Marshall University Research Corporation

Combined Financial Statements as of and for the Years Ended June 30, 2010 and 2009, Supplemental Schedule for the Year Ended June 30, 2010, Independent Auditors' Report, and Reports Required by OMB Circular A-133 for the Year Ended June 30, 2010

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, 2010 and 2009, and the related combined statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These combined financial statements are the responsibility of the management of the Corporation. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

In our opinion, such combined financial statements present fairly, in all material respects, the financial position of the Corporation, at June 30, 2010 and 2009, and its revenues, expenses, and changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 to 9 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, 2010, 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 2010 basic combined financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the 2010 basic combined financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2010, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

October 14, 2010

Marshall University Research Corporation
Management Discussion and Analysis (RSI) (unaudited)
Fiscal Year 2010

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 and is included as an integral part of Marshall University'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) Statements No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, GASB Statement No. 35, *Basic Financial Statements- and Management's Discussion and Analysis – for Public Colleges and Universities – an amendment of GASB Statement No. 34* and, GASB Statement No. 39 – *Determining Whether Certain Organizations are Component Units.*

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

Net Assets

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

Net Assets are displayed in three major categories:

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

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

Unrestricted Net Assets — This category includes resources that are not subject to externally imposed stipulations. Such resources are derived primarily from facilities and administrative earnings and revenues from investments. Unrestricted net assets are used for transactions related to the educational and general operations of the Corporation and may be designated for specific purposed by the Corporation's Board of Directors. While the Corporation has not specifically designated Net Asset balances at June 30, 2010, certain amounts are reserved for specific programs.

Condensed Combined Statements of Net Assets (in thousands)

	As of June 30		
	2010	**2009**	**2008**
ASSETS:			
Current assets	$ 30,306	$31,399	$28,303
Other noncurrent assets	5,209	2,521	5,688
Capital assets, net	15,933	15,400	11,427
TOTAL	$ 51,448	$49,320	$45,418
LIABILITIES:			
Current liabilities	$ 6,640	$ 5,955	$ 5,301
Noncurrent liabilities	3,655	3,506	3,199
TOTAL	$ 10,295	$ 9,461	$ 8,500
NET ASSETS:			
Invested in capital assets	$ 12,043	$11,871	$11,379
Restricted:			
Non expendable	738	465	
Expendable	17,593	16,927	15,976
Unrestricted	10,779	10,596	9,563
TOTAL	$ 41,153	$39,859	$36,918

Changes to Net Assets — The increase in net assets of $1,294,183 for FY2010 was primarily the result of an increase of $3,271,004 in grants and contracts receivables offset by a decrease in cash from the expenditure of Eminent Scholar Recruitment and Enhancement monies totaling $1,476,656 and an increase in accounts payable totaling $459,471. The increase in net assets of $2,940,849 for FY2009 was the result of an increase of $1,798,561 in grants and contracts receivables and restricted expendable funding of $1,415,700.

The first component is the Corporation's equity in capital assets, which increased $171,676 during FY2010 and increased $492,472 during FY2009. In October, 2009, the Corporation completed construction of an addition to the Forensic Science Center. The project total was $4,932,619 of which $3,861,276 was recorded in FY2009 and $ 556,141 in FY2008 as Construction in Progress. The corporation received $417,727 in FY2010 and $576,374 in FY2009 in deferred rent revenue for a total of $994,101 from the Huntington Area Development Council (HADCO). This money was used to complete construction of a discreet portion of the building as a business start-up incubator. The deferred rent revenue will be recognized evenly over a twenty year period once HADCO takes tenancy in the building. As of June 30, 2010, HADCO has not taken tenancy pending additional modifications to their space.

Restricted nonexpendable net assets were received in connection with the "Bucks for Brains" West Virginia Research Trust fund in the amount of $273,191 during 2010, and $465,000 during 2009. Private donations were received by the Marshall University Foundation, Inc. (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 for the private contributions and the other at MURC for the State match.

Additionally, restricted expendable net assets increased by $666,381 during FY2010 and $950,700 during FY2009. These monies have been restricted for use by entities outside the Corporation, mainly by granting agencies. During FY2010, this was primarily due to receipt of $1,525,248 by the Robert C. Byrd Institute in program income offset by a decrease of $800,000 of the WVMUL Digital Conversion Grant which was expended in FY2010.

Finally, unrestricted net assets increased by $182,935 for FY2010 and $1,032,677 for FY2009 over the prior year total. Surplus activity in Cost Recovery and Operating Funds accounts for the growth in this component. These monies can be expended for any legal purpose.

Statement of Revenues, Expenses and Changes in Net Assets

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

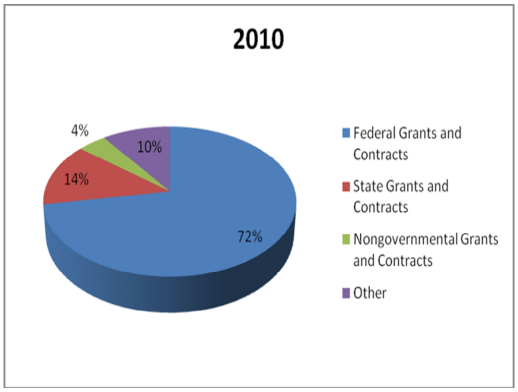
Operating revenues are received for providing goods and services to the various customers and constituencies of the Corporation. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the Corporation.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

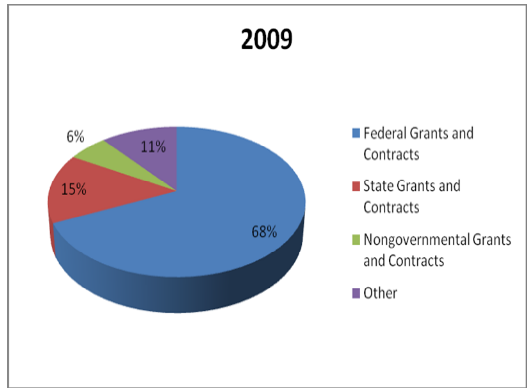
Condensed Combined Statements of Revenues, Expenses and Changes in Net Assets (in thousands)

	Years Ended June 30		
	2010	**2009**	**2008**
Operating revenues	$ 44,992	$ 40,662	$ 44,833
Operating expenses	(43,797)	(37,620)	(38,470)
Operating income	1,195	3,042	6,363
Nonoperating revenues (expenses) — net	99	(101)	537
Increase in Net Assets	1,294	2,941	6,900
Net Assets at Beginning of Year	39,859	36,918	30,018
Net Assets at End of Year	$ 41,153	$ 39,859	$ 36,918

Revenues:

The following charts illustrate the composition of revenues by source for 2010 and 2009:



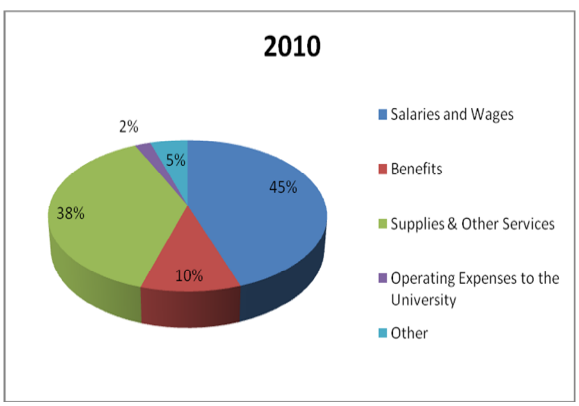


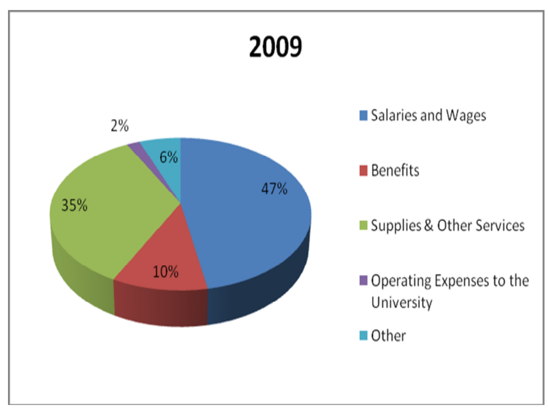
Changes to Operating Revenues and Expenses

For FY2010, Operating Revenues were $44,992,135, an increase of $4,329,709 compared to the previous year. This increase was primarily due to an increase in federal grants of $4,702,968 offset by a reduction in private grants of $445,702. The two largest new federal awards are a Defense Advanced Research Projects Agency (DARPA) award for $6,834,506 and a Health Resources and Services Administration (HRSA) award for $1,200,000. For FY2009, there was a reduction of $5,000,000 in state grants as compared to FY2008 which related to the Eminent Scholars Recruitment and Enhancement Program (ESRE).

Expenses:

The following is a graphic comparison of total expenses by category between 2010 and 2009:





Operating Expenses were $43,796,562 for FY2010 as compared to $37,620,484 for FY09; an increase of $6,176,078. For 2010, salaries and benefits increased by $2,358,947 and supplies and other services expenditures increased by $3,620,911 both increases attributable to the increase in grant activity.

Statement of Cash Flows

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

The statement of cash flows is divided into five sections:

Cash flows from operating activities show the net cash 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 shows the purchases, proceeds, and interest received from investing activities.

Reconciliation of operating gain to net cash used in operating activities provides a schedule that reconciles the accrual-based operating income and net cash provided by operating activities.

Condensed Combined Statements of Cash Flows (in thousands)

	Years ended June 30		
	2010	**2009**	**2008**
Cash provided (used) by:			
Operating activities	$ 764	$ 3,742	$ 7,942
Noncapital financing activities			16
Capital and related financing activities	(2,133)	(2,998)	(2,823)
Investing activities	(2,957)	564	1,330
(Decrease) Increase in cash and cash equivalents	(4,326)	1,308	6,465
Cash and cash equivalents, beginning of year	20,866	19,558	13,093
Cash and cash equivalents, end of year	$ 16,540	$ 20,866	$ 19,558

The decrease in cash balance in 2010 is primarily the result of purchasing investments totaling $3,054,485 and the expenditure of ERSE program monies totaling $1,476,656. The increase in cash balance in 2009 was related primarily to an increase of $459,998 in program income and a decrease of $1,181,207 in payments to suppliers due to the completion of the Clinical Outreach Center. The Clinical Outreach and Education Center is an 80,000 square-foot center which houses a state-of-the art teaching facility as well as clinical education clinics. It is located at the site of the former Fairfield Stadium.

Capital Asset and Debt Administration

The Corporation completed construction for an addition to the Forensic Science Center in September, 2009. Funding for the Forensics Science Center addition resulted in the Corporation incurring a note payable in the amount of $3,000,000, which had a principal balance of $2,776,173 at June, 30, 2010.

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. The only other debt incurred by the Corporation is two capital leases for copiers with a remaining balance of $4,741. Debt which was recognized in previous years, in conjunction with the Revolving Loan Fund, was transferred on July 9, 2009 to Natural Capital, LLC.

Economic Outlook

MURC has been experiencing a steady increase in research activity over the past several years, reflecting both the University's growing emphasis on research and the breadth of expertise represented on our campus. Since 2005, the total amount of funding for research at MURC has increased an impressive 41 percent from $36.8 million to more than $52 million. Research serves as a catalyst for economic development and funding at MURC has resulted in an estimated economic impact of more than $119 million in 2009-10.

Major research program development is occurring in targeted areas that build on existing strengths of the University. These focused areas include: biotechnology and genomics research, including a developing focus in human and environmental genomics, forensic science (DNA, computer and microbial forensics), cancer, cardiovascular, geospatial sciences, transportation research and intelligent transportation system design, environmental sciences, and cognitive disabilities and rehabilitation (e.g., learning/attention deficit disorders, autism.).

The endowment-based Marshall Institute for Interdisciplinary Research (“Institute”) has been established and is operational within the Robert C. Byrd Biotechnology and Science Center. When fully operational, the Institute is funded through proceeds from private, endowed gifts matched by endowment funds from the WV Research Trust Fund established in 2008. Marshall University is legislatively entitled to match $15 million in private gifts over a 5 year period.

During August 2010, the Corporation received the official patent award from the US Patent and Trademark Office entitled “Methods of Detecting and Controlling Mucoid Pseudomonas Biofilm Production”. This patent exemplifies MURC’s commitment to Technology Transfer and by licensing this to Progenesis Technologies, LLC, (a start-up company of Marshall University). MURC furthers its commitment to the local economy of West Virginia. Two copyrights have been awarded for software created by Marshall University faculty and staff. One of which has been licensed to BRITE Technologies, LLC, another start-up company of Marshall University.

The Marshall University Human Research Protection Program (HRPP) has received a 5 year full reaccreditation from the Association for the Accreditation of Human Subject Research Protection Programs (AAHRPP). This reaccreditation indicates that MURC continues to meet or exceed all federal regulations regarding human subject research. MURC is the first in the state to receive this prestigious 5 year reaccreditation for our Institutional Review Boards (IRBs) and it is a mere reflection of the importance placed on human subject research at Marshall University and its research affiliates; Cabell Huntington Hospital, St. Mary’s Medical Center and the Veterans Administration Medical Center.

The Corporation forecasts a continuation of grant revenue growth which is evidenced by several noteworthy awards received since June 30, 2010. These are include two awards from the National Science Foundation, related to Cyber infrastructure totaling approximately $2 million, $4.7 million in federal funding to support the new Center for Diagnostic Nanosystems at the University’s Robert C. Byrd Biotechnology Science Center and an award from The U.S. Department of Defense (DOD) Breast Cancer Research Program for $1 million to assess the effects of omega-3 fatty acids on breast cancer development.

It is an exciting time indeed to be a part of the research community here at Marshall University, and those of us at the Marshall University Research Corporation are proud to be associated with the exemplary programs we serve. MURC is confident that we will continue to build on the University's growing reputation for its outstanding research programs which will help weather these unpredictable economic times and the challenges ahead.

MARSHALL UNIVERSITY RESEARCH CORPORATION

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2010 AND 2009

ASSETS	2010	2009
CURRENT ASSETS:		
Cash and cash equivalents	$ 16,539,544	$ 20,866,029
Grants and contracts receivable — net of allowance of $412,458 and $410,734 in 2010 and 2009, respectively	13,379,228	10,108,224
Other accounts receivable	50,144	59,275
Loans receivable — net of allowance of $88,487 in 2009		11,682
Prepaid expenses	337,547	353,432
Total current assets	30,306,463	31,398,642
NONCURRENT ASSETS:		
Restricted cash and cash equivalents		364,279
Other accounts receivable	56,541	106,685
Deferred charges — debt issuance costs	42,750	45,125
Loans receivable — net of allowance of $93,103 in 2009		51,524
Investments	5,109,541	1,953,209
Capital assets — net	15,932,704	15,400,169
Total noncurrent assets	21,141,536	17,920,991
TOTAL	$ 51,447,999	$ 49,319,633

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2010 AND 2009

LIABILITIES AND NET ASSETS	2010	2009
CURRENT LIABILITIES:		
Accounts payable	$ 2,193,923	$ 1,734,452
Accrued liabilities	887,839	728,709
Notes payable — current portion	119,565	163,215
Compensated absences	873,470	768,684
Deferred revenue	2,565,123	2,559,641
Total current liabilities	6,639,920	5,954,701
NONCURRENT LIABILITIES:		
Notes payable	2,661,349	2,777,711
Advances from federal sponsors		152,401
Deferred rent revenue	994,101	576,374
Total noncurrent liabilities	3,655,450	3,506,486
Total liabilities	10,295,370	9,461,187
NET ASSETS:		
Invested in capital assets — net of related debt	12,042,866	11,871,190
Restricted for:		
Nonexpendable	738,191	465,000
Expendable — sponsored projects	17,593,230	16,926,849
Unrestricted	10,778,342	10,595,407
Total net assets	41,152,629	39,858,446
TOTAL	$ 51,447,999	$ 49,319,633

See notes to combined financial statements. (Concluded)

MARSHALL UNIVERSITY RESEARCH CORPORATION

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
OPERATING REVENUES:		
Contracts and grants:		
Federal	$32,449,444	$27,746,476
State	6,151,980	6,090,752
Private and local	1,889,749	2,335,451
Interest on loans receivable	67	1,059
Program income	1,342,121	1,373,033
Miscellaneous — net	3,158,774	3,115,655
Total operating revenues	44,992,135	40,662,426
OPERATING EXPENSES:		
Salaries and wages	19,535,544	17,720,236
Benefits	4,445,095	3,901,456
Supplies and other services	16,720,721	13,099,810
Utilities	587,036	507,266
Student financial aid — scholarships and fellowships	329,560	185,081
Depreciation	2,178,606	2,206,635
Total operating expenses	43,796,562	37,620,484
OPERATING INCOME	1,195,573	3,041,942
NONOPERATING REVENUES (EXPENSES):		
Investment income — net of unrealized gain (loss) of $161,007 and $(220,153) in 2010 and 2009, respectively	199,258	81,719
Interest on indebtedness	(56,466)	(37,249)
Loss on disposal of equipment	(44,182)	(145,563)
Net nonoperating revenues (expenses)	98,610	(101,093)
INCREASE IN NET ASSETS	1,294,183	2,940,849
NET ASSETS — Beginning of year	39,858,446	36,917,597
NET ASSETS — End of year	$41,152,629	$39,858,446

See notes to combined financial statements.

MARSHALL UNIVERSITY RESEARCH CORPORATION

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Contracts and grants	$ 37,223,927	$ 34,354,446
Payments to and on behalf of employees	(23,772,474)	(21,516,818)
Payments to suppliers	(16,184,430)	(12,968,674)
Payments for utilities	(587,036)	(507,266)
Payments for scholarships and fellowships	(329,560)	(185,081)
Collection of loans	244,796	14,006
Disbursement of loan funds	(333,991)	(2,025)
Program income	1,342,121	1,373,033
Other receipts — net	3,160,565	3,180,317
Net cash provided by operating activities	763,918	3,741,938
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Payments on notes payable	(160,012)	(107,031)
Purchases of capital assets	(3,291,262)	(6,203,334)
Deferred rent revenue collected	417,727	576,374
Proceeds from disposal of equipment	535,939	147,436
Withdrawal from noncurrent cash and cash equivalents	364,279	2,588,221
Net cash used in financing activities	(2,133,329)	(2,998,334)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(3,045,043)	(136,080)
Sale/maturity of investments	65,727	398,552
Investment income	22,242	301,872
Net cash (used in) provided by investing activities	(2,957,074)	564,344
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,326,485)	1,307,948
CASH AND CASH EQUIVALENTS — Beginning of year	20,866,029	19,558,081
CASH AND CASH EQUIVALENTS — End of year	$ 16,539,544	$ 20,866,029

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 1,195,573	$ 3,041,942
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation expense	2,178,606	2,206,635
Changes in assets and liabilities:		
Accounts receivable — net	(3,211,729)	(1,758,265)
Prepaid expenses	15,885	53,787
Loans — net	8,040	10,931
Accounts payable	459,471	73,100
Accrued liabilities	160,205	12,750
Deferred revenue	5,482	43,933
Compensated absences	104,786	56,075
Advances from federal sponsors	(152,401)	1,050
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 763,918	$ 3,741,938
NONCASH TRANSACTIONS:		
Loss on disposal of equipment	$ (44,182)	$ (145,562)
Construction in progress additions in accounts payable	$ -	$ 269,717

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

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

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

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

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

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

Restricted Net Assets, Expendable — This includes resources for which the Corporation is legally or contractually obligated to spend 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.

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

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

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

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

Investments — Investments, other than alternative investments, are presented at fair value based on quoted market prices. The alternative investments are carried at estimated fair value. These valuations include assumptions and methods that were reviewed by University management and are primarily based on quoted market prices for the underlying investments or other observable market data. The University believes that the carrying amount of its alternative investments is a reasonable estimate of fair value. Because 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 collectability experienced by the Corporation on such balances and such other factors which, in the Corporation's judgment, require consideration in estimating doubtful accounts.

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

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

Deferred Rent Revenue — Deferred rent revenue represents the monies received from Huntington Area Development Council (HADCO). Recognition of this revenue will be deferred during the construction of a business start-up incubator. The total $994,101 of deferred rent to be received from HADCO will be recognized evenly over a 20-year period when they take tenancy in the building upon completion of the project.

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

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

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

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

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

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

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

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

Government Grants and Contracts — Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The Corporation recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is generally recorded at fixed rates negotiated for a period of one to five years. As of June 30, 2010, the Corporation recorded accounts receivable of $2,096,975 associated with the state and other affiliates.

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

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

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

Newly Adopted Statements Issued by the Governmental Accounting Standards Board — During 2010, the Corporation adopted Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement provides guidance regarding whether and when intangible assets should be considered capital assets for financial reporting purposes. The adoption of this statement did not have a material impact on its combined financial statements.

The Corporation also adopted Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. 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 adoption of this statement did not have a material impact on its combined financial statements.

Recent Statements Issued by the Governmental Accounting Standards Board—The Governmental Accounting Standards Board has issued Statement No. 59, *Financial Instruments Omnibus*, effective for fiscal years beginning after June 15, 2010. This statement improves financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards related to certain financial instruments and external investment pools. The Corporation has not yet determined the effect that the adoption of Statement No. 59 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of June 30, 2010 and 2009, is as follows:

	2010		
	Current	Noncurrent	Total
Money market and savings	$ 13,134,891	$ -	$ 13,134,891
In bank	3,404,652		3,404,652
Trustee	1		1
	$ 16,539,544	$ -	$ 16,539,544

	2009		
	Current	Noncurrent	Total
Money market and savings	$ 15,018,901	$ -	$ 15,018,901
In bank	5,847,128		5,847,128
Trustee		364,279	364,279
	$ 20,866,029	$ 364,279	$ 21,230,308

The carrying amount of cash in bank at June 30, 2010 and 2009, was $3,404,652 and $5,847,128, respectively, as compared with a bank balance of $3,404,652 and $5,847,100, respectively. Any differences are primarily the result of outstanding checks and items in transit.

On October 3, 2008, Fifth Third Bank implemented the revised FDIC deposit insurance coverage rules to the collateral management process, in accordance to state-level requirements. As a result of these changes, the FY2010 balance of $3,384,652 and FY2009 balance of $3,380,641 was fully insured through the FDIC through the Temporary Liquidity Guaranty Program (TLGP). Additionally, at June 30, 2009, $2,316,631 was held in a cash account with a brokerage firms and which was insured by the Security Investor Protection Corporation (SIPC).

Cash equivalents totaling $12,533,109 and $14,487,753 at June 30, 2010 and 2009, respectively, are held in repurchase agreements, and a business savings account collateralized at 113% and 125%, respectively. The collateral was held in the name of the Corporation.

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 7). The account balance at June 30, 2010 consists of the residual value of $1, which will be liquidated in FY2011. In FY2009, the Trustee held funds in Federated Government Obligations managed by Federated Investors. The fund was 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 annual rate of return was 0.87% as of June 30, 2009, with a Moody’s rating of AAA. It was a daily value fund, with a high liquidity and was available for immediate draw at any time.

4. INVESTMENTS

Investments at June 30, 2010 and 2009, consist of the following:

	2010	2009
U.S. Government national mortgage association securities	$3,042,689	$ -
Common fund — short-term fund		65,727
Common fund — intermediate-term fund	2,066,852	1,887,482
Total investments	$5,109,541	$1,953,209

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

	2010			
Investment Type	**Level 1**	**Level 2**	**Level 3**	**Fair Value**
Common fund — intermediate-term fund	$ -	$2,057,411	$ 9,441	$2,066,852
U.S. Government national mortgage association securities		3,042,689		3,042,689
	$ -	$5,100,100	$ 9,441	$5,109,541

	2009			
Investment Type	**Level 1**	**Level 2**	**Level 3**	**Fair Value**
Common fund:				
Short-term fund	$ -	$ 61,185	$ 4,542	$ 65,727
Intermediate-term fund		1,849,239	38,243	1,887,482
	$ -	$1,910,424	$42,785	$1,953,209

Credit Risk — The Corporation's investment policy limits individual investments to U.S. Government agency securities and nationally recognized bond funds holding those securities. The U.S. Government National Mortgage Association Securities held by the corporation have an average maturity of 2 years in 2010. The Intermediate Term Fund had an average maturity of 1.5 and 1.3 years, respectively, for fiscal 2010 and 2009. At June 30, 2010, the Corporation's investment in U.S. Government National Mortgage Association Securities were rated AAA as government-backed securities and the average rating of the Intermediate Term Fund was AA at June 30, 2010 and 2009.

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 intent of the RLF was 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.

On August 8, 2007, the United States Department of Agriculture – Rural Development (USDA-RD) portion of the RLF was disbursed to Natural Capital Investment Fund, Inc. as approved by the USDA. On July 9, 2009, the Corporation disbursed the remaining portion of RLF to Natural Capital Investment Fund, Inc. as approved by the US EDA. This transaction resulted in the disbursement of available cash and all remaining loan balances as of that date which totaled $333,991. At June 30, 2010 and 2009, the recorded balance of the related loans payable was $0 and $40,660, respectively.

6. CAPITAL ASSETS

The summary of capital asset transactions for the Corporation for the years ended June 30, 2010 and 2009, is as follows:

	2010			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets:				
Construction in progress	$ 4,417,417	$ 515,202	$ (4,932,619)	$ -
Building		4,932,619		4,932,619
Equipment	27,587,650	2,776,061	(2,496,471)	27,867,240
Total capital assets	32,005,067	8,223,882	(7,429,090)	32,799,859
Less accumulated depreciation — building		(73,989)		(73,989)
Less accumulated depreciation — equipment	(16,604,898)	(2,104,617)	1,916,349	(16,793,166)
Total accumulated depreciation	(16,604,898)	(2,178,606)	1,916,349	(16,867,155)
Capital assets — net	$ 15,400,169	$ 6,045,276	$ (5,512,741)	$ 15,932,704

	2009			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets:				
Construction in progress	$ 556,141	$ 3,861,276	$ -	$ 4,417,417
Equipment	26,134,550	2,611,774	(1,158,674)	27,587,650
Total capital assets	26,690,691	6,473,050	(1,158,674)	32,005,067
Less accumulated depreciation — equipment	(15,263,940)	(2,206,635)	865,677	(16,604,898)
Capital assets — net	$ 11,426,751	$ 4,266,415	$ (292,997)	$ 15,400,169

The Corporation's capitalization threshold was $5,000 for both the years ended June 30, 2010 and 2009.

7. LONG-TERM LIABILITIES

The summary of long-term obligation transactions for the Corporation for the years ended June 30, 2010 and 2009, is as follows:

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

	2009				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes payable	$ 3,047,957	$ 2,363	$ (109,394)	$ 2,940,926	$163,215
Deferred rent		576,374		576,374	
Advances from federal sponsors	151,351	1,050		152,401	
Total long-term liabilities	$ 3,199,308	$ 579,787	$ (109,394)	$ 3,669,701	

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

8. NOTES PAYABLE

In 2008, the Corporation borrowed the proceeds of a bond issuance by the Cabell County Commission for the construction of an addition to the Marshall University Forensic Science Center. The Corporation's repayment terms are the same as the bond repayment term. The Corporation made the first interest payments on October 10, 2008, for the interest due on the loans semi-annually and first annual principal payment on April 1, 2009, based on a hypothetical amortization of the then-remaining principal balance at the then-applicable interest rate for the then-remaining years of the original 20-year amortization period ending April 10, 2028. Any remaining principal balance shall be payable in full on April 10, 2028. However, any unspent mortgage proceeds would go to pay the first amounts due for interest and principal. The interest rate on the bonds was 3.2% at April 10, 2008, and will continue to and include year five, and will change for each subsequent five-year period to the rate per annum equal to 67% of the five-year Treasury Constant Maturity in effect on that date, plus 1.67% per annum. The principal balance of $2,776,173 and $2,890,606 at June 30, 2010 and 2009, respectively, is included in notes payable on the statements of net assets.

At June 30, 2010, the scheduled maturities on notes payable are as follows:

Years Ending June 30	Principal	Interest
2011	$ 119,565	$ 88,969
2012	121,953	85,109
2013	124,101	81,261
2014	128,072	77,289
2015	132,170	73,191
2016-2020	727,065	299,742
2021-2025	851,083	175,724
2026-2028	576,905	37,249
	$ 2,780,914	$ 918,534

9. LEASES

Future annual minimum lease payments on operating leases for years subsequent to June 30, 2010, are as follows:

Years Ending June 30	
2011	$ 203,415
2012	134,400
2013	128,800
2014	81,300
2015	18,700
Total	$ 566,615

Total rent expense for the years ended June 30, 2010 and 2009, was $353,869 and $371,954 respectively.

10. RELATED-PARTY TRANSACTIONS

A summary of balances and transactions with the University as of and for the years ended June 30, 2010 and 2009, is as follows:

	2010	2009
Grants and contracts receivable	$ 1,927,952	$ 1,730,502
Advances payable	250,000	250,000
Other sources of revenue	434,252	637,380
Payroll and benefits expense	6,008,055	5,576,632
Other expenses	734,928	470,666

11. UNRESTRICTED NET ASSETS

At June 30, 2010 and 2009, 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, 2010, 2009, and 2008, were $1,956,297, $1,837,006, and $1,803,408, respectively, which consisted of $916,806, $843,521, and $831,364, respectively, from the Corporation and $1,039,491, $993,485, and $972,044, respectively, from employees.

The Corporation's total payroll for the years ended June 30, 2010 and 2009, was $19,409,005 and $18,114,791, respectively. Total covered employees' salaries in TIAA-CREF were $15,280,105 and $14,058,675 for the years ended June 30, 2010 and 2009, 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, 2010 and 2009, the following table represents operating expenses within both natural and functional classifications:

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

	2009						
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 644,430	$ 68,636	$ 565,381	$ 300	$ 27,015	$ -	$ 1,305,762
Research	6,436,330	1,357,394	7,222,861	214,785	100,747		15,332,117
Public service	7,371,768	1,658,192	3,607,183	154,145	49,929		12,841,217
Academic support	107,502	29,065	130,717	394	1,901		269,579
Student services	150,178	19,415	227,614	2,017	1,545		400,769
General institutional support	3,010,028	768,754	1,310,288	10,305	3,944		5,103,319
Operations and maintenance of plant			35,766	125,320			161,086
Depreciation						2,206,635	2,206,635
Total	$ 17,720,236	$ 3,901,456	$ 13,099,810	$ 507,266	$ 185,081	$ 2,206,635	$ 37,620,484

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SUPPLEMENTAL SCHEDULE

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency		Federal Expenditures
RESEARCH AND DEVELOPMENT:					
Cooperative State Research, Education and Extension Service	D	10.200		$ 113,390	
National Institute of Food and Agriculture	D	10.200		218,133	
		10.200 Subtotal			$ 331,523
Forest Service	D	10.652			23,619
Total Department of Agriculture					355,142
Office of The Chief of Engineers	D	12.110			382,960
Office of The Chief of Engineers	D	12.114			42
Army Research and Material Command	D	12.420			(719)
Army Research and Material Command	D	12.431		170,074	
Army Research and Material Command	I	12.431	University of South Carolina	40,544	
Army Research and Material Command	I	12.431	University of Virginia	(4,001)	
		12.431 Subtotal			206,617
Defense Advanced Research Projects Agency	D	12.910			4,936,851
U.S. Army Research Office	D	12.W911NF-05-1-0309			868
U.S. Army Corps of Engineers	D	12.W91237-06-R-0016			83,004
Department of Defense Total					5,609,623
Fish and Wildlife Service	D	15.657			12,682
Total Department of the Interior					12,682
Office of Juvenile Justice and Delinquency Prevention	I	16.523	WV Division of Criminal Justice Services		(506)
Office of Justice Programs	D	16.560			1,920,074
Department of Justice Total					1,919,568
Federal Railroad Administration	D	20.313	WV Department of Transportation		459,790
Total Department of Transportation					459,790
National Aeronautics and Space Administration	D	43.001		977,765	
National Aeronautics and Space Administration	I	43.001	West Virginia University	439,728	
National Aeronautics and Space Administration	I	43.001	WVU (99-390A-MURC)	(513)	
		43.001 Subtotal			1,416,980
Total National Aeronautics and Space Administration					1,416,980

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency		Federal Expenditures
RESEARCH AND DEVELOPMENT (Continued):					
National Science Foundation	D	47.041			$ 46,774
National Science Foundation	D	47.049			(605)
National Science Foundation	D	47.050			2,740
National Science Foundation	D	47.074			191,846
National Science Foundation	D	47.075			415,103
National Science Foundation	I	47.076	University of Kentucky	4,200	
National Science Foundation	I	47.076	WV EPSCoR	672,162	
		47.076 Subtotal			676,362
National Science Foundation	D	47.080			31,277
National Science Foundation	D	47.082ARRA		141,171	
National Science Foundation	I	47.082ARRA	WV Higher Education Policy Commission	137,425	
		47.082 Subtotal			278,596
National Science Foundation Total					1,642,093
Department of Energy	D	81.049ARRA			899
Department of Energy	I	81.108	Los Alamos National Security LLC		416
Department of Energy Total					1,315
Department of Education	D	84.116			46,471
Total Department of Education					46,471
National Institutes of Health	D	93.110			51,378
National Institutes of Health	D	93.121			32,696
National Institutes of Health	I	93.121	Johns Hopskins University		25,218
National Institutes of Health	D	93.389			3,543,442
National Institutes of Health	D	93.393			468,487
National Institutes of Health	D	93.394			142,671
National Institutes of Health	D	93.395			203,307
National Institutes of Health	D	93.701ARRA			507,332
National Institutes of Health	D	93.837			292,134
National Institutes of Health	D	93.839			98,446
National Institutes of Health	D	93.847			254,140
National Institutes of Health	D	93.865			679
National Institutes of Health	I	93.865	The Children's Hospital of Philadelphia		31,234
National Institutes of Health	D	93.866			17,655
Health Resources and Services Administration	D	93.887			185,209
Health Resources and Services Administration	D	93.888			616,089
Health Resources and Services Administration	I	93.994	WV Department of Health & Human Resources		209,480
Department of Health and Human Services Total					6,679,597
Subtotal Research and Development					18,143,261

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency		Federal Expenditures
OTHER PROGRAMS:					
Dept of Agriculture — Food & Nutrition Service	I	10561	West Virginia University		$ 177,868
Dept of Agriculture — Rural Utilities Service	D	10.855			(28,568)
Department of Agriculture Total					149,300
Economic Development Administration	D	11.307			351,374
Total Department of Commerce					351,374
Defense Logistics Agency	D	12.002			1,699
Department of the Army, Office of the Chief	D	12.110			353,543
Department of Defense, Advanced Research Project	D	12.910			86,606
Department of Defense Total					441,848
Department of Housing and Urban Development	D	14.251			16,000
Total Department of Housing and Urban Development					16,000
Office of Justice Programs	I	16.000	WV Division of Criminal Justice Services		162,640
Office of Justice Programs	D	16.560		1,713,384	
Office of Justice Programs	I	16.560	National Forensic Science Technology Ctr	47,415	
		16.560 Subtotal			1,760,799
Office of Juvenile Justice and Delinquency Prevention	I	16.727	WV Division of Criminal Justice Services		39,744
Department of Justice Total					1,963,183
Federal Railroad Administration	I	20.205	WV Department of Transportation		25,300
Federal Railroad Administration	D	20.313			(217)
Research and Innovative Technology Administration	D	20.701		2,772,865	
Research and Innovative Technology Administration	I	20.701	Portland State University	9,353	
		20.701 Subtotal			2,782,218
Department of Transportation Total					2,807,301
Appalachian Regional Commission	D	23.002		204,855	
Appalachian Regional Commission	I	23.002	WV Division of Energy	519	
		23.002 Subtotal			205,374
Appalachian Regional Commission	D	23.003			73,669
Appalachian Regional Commission	D	23.011			218,819
Appalachian Regional Commission Total					497,862

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency		Federal Expenditures
OTHER PROGRAMS (Continued):					
Library of Congress	I	42.001	Waynesburg University		$ 2,305
Total Library of Congress					2,305
National Aeronautics and Space Administration	I	42.001	Waynesburg University		3,824
Total National Aeronautics and Space Administration					3,824
National Endowment for the Humanities	I	45.129	WV Humanities Council		3,317
National Foundation on the Arts and the Humanities Total					3,317
National Science Foundation	I	47.049	University of Kentucky		590,671
National Science Foundation	D	47.076			223,940
National Science Foundation Total					814,611
Office of Special Education and Rehabilitation	I	84.027	WV Department of Education		234,092
Office of Special Education and Rehabilitation	I	84.027A	WV Department of Education		2,499
Office of Special Education and Rehabilitation	D	84.042		235,782	
Office of Assistant Secretary for Postsecondary Education	D	84.044		472,778	
Office of Assistant Secretary for Postsecondary Education	D	84.047A		368,895	
Office of Assistant Secretary for Postsecondary Education	D	84.066		215,299	
		TRIO Cluster Subtotal			1,292,754
Office of Assistant Secretary for Postsecondary Education	D	84.116			430,784
Office of Special Education and Rehabilitation	I	84.173	WV Department of Education		37,157
Office of Safe and Drug-Free Schools	I	84.184	WV Department of Education		25,795
Office of Elementary and Secondary Education	I	84.298	Higher Education Center		8,733
Office of Special Education and Rehabilitation	I	84.323	WV Department of Education		17,850
Office of Elementary and Secondary Education	I	84.357	WV Department of Education		8,143
Office of Elementary and Secondary Education	I	84.365	WV Department of Education		2,787
Office of Elementary and Secondary Education	I	84.367	WV Department of Education	6,627	
Office of Elementary and Secondary Education	I	84.367	WV Higher Education Policy Commission	386,659	
		84.367 Subtotal			393,286
Office of Elementary and Secondary Education	I	84.367B	WV Higher Education Policy Commission		29,022
Department of Education	I	84.928	National Writing Project (92-WV02)		114,418
Department of Education	I	84.928A	National Writing Project		51,360
Department of Education Total					2,648,680

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency		Federal Expenditures
OTHER PROGRAMS (Continued):					
Centers for Disease Control and Prevention	I	93.069	WV Higher Education Policy Commission		$ 39,940
Health Resources and Services Administration	I	93.130	WV Primary Care Association		11,788
Health Resources and Services Administration Administration	D	93.191			74,213
Health Resources and Services Administration Administration	D	93.243		538,005	
Substance Abuse and Mental Health Services Administration	I	93.243	Prestera Center for Mental Health Services	56,087	
Substance Abuse and Mental Health Services Administration	I	93.243	WV Division of Criminal Justice Services	893,652	
		93.243 Subtotal			1,487,744
Centers for Disease Control and Prevention	D	93.283		345	
Centers for Disease Control and Prevention	I	93.283	WV Department of Health and Human Resources	120,925	
		93.283 Subtotal			121,270
Administration for Children and Families	I	93.658	WV Department of Health and Human Resources		170,273
Health Resources and Services Administration	I	93.710AR	Southwestern Community Action Council		2,599
Centers for Medicare and Medicaid Services	I	93.793	WV Health Improvement Institute, Inc.		27,653
Health Resources and Services Administration	D	93.887			687,984
Health Resources and Services Administration	D	93.888			134,735
Centers for Disease Control and Prevention	I	93.940	WV Department of Health and Human Resources		2,403
Substance Abuse and Mental Health Services Administration	I	93.958	WV Department of Health and Human Resources		238,632
Substance Abuse and Mental Health Services Administration	I	93.959	WV Department of Health and Human Resources		1,435,124
Health Resources and Services Administration	I	93.969	West Virginia University		7,471
Centers for Disease Control and Prevention	I	93.988	WV Department of Health and Human Resources		106,343
Centers for Disease Control and Prevention	I	93.994	WV Department of Health and Human Resources		55,064
Department of Health and Human Services Total					4,603,236
Subtotal Other Programs					14,302,841
Total Federal Expenditures					$32,446,102

See notes to schedule of expenditures of federal awards. (Concluded)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

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, 2010, 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 0.999.

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	41	41
Organized research — on-campus	41	41

Subrecipient expenditures in the Schedule of Expenditures of Federal Awards at June 30, 2010, include:

Federal Agency	Subrecipient	CFDA	Subrecipient Expenditures
Research and development:			
Department of Defense	University of Tennessee	12.110	$ 29,095
Department of Health and Human Services	Bluefield State College	93.389	99,131
Department of Health and Human Services	CAMC Health Education and Research	93.389	66,337
Department of Health and Human Services	Fairmont State University	93.389	6,303
Department of Health and Human Services	University of Kentucky Research F	93.389	80,481
Department of Health and Human Services	Valley Health Systems, Inc.	93.389	40,911
Department of Health and Human Services	West Liberty State College	93.389	175,272
Department of Health and Human Services	Wheeling Jesuit University	93.389	55,402
Department of Health and Human Services	WV State University Research and Development	93.389	139,757
Department of Health and Human Services	WVU Research Corp	93.389	1,555,668
Department of Health and Human Services	Bluefield State College Research Corporation	93.701ARRA	8,267
Department of Health and Human Services	University of Charleston	93.701ARRA	4,706
Department of Health and Human Services	WVU Research Corporation	93.701ARRA	230,077
			$ 2,491,407

5. All American Recovery and Reinvestment Act (ARRA) monies have been marked as “ARRA” on the Schedule.

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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, 2010, and have issued our report thereon dated October 14, 2010. 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

Deloitte & Touche LLP

October 14, 2010

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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 Marshall University Research Corporation's (the "Corporation") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget* (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended June 30, 2010. The Corporation's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs are the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit.

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

In our opinion, the Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

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 the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

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

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

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

Deloitte & Touche LLP

October 14, 2010

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

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
Various	TRIO Cluster
16.560	Office of Justice Program
93.243	Substance Abuse and Mental Health Services Administration
93.959	Substance Abuse and Mental Health Services Administration

Dollar threshold used to distinguish between Type A and Type B Programs $ 973,383

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.