218	TN Dept of Safety & Homeland Security	34901-00192	53,756
Federal Motor Carrier Safety Administration	I	20.505	WV Department of Transportation	WV-18-X029: Section 5311	9,209
Federal Motor Carrier Safety Administration	I	20.509	WV Department of Transportation	WV-18-X029:15073	21,312
Federal Transit Administration	D	20.701			765,441
Research and Innovative Technology Administration	D	20.701			137,169
		Subtotal 20.701			902,610
Total Department of Transportation					
Appalachian Regional Commission	D	23.001			63,129
Appalachian Regional Commission	I	23.002	WV Division of Energy	WV-16454-C1-13	65,568
Appalachian Regional Commission	D	23.003			60,307
Appalachian Regional Commission	D	23.011			285,627
Total Appalachian Regional Commission					
National Aeronautics and Space Administration	I	43.001	West Virginia University	91-175B-MURC	9,430
Total National Aeronautics and Space Administration					
National Endowment for the Humanities	I	45.129	WV Humanities Council	14030;14031;14085;14082	16,426
National Endowment for the Humanities	I	45.164	The Gilder Lehrman Inst. of American History	N/A	606
Total National Foundation on the Arts and the Humanities					
National Science Foundation	I	47.041	Stevens Institute of Technology	TR-83418501-0;08-657-MURC	291
National Science Foundation	D	47.076			204,025
National Science Foundation	I	47.076	Carnegie Mellon University	1122014-320180	72,950
National Science Foundation	I	47.076	University of Kentucky	HRD-1305039	17,198
Total National Science Foundation					
Office of Solid Waste and Emergency Response	I	66.818	WV Department of Environmental Protection	AGM-052	13,946
Total Environmental Protection Agency					
					294,173
					294,463
					13,946
					(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

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	95,785
Total Department of Energy					<u>95,785</u>
Office of Special Education and Rehabilitation	I	84.027	WV Department of Education	C393413/C000403273	129,791
Office of Special Education and Rehabilitation	I	84.027A	WV Department of Education	C374431;C376158;C393414	156,942
		Special Education (IDEA) Cluster Subtotal			286,733
Office of Postsecondary Education	D	84.042A			269,093
Office of Postsecondary Education	D	84.044A			450,377
Office of Postsecondary Education	D	84.047A			325,337
Office of Postsecondary Education	D	84.066A			236,979
		TRIO Cluster Subtotal			<u>1,281,785</u>
Office of Elementary and Secondary Education	I	84.367	WV Higher Education Policy Commission	Various	242,038
Office of Elementary and Secondary Education	I	84.367D	WV Higher Education Policy Commission	02-WV03-SEED2012	9,919
Department of Education Total					<u>1,820,476</u>

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2015

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
OTHER PROGRAMS (Continued):					
Health Resources and Services Administration	I	93.110	WV Dept of Health and Human Resources	G140680,C404628	58,503
Health Resources and Services Administration	D	93.191			111,034
Substance Abuse and Mental Health Services Administration	I	93.243	WV Department of Education	GRTAWD04021500003308	30,291
Substance Abuse and Mental Health Services Administration	I	93.243	WV Department of Education	GRTAAWD04021500003266	79,064
		93.243 Subtotal			109,354
Centers for Disease Control and Prevention	I	93.283	Center for Appalachian Philanthropy	N/A	7,390
Centers for Disease Control and Prevention	I	93.283	WV Dept of Health and Human Resources	G150606	3,529
		93.283 Subtotal			10,918
Health Resources and Services Administration	I	93.610	Duke University	2039621:2039401	10,645
Administration for Children and Families	I	93.658	WV Dept of Health and Human Resources	1500001565;206296	180,917
Substance Abuse & Mental Health Services Administration	I	93.958	WV Dept of Health and Human Resources	G140796;C408427	66,280
Health Resources and Services Administration	I	93.994	WV Dept of Health and Human Resources	G130373/140423;404123;150252	38,762
Total Department of Health and Human Services					586,413
Corporation of National and Community Service	D	94.013			162
Total Corporation for National and Community Service					162
Subtotal Other Programs					7,303,806
Total Federal Expenditures					\$ 16,722,759

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, 2015

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, 2015, 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 6 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 September 24, 2008, DHHS approved F&A cost recovery rates effective from July 1, 2008 through June 30, 2012 of 42% for on-campus and 26% for off-campus research. Negotiation of a new F&A rate was complete in July 2012, resulting in a negotiated rate of 45.1% for on-campus and 26% for off-campus research for the period of July 1, 2012 – June 30, 2017.

The F&A cost rate structure is as follows:

Rate Type	Within Certificate	Negotiated Rate
Organized research — off-campus	26 %	26 %
Instruction — on-campus	48.8%	48.8%
Organized research — on-campus	45.1%	45.1%

Subrecipient expenditures in the Schedule of Expenditures of Federal Awards at June 30, 2015, include:

Federal Agency	Subrecipient	CFDA	Subrecipient Expenditures
Research and development:			
National Science Foundation	WVU Research Corp	47.07	\$ 2,688
Dept of Health and Human Services	University of Michigan	93.84	46,842
Dept of Health and Human Services	University of Toledo	93.84	76,145
Dept of Health and Human Services	University of Nebraska	93.85	80,759
Dept of Health and Human Services	Alderson Broaddus University	93.86	52,200
Dept of Health and Human Services	Bethany College	93.86	65,755
Dept of Health and Human Services	Bluefield State College	93.86	134,349
Dept of Health and Human Services	Concord Univ Research & Dev	93.86	21,500
Dept of Health and Human Services	Fairmont State University	93.859	35,036
Dept of Health and Human Services	West Liberty University Res	93.859	50,296
Dept of Health and Human Services	WV State Univ Research & De	93.859	210,212
Dept of Health and Human Services	WV Wesleyan College	93.859	91,959
Dept of Health and Human Services	WVU Research Corp	93.859	<u>1,323,238</u>
	Subtotal Research and Development		2,190,979
Other Programs:			
Department of Agriculture	Concord Univ Research & Dev	10.446	27,607
Department of Commerce	Concord Univ Research & Dev	11.303	22,328
Department of Commerce	Concord Univ Research & Dev	11.307	16,089
Department of Transportation	Hampton University	20.7	19,380
Department of Transportation	Univ of Kentucky Research F	20.701	218,430
Department of Transportation	University of Louisville Re	20.701	184,428
Department of Transportation	Alpha Technologies Inc	20.XXX	4,961
Appalachian Regional Commission	WV State University	23	18,833
Appalachian Regional Commission	WVU Research Corp	23.002	16,677
Appalachian Regional Commission	TechConnectWV	23.011	8,095
National Science Foundation	WV State Univ Research & De	47.076	18,528
Dept of Health and Human Services	Morehead State University	92.24	<u>41,521</u>
	Subtotal Other Programs		<u>596,877</u>
	Total all Subrecipient		<u>\$ 2,787,856</u>

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

CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
84.367	WV Higher Education Policy Commission	ITQ-13-MURC-04	\$ 1,513
84.367	WV Higher Education Policy Commission	ITQ-13-MURC-6	2,240
84.367	WV Higher Education Policy Commission	ITQ-13-MURC-1	(704)
84.367	WV Higher Education Policy Commission	ITQ-14-MURC-1	97,217
84.367	WV Higher Education Policy Commission	ITQ-14-MURC-04	66,185
84.367	WV Higher Education Policy Commission	ITQ-14-MURC-03	28,453
84.367	WV Higher Education Policy Commission	ITQ-14-MURC-06	20,089
84.367	WV Higher Education Policy Commission	ITQ-15-MU-06	6,872
84.367	WV Higher Education Policy Commission	ITQ-15-MU-1	327
84.367	WV Higher Education Policy Commission	ITQ-14-MURC-06	<u>19,846</u>
	Subtotal		<u>242,038</u>
	TOTAL		<u>\$ 242,038</u>

**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, in accordance with the 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, the financial statements of Marshall University Research Corporation ("the Corporation"), which comprise the statement of net position as of June 30, 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 2, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hayflich CPAs

Huntington, West Virginia
November 2, 2015

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of
Marshall University Research Corporation

Report on Compliance for Each Major Federal Program

We have audited Marshall University Research Corporation's ("the Corporation") compliance with the types of compliance requirements described in the *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, 2015. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, the Corporation complied, in all material respects, with the types of compliance 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, 2015.

Report on Internal Control Over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Hayflich CPAs

Huntington, West Virginia
November 2, 2015

MARSHALL UNIVERSITY RESEARCH CORPORATION

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

PART I. — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified opinion

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 No

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 No

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

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
10.561

Research and Development Cluster
State Administrative Matching Grants for the Supplemental
Nutrition Service Assistance Program

Dollar threshold used to distinguish between Type A and Type B Programs \$ 501,683

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