Marshall University Research Corporation

Combined Financial Statements as of and for the Years Ended June 30, 2008 and 2007, Supplemental Schedule for the Year Ended June 30, 2008, Independent Auditors' Report, and Reports Required by OMB Circular A-133 for the Year Ended June 30, 2008

MARSHALL UNIVERSITY RESEARCH CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Marshall University Research Corporation:

We have audited the accompanying combined statements of net assets of Marshall University Research Corporation (the "Corporation") as of June 30, 2008 and 2007, and the related combined statements of revenues, expenses, and changes in net assets, and of cash flows for the years then ended. These combined financial statements are the responsibility of the management of the Corporation. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such combined financial statements present fairly, in all material respects, the financial position of the Corporation, at June 30, 2008 and 2007, and its revenues, expenses, and changes in net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 to 7 is not a required part of the basic combined financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Corporation's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audits were performed for the purpose of forming an opinion on the basic combined financial statements of the Corporation taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2008, is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is not a required part of the basic combined financial statements. This schedule is the responsibility of the management of the Corporation. Such information has been subjected to the auditing procedures applied in our audit of the 2008 basic combined financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the 2008 basic combined financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2008, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

September 12, 2008

Marshall University Research Corporation
Management's Discussion and Analysis (Unaudited)
Fiscal Year 2008

Introduction

The Marshall University Research Corporation (MURC or the "Corporation") is a nonprofit 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 and is included as an integral part of Marshall University's annual combined financial statements. The financial statements of MURC also include the financial information of the Marshall Institute for Interdisciplinary Research, Inc. (MIIR).

Marshall Institute For Interdisciplinary Research, Inc.

On April 2, 2008, articles of incorporation were filed with the West Virginia Secretary of State's office to formulate MIIR. MIIR is an affiliated subordinate under the control of MURC. MIIR is governed by a board appointed by MURC and subject to MURC's general supervision or control and qualifies for tax exemption under the same paragraph of section 501(c) as MURC. MIIR will manage a specific research program in furtherance of MURC's research mission with a focus on interdisciplinary research and development involving targeted areas of biotechnology and bio-nanotechnology. The startup funds for MIIR stem from the Eminent Scholars Recruitment and Enhancement Program (ESRE). MURC currently has $5,000,000 of ESRE award monies, which are reflected in cash and cash equivalents. An additional $5,000,000 is held at the Marshall University Foundation as an endowment and the interest thereon will be earned and received by MURC on an annual basis. The interest earnings from this endowment will be utilized to provide stability and growth for MIIR.

Overview of the Financial Statements and Financial Analysis

The Governmental Accounting Standards Board (GASB) issued new directives for the presentation of college and university financial statements for fiscal years beginning after June 15, 2001. The previous reporting format presented financial balances and activities by fund groups. The new format places emphasis on the overall economic resources of the Corporation.

There are three financial statements presented: the Combined Statement of Net Assets; the Combined Statement of Revenues, Expenses, and Changes in Net Assets; and the Combined Statement of Cash Flows.

The emphasis of the discussion about these Statements will be on FY 2008 data explaining significant changes from the combined financial statements presented for the year ended June 30, 2007. This discussion and analysis of the Corporation's combined financial statements provides an overview of its financial activities and is required supplementary information.

Combined Statement of Net Assets

The Combined Statement of Net Assets presents the assets, liabilities, and net assets of the Corporation as of the end of the fiscal year. The Statement of Net Assets is a point in time financial statement. The purpose of the Statement of Net Assets is to present to the readers of the combined financial statements a fiscal snapshot of MURC. The Statement of Net Assets presents end-of-year data concerning Assets (current and noncurrent), Liabilities (current and noncurrent), and Net Assets (assets minus liabilities). The difference between current and noncurrent assets and liabilities is discussed in the footnotes to the combined financial statements. From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the Corporation. They are also able to determine how much the Corporation owes vendors and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the Corporation.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the Corporation's equity in equipment owned by the Corporation less accumulated depreciation and debt used to purchase those assets. The next asset category is restricted net assets, which is divided into two categories, nonexpendable, and expendable. MURC does not have nonexpendable restricted net assets at June 30, 2008 or 2007. Expendable restricted net assets are available for expenditure by the Corporation but must be spent for purposes as determined by external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available for any lawful purpose 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, 2008, certain amounts are reserved for specific programs.

Condensed Combined Statements of Net Assets (In thousands of dollars)	June 30, 2008	June 30, 2007	June 30, 2006	Percent Change 2008-2007	2007-2006
Assets:					
Current assets	$28,303	$21,242	$20,970	33.2%	1.3%
Other noncurrent assets	5,688	3,530	4,136	61.1%	-14.7%
Capital assets, net	11,427	10,723	14,292	6.6%	-25.0%
Total Assets	$45,418	$35,495	$39,398	28.0%	-9.9%
Liabilities:					
Current liabilities	$ 5,301	$ 5,144	$ 7,617	3.1%	-32.5%
Noncurrent liabilities	3,199	333	418	860.7%	-20.3%
Total Liabilities	$ 8,500	$ 5,477	$ 8,035	55.2%	-31.8%
Net Assets:					
Invested in capital assets	$11,379	$10,717	$14,278	6.2%	-24.9%
Restricted-expendable	15,976	10,321	8,983	54.8%	14.9%
Unrestricted	9,563	8,980	8,102	6.5%	10.8%
Total Net Assets	$36,918	$30,018	$31,363	23.0%	-4.3%

Changes to Net Assets

The increase in net assets of $6,899,740 for FY2008 was the result of the receipt of the ESRE award of $5,000,000, and increased cash account balances from efficiency initiatives. The decrease in net assets of $1,345,722 for FY2007 was due to a decrease in invested in capital assets, which were offset by increases in the Restricted and Unrestricted components.

The first component is the Corporation's net assets invested in capital assets, net of related debt, which increased $703,791 during FY2008 and decreased $3,569,146 during FY2007. During FY2008, the corporation began construction of an addition to the Forensic Science Center and $556,141 was recorded as construction in progress. During FY2007, a building previously leased by the Corporation under a capital lease was transferred to Marshall University, resulting in a reduction in this category totaling $3,266,232. The remaining decrease during FY2007 in this category was primarily a result of equipment disposals and depreciation in excess of equipment acquisitions.

Additionally, restricted expendable net assets increased by $5,655,394 during FY2008 and $1,338,046 during FY2007. These monies have been restricted for use by entities outside the Corporation, mainly by granting agencies. During FY2008, receipt of the ESRE award and increases in program income funds generated most of the growth in this category. Net Asset increases in Program Income Funds generated most of the growth in this component during FY2007.

Finally, unrestricted net assets increased by $583,025 for FY2008 and $877,200 during FY2007 over the prior year total. Surplus activity in Cost Recovery and Operating Funds account for the growth in this component. These monies can be expended for any legal purpose.

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

Changes in total net assets as presented on the Combined Statement of Net Assets are based on the activity presented in the Combined Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the Corporation, both operating and non-operating, and the expenses paid by the Corporation, operating and non-operating, and any other revenues, expenses, gains, and losses received or spent by 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 of dollars)	June 30, 2008	June 30, 2007	June 30, 2006	Percent Change 2008-2007	2007-2006
Operating revenues	$ 44,833	$ 51,365	$ 68,117	-12.7%	-24.6%
Operating expenses	(38,470)	(49,803)	(64,317)	-22.8%	-22.6%
Operating income	6,363	1,562	3,800	307.4%	-58.9%
Nonoperating revenues	537	358	571	50.0%	-37.3%
Building transfer	0	(3,266)	0	n/a	n/a
Increase (decrease) Increase in Net Assets	$ 6,900	$ (1,346)	$ 4,371		

Changes to Operating Revenues and Expenses

For FY2008, Operating Revenues were $44,832,737 which compared with $51,364,856 for FY2007, a decrease of $6,532,119 or 12.7%. This decrease was primarily due to a reduction in federal grants that funded the Clinical Outreach Center project that was completed early in 2008. For FY2007, Operating Revenues were $51,364,856 which compared with $68,117,127 for FY2006, a decrease of $16,752,271 or 24.6%. This decrease was primarily related to building construction projects financed by grants being completed in early FY2007, offset slightly by an increase in non-construction grant activity.

Operating Expenses were $38,469,961 for FY2008 compared to $49,802,737; a decrease of $11,332,776 or 22.8%, compared to a 22.6% decrease during FY2007. For 2008, supplies and other services expenditures decreased by $12,000,922 mainly due to the decrease in construction activity due to the completion of the aforementioned major project. For 2007, Operating expenses decreased in the Supplies and Other Services category due to the decrease in construction activity, which was offset slightly by an increase in the Salary, Benefits, and Depreciation categories as a result of normal business operations.

Excluding construction related grant revenue, Operating Revenues for FY2008 increased $5,730,478 or 15.1% over FY2007 which increased $480,330 (excluding construction) or 1.3% over FY2006. These changes were the result of an increase in grant activity and normal business operations.

Combined Statement of Cash Flows

The final statement presented by MURC is the Statement of Cash Flows. The Combined Statement of Cash Flows presents detailed information about the cash activity of the Corporation during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the Corporation. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fourth section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fifth section reconciles the net cash provided to the operating income or loss reflected on the Combined Statement of Revenues, Expenses, and Changes in Net Assets.

Condensed Combined Statements of Cash Flows (In thousands of dollars)	June 30, 2008	June 30, 2007	June 30, 2006	Percent Change 2008-2007	2007-2006
Cash provided by (used in):					
Operating activities	$ 7,941	$ 5,478	$ 3,312	45.0%	65.4%
Noncapital financing activities	16	94	126	-83.0%	-25.4%
Capital and related financing activities	(2,823)	(2,636)	(3,531)	7.1%	-25.3%
Investing activities	1,331	1,356	343	-1.8%	295.3%
Net increase in cash and cash equivalents	6,465	4,292	250		
Cash and cash equivalents, beginning of year	13,093	8,801	8,551		
Cash and cash equivalents, end of year	$19,558	$13,093	$ 8,801		

The increase in cash balance in 2008 is primarily related to the receipt of $5,000,000 for the ESRE Program by the State of West Virginia. The primary factor increasing cash balances for 2007 over 2006 were increased grant activity and continued focus on accounts receivable billing and collection efforts.

Capital Asset and Debt Administration

The Corporation has not historically owned land or buildings, but previously entered into a capital lease agreement for a building as explained in Note 6 to the combined financial statements. In addition, construction began in 2008 for an addition to the Forensic Science Center which will be owned by the Corporation. The capital assets owned by the Corporation are primarily comprised of equipment purchased with funds provided for directly within grant agreements or using indirect costs recovery funds. Funding for the Forensics Science Center addition has resulted in the Corporation incurring a note payable, which was funded by the bond obligation of the County Commission of Cabell County in the amount of $3,000,000. The only other debt incurred by the Corporation is in conjunction with the Revolving Loan Fund. For further information on debt of the Corporation, see Note 5 to the combined financial statements.

Economic Outlook

State grants and contracts account for 23.4% of operating revenues. However, the Corporation is well positioned in the areas of federal and private research, which make up 64.1% and 4.4% of current year revenues, respectively. The Corporation remains competitive for new and continuing research project dollars.

On March 8, 2008, the West Virginia Legislature passed Senate Bill 287 to create “Bucks for Brains” West Virginia Research Trust Fund in the amount of $50,000,000, of which $15,000,000 is earmarked for the Corporation. The State promised to match private donations with the intent of strengthening the research departments of both Marshall University and West Virginia University. At June 30, 2008, no match has been received and nothing has been drawn from the State on the project.

MARSHALL UNIVERSITY RESEARCH CORPORATION

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2008 AND 2007

ASSETS	2008	2007
CURRENT ASSETS:		
Cash and cash equivalents	$19,558,081	$13,093,067
Grants and contracts receivable — net of allowance of $347,129 and $189,359 in 2008 and 2007, respectively	8,309,663	7,624,150
Other accounts receivable	14,769	50,961
Loans receivable — net of allowance of $79,556 and $123,671 in 2008 and 2007, respectively	12,802	28,758
Prepaid expenses	407,219	444,882
Total current assets	28,302,534	21,241,818
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	2,952,500	
Other accounts receivable	191,487	161,589
Deferred charges — debt issuance costs	47,500	
Loans receivable — net of allowance of $105,109 and $292,950 in 2008 and 2007, respectively	61,335	153,081
Investments	2,435,834	3,215,434
Capital assets — net	11,426,751	10,722,959
Total noncurrent assets	17,115,407	14,253,063
TOTAL	$45,417,941	$35,494,881

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2008 AND 2007

LIABILITIES AND NET ASSETS	**2008**	**2007**
CURRENT LIABILITIES:		
Accounts payable	$ 1,391,634	$ 861,751
Accrued liabilities	681,085	764,646
Compensated absences	712,609	706,307
Deferred revenue	2,515,708	2,811,269
Total current liabilities	5,301,036	5,143,973
NONCURRENT LIABILITIES:		
Notes payable	3,047,957	41,633
Advances from federal sponsors	151,351	291,418
Total noncurrent liabilities	3,199,308	333,051
Total liabilities	8,500,344	5,477,024
NET ASSETS:		
Invested in capital assets — net of related debt	11,378,718	10,717,397
Restricted for — expendable — sponsored projects	15,976,149	10,320,755
Unrestricted	9,562,730	8,979,705
Total net assets	36,917,597	30,017,857
TOTAL	$45,417,941	$35,494,881

See notes to financial statements. (Concluded)

MARSHALL UNIVERSITY RESEARCH CORPORATION

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
OPERATING REVENUES:		
Contracts and grants:		
Federal	$28,738,498	$34,273,853
State	10,502,563	10,904,113
Private and local	1,974,553	2,043,066
Interest on loans receivable	1,485	6,248
Program income	913,035	1,033,326
Miscellaneous — net	2,702,603	3,104,250
Total operating revenues	44,832,737	51,364,856
OPERATING EXPENSES:		
Salaries and wages	17,166,126	15,944,802
Benefits	3,785,562	4,105,628
Supplies and other services	14,618,122	26,619,044
Utilities	523,922	710,142
Student financial aid — scholarships and fellowships	125,052	173,494
Depreciation	2,251,177	2,249,627
Total operating expenses	38,469,961	49,802,737
OPERATING INCOME	6,362,776	1,562,119
NONOPERATING REVENUES (EXPENSES):		
Investment income — net of unrealized (loss) gain of ($3,864) and $27,152 in 2008 and 2007, respectively	550,804	685,914
Interest on indebtedness	(1,061)	
Loss on disposal of equipment	(22,779)	(427,523)
Net nonoperating revenues	526,964	258,391
GIFTS	10,000	100,000
TRANSFER OF BUILDING TO MARSHALL UNIVERSITY		(3,266,232)
INCREASE (DECREASE) IN NET ASSETS	6,899,740	(1,345,722)
NET ASSETS — Beginning of year	30,017,857	31,363,579
NET ASSETS — End of year	$36,917,597	$30,017,857

See notes to financial statements

MARSHALL UNIVERSITY RESEARCH CORPORATION

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Contracts and grants	$ 40,076,770	$ 50,622,704
Payments to and on behalf of employees	(20,898,564)	(19,507,161)
Payments to suppliers	(14,330,340)	(28,782,633)
Payments for utilities	(523,922)	(710,142)
Payments for scholarships and fellowships	(125,052)	(173,494)
Collection of loans	13,697	20,924
Transfer of loans	(46,063)	
Program income	913,035	1,033,326
Other receipts — net	2,861,858	2,974,615
Net cash provided by operating activities	7,941,419	5,478,139
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Payments on notes and lease payable	(3,112)	(8,178)
Proceeds from notes payable	9,436	2,096
Gifts	10,000	100,000
Net cash provided by noncapital financing activities	16,324	93,918
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Proceeds from note payable	3,000,000	
Purchases of capital assets	(2,896,829)	(2,407,940)
Payments on capital lease transaction		(261,376)
Proceeds from disposal of equipment	73,696	33,705
Payment of debt issuance costs	(47,500)	
Increase in noncurrent cash and cash equivalents	(2,952,500)	
Net cash used in capital financing activities	(2,823,133)	(2,635,611)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(9,524)	(104,697)
Sale/maturity of investments	799,140	800,000
Investment income	540,788	660,789
Net cash provided by investing activities	1,330,404	1,356,092
INCREASE IN CASH AND CASH EQUIVALENTS	6,465,014	4,292,538
CASH AND CASH EQUIVALENTS — Beginning of year	13,093,067	8,800,529
CASH AND CASH EQUIVALENTS — End of year	$ 19,558,081	$ 13,093,067

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 6,362,776	$ 1,562,119
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation expense	2,251,177	2,249,627
Changes in assets and liabilities:		
Accounts receivable — net	(679,219)	3,216,031
Prepaid expenses	37,663	640,846
Loans — net	107,702	99,691
Accounts payable	379,007	(2,342,549)
Accrued liabilities	(88,361)	206,108
Deferred revenue	(295,561)	(151,826)
Compensated absences	6,302	76,859
Advances from federal sponsors	(140,067)	(78,767)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 7,941,419	$ 5,478,139
NONCASH TRANSACTIONS:		
Transfer of building to Marshall University	$ -	$ 3,266,232
Loss on disposal of equipment	$ (22,779)	$ (427,523)
Construction in progress additions in accounts payable	$ 150,876	$ -

See notes to financial statements.

(Concluded)

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 generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis — for Public Colleges and Universities (an Amendment of GASB Statement No. 34)*. The financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the Corporation's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.

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

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

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

Financial Statement Presentation — GASB Statement No. 35, as amended by GASB Statements No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*, establish standards for external financial reporting for public colleges and universities and require 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 resources 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 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. The Corporation does not have any restricted nonexpendable net assets at June 30, 2008 or 2007, respectively.

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 expenditures 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.

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. The University believes that the carrying amount of its alternative investments is a reasonable estimate of fair value. Because the portion of alternative investments that 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 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 primarily in the next fiscal year are classified as deferred revenue.

Compensated Absences — The Corporation accounts for compensated absences in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*. This statement 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 Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state appropriations and investment income.

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.

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.

Recent Statements Issued By the GASB — The GASB has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective for fiscal years beginning after December 15, 2007. This statement addresses the obligations of existing pollution events. It provides guidance on whether any components of a remediation should be recognized as a liability. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 49 may have on the combined financial statements.

The GASB has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for fiscal years beginning after June 15, 2009. This statement provides guidance regarding whether and when intangible assets should be considered capital assets for financial reporting purposes. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 51 may have on the combined financial statements.

The GASB has issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, effective for fiscal years beginning after June 15, 2008. This statement requires endowments to report their land and other real estate investments at fair value. It also requires changes in fair value to be reported as investment income, disclosure of the methods and significant assumptions employed to determine fair value, and disclosure of other information that is currently presented for other investments reported at fair value. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 52 may have on its combined financial statements.

The GASB has issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal years beginning after June 15, 2009. This statement requires governmental entities to measure most derivative instruments at fair value as assets or liabilities. It also improves disclosure requirements surrounding the entity's derivative instrument activity, its objectives for entering into the derivative instrument, and the instrument's significant terms and risks. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 53 may have on its combined financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of June 30, 2008 and 2007, is as follows.

	2008		
	Current	Noncurrent	Total
Money markets	$ 14,190,287	$ -	$ 14,190,287
In bank	5,367,794		5,367,794
Trustee		2,952,500	2,952,500
	$ 19,558,081	$ 2,952,500	$ 22,510,581

	2007		
	Current	Noncurrent	Total
Money markets	$ 8,696,807	$ -	$ 8,696,807
In bank	4,396,260		4,396,260
Trustee			
	$ 13,093,067	$ -	$ 13,093,067

The carrying amount of cash in bank at June 30, 2008 and 2007, was $5,367,794 and $4,396,260, respectively, as compared with a bank balance of $5,367,794 and $4,384,991, respectively. The difference is primarily caused by outstanding checks and items in transit.

Of these balances, $200,000 at both June 30, 2008 and 2007, was covered by federal depository insurance and $3,284,092 and $3,203,078, respectively, were collateralized by securities held by the State's agent. Additionally, at June 30, 2008 and 2007, $1,883,702 and $993,182, respectively, was held in cash accounts with brokerage firms and was insured by the Security Investor Protection Corporation (SIPC).

Cash equivalents held in highly liquid money market funds of $593,225 and $573,311 comprised of high-grade fixed income securities and $13,597,062 and $8,123,496 of cash equivalents held in repurchase agreements and a business savings account which are collateralized at 111% and the collateral is held in the name of the Corporation at June 30, 2008 and 2007, respectively.

Cash on deposit with Trustee consists of the proceeds from a notes payable that is restricted for the construction of a new Forensic Science Center (see Note 8). The Trustee is holding the funds in Federated Government Obligations managed by Federated Investors. The fund is a portfolio of short-term U.S. Treasury and government agency securities including repurchase agreements collateralized fully by U.S. Treasury and government agency securities. The current annual rate of return is 3.46% and has a Moody's rating of AAA. This is a daily value fund, highly liquid and available for immediate draw at any time.

4. INVESTMENTS

Investments at June 30, 2008 and 2007, consist of the following:

	2008	2007
U.S. government agency securities	$ 402,376	$ 1,191,500
Intermediate term fund — Commonfund	2,033,458	2,023,934
Total investments	$ 2,435,834	$ 3,215,434

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 agency securities have an average maturity of .3 years and 0.8 years, respectively, and the Intermediate Term Fund had an average maturity of 1.9 and 2.2 years, respectively, for fiscal 2008 and 2007. At June 30, 2008 and 2007, the Corporation's investments in U.S. government agency securities were rated AAA by both Moody's Investors Service and Standard & Poor's. The average rating of the Intermediate Term Fund was AA+ for both years, by both services.

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. REVOLVING LOAN FUND

A Revolving Loan Fund (RLF) was established during the year ended June 30, 1994, between the Corporation and the United States Economic Development Authority (US EDA). The RLF is to aid in the development of small businesses and businesses owned and operated by minorities, women, or those who are economically disadvantaged.

Under the provisions of the RLF, the Corporation received $500,000 from the US EDA, and obtained $167,000 in required matching funds consisting of loans to the Corporation from the US EDA and local banks and grants from local sources. Matching funds received in the form of loans have a 30-year maturity and do not bear interest. Related loans payable are recorded by the Corporation at their net present value. At June 30, 2008 and 2007, the recorded balance of the related loans payable was $38,297 and $36,072, respectively.

In addition, the Corporation received a Rural Business Enterprise Grant from the United States Department of Agriculture — Rural Development (USDA-RD) during the year ended June 30, 2000. The grant funds are to be used to aid rural business enterprises in eligible areas of Cabell, Lincoln, Mason, and Wayne counties within the State. Under the provisions of the grants, the Corporation received $150,000 from the USDA-RD, and provided $58,500 in required administrative matching funds. During the year ended June 30, 2002, the Corporation received additional grant funds from the USDA-RD totaling $99,000 and provided $39,600 in required administrative matching funds.

On August 8, 2007, the USDA-RD portion of the RLF was transferred to Natural Capital Investment Fund, Inc. as approved by USDA. This transaction resulted in the disbursement of available cash and all loan balances as of that date which totaled $396,103. As these amounts are recorded on the statement of net assets in Advances from Federal Sponsors for this project, no gain or loss will be recognized on this transaction.

The Corporation is in the process of transferring the remaining portion of RLF and expects to complete the transfers in 2009.

6. CAPITAL LEASE TRANSACTION

On December 10, 2004, the Corporation entered into a lease agreement for the occupancy of a 27,500 square-foot building to be constructed by the lessor on 0.75 acres at the Harrison-Marion Airport in Bridgeport, West Virginia. This lease commenced on July 26, 2005, and originally extended for a period of five years. The lease agreement was significantly amended effective November 1, 2005, which reduced the initial term to one year. The Corporation took occupancy of the building on November 1, 2005. At the end of the initial term, the Corporation or its designee, the Marshall University, on behalf of the Corporation, had an option to purchase the land and building for the sum of $1.00.

Additionally, the original transaction included the execution of two Escrow Agreements as the lessor required good faith money to be paid in escrow. The first agreement was dated September 21, 2004, resulting in a $1,500,000 payment into escrow. The second agreement was dated May 18, 2005, resulting in a $1,100,000 payment into escrow. The sum of these payments of $2,600,000 was shown as restricted cash and cash equivalents in the statements of net assets at June 30, 2005. The amended lease called for the release of all previously escrowed funds to the lessor. Additionally, it called for 12 monthly installments of $66,026.02 plus escrow requirements for real estate and business taxes born by the lessor of $8,450. The Marshall University Board of Governors exercised the purchase option and took ownership of this facility in a deed dated February 5, 2007. The statements of revenues, expenses, and changes in net assets and cash flows reflect the transfer of the net book value of the facility to the University.

7. CAPITAL ASSETS

The summary of capital asset transactions for the Corporation for the years ended June 30, 2008 and 2007, is as follows:

	2008			
	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**
Capital assets:				
Construction in progress	$ -	$ 556,141	$ -	$ 556,141
Equipment	24,408,093	2,495,303	(768,846)	26,134,550
Total capital assets	24,408,093	3,051,444	(768,846)	26,690,691
Less accumulated depreciation — equipment	(13,685,134)	(2,251,177)	672,371	(15,263,940)
Capital assets — net	$ 10,722,959	$ 800,267	$ (96,475)	$ 11,426,751

	2007			
	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**
Capital assets:				
Building	$ 3,349,982	$ -	$ (3,349,982)	$ -
Equipment	23,640,269	2,407,940	(1,640,116)	24,408,093
Total capital assets	26,990,251	2,407,940	(4,990,098)	24,408,093
Less accumulated depreciation:				
Building	(44,667)	(39,083)	83,750	
Equipment	(12,653,479)	(2,210,544)	1,178,889	(13,685,134)
Total accumulated depreciation	(12,698,146)	(2,249,627)	1,262,639	(13,685,134)
Capital assets — net	$ 14,292,105	$ 158,313	$ (3,727,459)	$ 10,722,959

The Corporation's capitalization threshold was $5,000, for both the years ended June 30, 2008 and 2007.

8. LONG-TERM LIABILITIES

The summary of long-term obligation transactions for the Corporation for the years ended June 30, 2008 and 2007, is as follows:

	2008			
	Beginning Balance	Additions	Reductions	Ending Balance
Notes payable	$ 41,633	$ 3,009,436	$ (3,112)	$ 3,047,957
Advances from federal sponsors	291,418		(140,067)	151,351
Total long-term liabilities	$ 333,051	$ 3,009,436	$ (143,179)	$ 3,199,308

	2007			
	Beginning Balance	Additions	Reductions	Ending Balance
Notes payable	$ 47,715	$ 2,096	$ (8,178)	$ 41,633
Advances from federal sponsors	370,185		(78,767)	291,418
Total long-term liabilities	$ 417,900	$ 2,096	$ (86,945)	$ 333,051

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 is obligated to make interest payments commencing October 10, 2008, for the interest due on the loans semi-annually and to make annual principal payments starting 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. Accordingly, no specific annual repayment information is provided. The interest rate on the bonds is 3.2% at April 10, 2008, and continuing to and including 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. The principal balance of $3,000,000 at June 30, 2008 is reflected in notes payable on the statement of net assets.

Advances from federal sponsors represent amounts refundable, upon cessation of the program, to the U.S. Government under the Marshall University Research Corporation Revolving Loan Fund (see Note 5).

9. LEASES

Future annual minimum lease payments on operating leases for years subsequent to June 30, 2008, are as follows:

Years Ending June 30	
2009	$ 107,552
2010	102,300
2011	104,400
2012	104,400
Total	$ 418,652

Total rent expense for the years ended June 30, 2008 and 2007, was $107,617 and $220,550, respectively.

10. RELATED-PARTY TRANSACTIONS

A summary of balances and transactions with the University as of and for the year ended June 30, 2008 and 2007, is as follows:

	2008	2007
Grants and contracts receivable	$ 1,698,724	$ 2,224,319
Advances payable	250,000	250,000
Other sources of revenue	242,398	298,118
Payroll and benefits expense	5,487,718	4,670,818
Other expenses	699,389	502,379

Other expenses during the year ended June 30, 2007, included $50,000 provided by the Corporation to the University under the provisions of a federal grant for various construction projects.

11. UNRESTRICTED NET ASSETS

At June 30, 2008 and 2007, the Corporation has no designated net assets.

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 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, 2008, 2007, and 2006, were $1,803,408, $1,693,099, and $1,552,247, respectively, which consisted of $831,364, $782,085, and $708,262, respectively, from the Corporation and $972,044, $911,014, and $843,985, respectively, from employees.

The Corporation's total payroll for the years ended June 30, 2008 and 2007, was $16,892,576 and $15,760,635, respectively. Total covered employees' salaries in TIAA-CREF were $13,856,072 and $13,034,754, 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, 2008 and 2007, the following table represents operating expenses within both natural and functional classifications:

2008

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 297,977	$ 26,390	$ 415,468	$ 159	$ -	$ -	$ 739,994
Research	6,895,430	1,399,522	8,017,943	181,656	55,969		16,550,520
Public service	6,970,460	1,611,315	4,641,453	158,282	63,185		13,444,695
Academic support	68,714	3,870	112,898	84	698		186,264
Student services	150,651	28,334	215,186	2,318	500		396,989
General institutional support	2,782,894	716,131	1,195,597	6,921	4,700		4,706,243
Operations and maintenance of plant			19,577	174,502			194,079
Depreciation						2,251,177	2,251,177
Total	$ 17,166,126	$ 3,785,562	$ 14,618,122	$ 523,922	$ 125,052	$ 2,251,177	$ 38,469,961

2007

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 213,036	$ 17,085	$ 194,032	$ 117	$ -	$ -	$ 424,270
Research	6,345,237	1,493,152	8,753,301	346,532	33,852		16,972,074
Public service	6,684,386	1,800,451	16,160,930	209,666	100,945		24,956,378
Academic support	90,906	12,021	282,167	2,848	300		388,242
Student services	158,530	42,855	232,010	1,306			434,701
General institutional support	2,452,707	740,064	982,784	100,059	38,397		4,314,011
Operations and maintenance of plant			13,820	49,614			63,434
Depreciation						2,249,627	2,249,627
Total	$ 15,944,802	$ 4,105,628	$ 26,619,044	$ 710,142	$ 173,494	$ 2,249,627	$ 49,802,737

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SUPPLEMENTAL SCHEDULES

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency		Federal Expenditures
Research and Development:					
Cooperative State Research, Education and Extension Service	D	10.200		$ 226,033	
Cooperative State Research, Education and Extension Service	I	10.200	West Virginia State University	41,044	
		10.200 Subtotal			$ 267,077
Cooperative State Research, Education and Extension Service	D	10.206			78
Forest Service	D	10.652			128
Department of Agriculture Total					267,283
Office of Naval Research	D	12.300			130,087
Army Research and Material Command	D	12.420			175,421
Army Research and Material Command	D	12.431		2,211	
Army Research and Material Command	I	12.431	University of Virginia	117,955	
		12.431 Subtotal			120,166
Defense Advanced Research Projects Agency	D	12.910			3,319,162
U.S. Army Research Office	D	12.W911NF-05-1-0309			211,014
U.S. Army Corps of Engineers	D	12.W91237-04-C-0008			56,093
U.S. Army Corps of Engineers	D	12.W91237-04-P-0147			14,830
U.S. Army Corps of Engineers	D	12.W91237-06-P-0203			1,436
U.S. Army Corps of Engineers	D	12.W91237-06-R-0016			288,343
Department of Defense Total					4,316,552
Fish and Wildlife Service	D	15.650			4,403
Geological Survey	I	15.805	Virginia Polytechnic Institute		699
Department of the Interior Total					5,102
Office of Juvenile Justice and Delinquency Prevention	I	16.523	WV Division of Criminal Justice Services		30,884
Office of Juvenile Justice and Delinquency Prevention	I	16.540	WV Department of Criminal Justice		4,705
Office of Justice Programs	D	16.560			2,733,952
Office of Justice Programs	D	16.580			372,324
Department of Justice Total					3,141,865
Federal Railroad Administration	D	20.313			(3)
Federal Railroad Administration	D	20.314			572,942
Pipeline and Hazardous Materials Safety Administration	D	20.703			(600)
Department of Transportation	I	20.999	WV Department of Transportation		(6,383)
Federal Highway Administration	I	20.TRP9917	WV Department of Transportation		(6,804)
Department of Transportation Total					559,152
National Aeronautics and Space Administration	D	43.001		2,651,172	
National Aeronautics and Space Administration	I	43.001	West Virginia University	238,534	
National Aeronautics and Space Administration	I	43.001	WV High Technology Consortium Foundation	98,823	
		43.001 Subtotal			2,988,529
National Aeronautics and Space Administration	D	43.002			(83)
National Aeronautics and Space Administration Total					2,988,446

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency		Federal Expenditures
National Science Foundation	D	47.041			38,222
National Science Foundation	D	47.049			37,257
National Science Foundation	D	47.050			48,689
National Science Foundation	D	47.074			191,494
National Science Foundation	D	47.075			251,559
National Science Foundation	I	47.076	University of Kentucky	18,861	
National Science Foundation	I	47.076	WV EPSCoR	607,908	
National Science Foundation	I	47.076	WV Higher Education Policy Commission	28,137	
		47.076 Subtotal			654,906
National Science Foundation Total					1,222,127
Economic Development Administration	I	66.500	Woods Hole Oceanographic Institution		818
Environmental Protection Agency	D	66.606			27,699
Environmental Protection Agency Total					28,517
Health Resources and Services Administration	D	93.110			57,782
National Institutes of Health	I	93.273	Ohio University (UT 12061)		52,860
National Institutes of Health	D	93.389			4,901,002
National Institutes of Health	D	93.393			136,476
National Institutes of Health	D	93.395			41,690
National Institutes of Health	D	93.837			244,813
National Institutes of Health	D	93.839			101,768
National Institutes of Health	D	93.847		100,952	
National Institutes of Health	I	93.847	Charles R. Drew University of Medicine and Science	628	
		93.847 Subtotal			101,580
National Institutes of Health	I	93.865	Johns Hopkins University	(283)	
National Institutes of Health	I	93.865	The Children's Hospital of Philadelphia	68,204	
		93.865 Subtotal			67,921
National Institutes of Health	D	93.866			57,061
Health Resources and Services Administration	D	93.888			419,761
Department of Health and Human Services Total					6,182,714
Subtotal Research and Development					**18,711,758**

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Federal Expenditures
Other Programs:				
Rural Business-Cooperative Service	D	10.769		135
Department of Agriculture Total				135
Economic Development Administration	D	11.307		275,798
Department of Commerce Total				275,798
U.S. Army Corps of Engineers	D	12.000		56,073
Defense Logistics Agency	D	12.002		34,164
U.S. Army Corps of Engineers	D	12.W91237-05-P-0092		119
Department of Defense Total				90,356
Office of Justice Programs	D	16.560		329,888
Office of Community Oriented Policing Services	D	16.710		158,433
Office of Juvenile Justice and Delinquency Prevention	I	16.727	WV Division of Criminal Justice Services	45,297
Department of Justice Total				533,618
Federal Railroad Administration	D	20.313		122,477
Federal Transit Administration	I	20.509	WV Department of Transportation	9,855
Research and Innovative Technology Administration	D	20.701		2,701,947
Research and Special Programs Administration	I	20.701	WV Department of Transportation	17,169
Department of Transportation Total				2,851,448
Appalachian Regional Commission	D	23.001		82,319
Appalachian Regional Commission	D	23.002		208,327
Appalachian Regional Commission	D	23.011		5,000
Appalachian Regional Commission Total				295,646
National Endowment for the Humanities	I	45.129	WV Humanities Council	3,935
National Foundation on the Arts and the Humanities Total				3,935
National Science Foundation	I	47.049	University of Kentucky	420,466
National Science Foundation	D	47.076		292,755
National Science Foundation Total				713,221
Office of Solid Waste and Emergency Response	I	66.815	West Virginia University	326
Environmental Protection Agency Total				326

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Federal Expenditures
Office of Energy Efficiency and Renewable Energy	I	81.041	WV Development Office	27,857
Department of Energy Total				27,857
Office of Assistant Secretary for Postsecondary Education	D	84.044		438,056
Office of Assistant Secretary for Postsecondary Education	D	84.066		218,236
Office of Assistant Secretary for Postsecondary Education	D	84.116		58,850
Office of Safe and Drug-Free Schools	I	84.184	WV Department of Education	126,201
Office of Elementary and Secondary Education	I	84.365	WV Department of Education	560
Department of Education	I	84.928	National Writing Project (92-WV02)	121,970
Department of Education Total				963,873
Substance Abuse and Mental Health Services Administration	I	93.104	Prestera Center for Mental Health Services	97
Substance Abuse and Mental Health Services Administration	I	93.104	WV Department of Health and Human Resources	68,844
Health Resources and Services Administration	I	93.130	WV Department of Health and Human Resources	23,001
Health Resources and Services Administration	D	93.191		55,875
Agency for Health Care Policy and Research	I	93.226	West Virginia Medical Institute	2,055
Substance Abuse and Mental Health Services Administration	I	93.243	Prestera Center for Mental Health Services	46,802
Substance Abuse and Mental Health Services Administration	I	93.243	WV Division of Criminal Justice Services	584,408
Centers for Disease Control and Prevention	I	93.283	West Virginia University	2,942
Centers for Disease Control and Prevention	I	93.283	WV Department of Health and Human Resources	151,754
Administration for Children and Families	I	93.630	WV Developmental Disabilities Council	6,636
Administration for Children and Families	I	93.658	WV Department of Health and Human Resources	156,655
Health Resources and Services Administration	I	93.824	West Virginia University	196,549
Health Resources and Services Administration	D	93.887		1,120,483
Substance Abuse and Mental Health Services Administration	I	93.958	WV Department of Health and Human Resources	184,191
Substance Abuse and Mental Health Services Administration	I	93.959	WV Department of Health and Human Resources	1,530,152
Health Resources and Services Administration	I	93.969	West Virginia University	8,757
Centers for Disease Control and Prevention	I	93.988	WV Department of Health and Human Resources	131,326
Department of Health and Human Services Total				4,270,527
Subtotal Other Programs				**10,026,740**
Total Federal Expenditures				**$ 28,738,498**

See notes to schedule of expenditures of federal awards.

MARSHALL UNIVERSITY RESEARCH CORPORATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

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, 2008, 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 .999.

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. The F&A cost rate structure is as follows:

Rate Type	Rate as Submitted Within Certificate	Negotiated Rate
Organized research — off-campus	26 %	26 %
Instruction — on-campus	40	40
Organized research — on-campus	40	40

Subrecipient expenditures in the Schedule of Expenditures of Federal Awards at June 30, 2008, include:

Federal Agency	Subrecipient	CFDA	Subrecipient Expenditures
Research and Development:			
Department of Defense	WVU Research Corp	12.W91237-04-C-0008	$ 51,080
Department of Health and Human Services	Alderson Broaddus College I	93.389	14,180
Department of Health and Human Services	CAMC Health Education & Res	93.389	79,432
Department of Health and Human Services	Fairmont State University	93.389	221,224
Department of Health and Human Services	Lincoln Primary Care	93.389	15,570
Department of Health and Human Services	Tug River Health Associatio	93.389	10,380
Department of Health and Human Services	Valley Health Systems Inc	93.389	16,012
Department of Health and Human Services	West Liberty State College	93.389	203,328
Department of Health and Human Services	Wheeling Jesuit University	93.389	16,288
Department of Health and Human Services	WV State Univ Research & De	93.389	204,813
Department of Health and Human Services	WVU Research Corp	93.389	1,650,775
Other Programs:			
Department of Transportation	Univ of Tennessee	20.701	17,169
Department of Commerce	WVU Research Corp	11.307	100
			$2,500,351

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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, 2008, and have issued our report thereon dated September 12, 2008. 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

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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's combined financial statements that is more than inconsequential will not be prevented or detected by the Corporation's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the combined financial statements will not be prevented or detected by the Corporation's internal control.

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

Compliance and Other Matters

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

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

Deloitte & Touche LLP

September 12, 2008

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH 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 the compliance of Marshall University Research Corporation (the "Corporation") with the types of compliance requirements described in the *U.S. Office of Management and Budget* (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. The Corporation's major federal program is 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 of its major federal program is 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 are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The 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 our auditing procedures for the purpose of expressing our opinion on compliance, 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 *control deficiency* in an Corporation's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Corporation's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Corporation's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

Deloitte & Touche LLP

September 12, 2008

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

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

Dollar threshold used to distinguish between Type A and Type B Programs $ 862,164

Dollar threshold used to distinguish between Type A and Type B Programs $ 862,164

Auditee qualified as low-risk auditee? x Yes ______ No

Part II. FINANCIAL STATEMENT FINDINGS SECTION

Reference Number	Findings	Questioned Costs
	No matters are reportable.	