MARSHALL UNIVERSITY

Combined Financial Statements for the Years Ended June 30, 2001 and 2000, and Independent Auditors' Reports

MARSHALL UNIVERSITY

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Marshall University Governing Board:

We have audited the accompanying combined financial statements of Marshall University (the "University") as of June 30, 2001 and 2000, and for the years then ended, listed in the foregoing Table of Contents. These financial statements are the responsibility of the management of the University. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 combined financial position of the University at June 30, 2001 and 2000, and the combined changes in fund balances and combined current funds revenues, expenditures, transfers and other changes for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2001, on our consideration of the University's internal control over financial reporting and its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

DELOITTE & TOUCHE LLP

October 5, 2001

MARSHALL UNIVERSITY

COMBINED BALANCE SHEET
JUNE 30, 2001

	Current Funds		Loan	Agency	Plant
	Unrestricted	Restricted	Funds	Funds	Funds
ASSETS:					
Cash and cash equivalents	$ 32,579,909	$ 669,400	$ 939,668	$ 124,458	$ 54,695,957
Student accounts receivable	347,954				
Grants and contracts receivable	379,543	7,867,248			
Other accounts receivable	256,437	6,196			75,876
Loans receivable			6,954,628		
Appropriations due from Primary Government	476,320				300,595
Due from the Commission	126,878	6,636	56,548		20,512
Due from other State agencies	13,199				
Due from other funds	1,189,966				
Inventories	797,599				
Prepaid expenses	9,544	2,403			
Other assets					1,389,014
Net investment in lease					1,050,402
Investment in plant					282,419,407
	$ 36,177,349	$ 8,551,883	$ 7,950,844	$ 124,458	$ 339,951,763
LIABILITIES AND FUND BALANCES:					
Accounts payable	$ 2,144,735	$ 272,565			$ 919,855
Accrued liabilities	3,327,585	261,908	$ 25,189	$ 124,458	2,837
Deposits	332,030				
Deferred revenue	2,403,147	164,000			
Due to other funds		1,187,369			2,597
Compensated absences	11,793,596	218,847			
Capital lease obligations					12,368,665
Bonds payable					48,055,000
Fund balances:					
University funds	16,176,256	6,447,194			56,607,067
Loan funds			7,925,655		
Net investment in plant					221,995,742
	$ 36,177,349	$ 8,551,883	$ 7,950,844	$ 124,458	$ 339,951,763

See notes to combined financial statements.

MARSHALL UNIVERSITY

COMBINED BALANCE SHEET
JUNE 30, 2000

	Current Funds Unrestricted	Current Funds Restricted	Loan Funds	Agency Funds	Plant Funds
ASSETS:					
Cash and cash equivalents	$ 30,223,441	$ 2,533,794	$ 1,411,320	$ 299,656	$ 8,546,403
Student accounts receivable	315,854				
Grants and contracts receivable	614,301	3,098,414			
Other accounts receivable	538,325	14,553			
Appropriations due from Primary Government	435,229				532,057
Loans receivable			6,118,691		
Due from the Board	412,803	238,737	80,543		176,667
Due from other State agencies	5,055				
Due from other funds	102,292				
Inventories	804,525				
Prepaid expenses	31,452	43,039			
Net investment in lease					1,027,389
Investment in plant					269,836,020
	$ 33,483,277	$ 5,928,537	$ 7,610,554	$ 299,656	$ 280,118,536
LIABILITIES AND FUND BALANCES:					
Accounts payable	$ 1,630,534	$ 377,898			$ 1,137,193
Accrued liabilities	2,910,427	31,783	$ 23,725	$ 299,656	
Deposits	295,230				
Deferred revenue	2,552,128				
Due to other funds		99,611			2,681
Compensated absences	11,259,204	249,801			
Capital lease obligations					13,561,627
Bonds payable					1,585,000
Fund balances:					
University funds	14,835,754	5,169,444			9,142,642
Loan funds			7,586,829		
Net investment in plant					254,689,393
	$ 33,483,277	$ 5,928,537	$ 7,610,554	$ 299,656	$ 280,118,536

See notes to combined financial statements.

MARSHALL UNIVERSITY

COMBINED STATEMENT OF CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2001

	Current Funds		Loan	Plant
	Unrestricted	Restricted	Funds	Funds
FUND BALANCES, BEGINNING OF YEAR	$ 14,835,754	$ 5,169,444	$ 7,586,829	$ 263,832,035
REVENUES AND OTHER ADDITIONS:				
Unrestricted current fund revenues	123,925,905			
Auxiliary enterprise revenues	18,763,029			
Contracts and grants - restricted:				
Federal		50,233,974	27,220	
State		4,207,783		
Private gifts, grants and contracts		3,380,010	32,146	
U.S. government advances			78,195	
Investment income		315	47,143	515,152
Interest on loans receivable			130,035	
Expended for plant facilities				15,099,331
Retirement of indebtedness				1,331,122
Miscellaneous income		1,508,595	69,042	655,186
Total revenues and other additions	142,688,934	59,330,677	383,781	17,600,791
EXPENDITURES AND OTHER DEDUCTIONS:				
Educational and general expenditures	113,740,442	55,152,752		
Indirect costs recovered		2,184,705		
Auxiliary enterprise expenditures	16,375,566	15,877		
Loan cancellations and write-offs			167,531	
Net tuition and fees retained by the Board	5,761,002			
Expended for plant facilities				5,141,905
Disposal and write-off of plant facilities				1,413,147
Retirement of indebtedness				1,331,122
Interest on indebtedness				971,585
Administrative and collection fees			11,910	1,148
Refunds to grantors		7,639		
Total expenditures and other deductions	135,877,010	57,360,973	179,441	8,858,907
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS):				
Mandatory transfers - principal and interest	(720,131)			720,131
Mandatory transfers - plant activity		(190,621)		190,621
Nonmandatory transfers	(4,751,291)	(501,333)	134,486	5,118,138
Total transfers	(5,471,422)	(691,954)	134,486	6,028,890
NET INCREASE	1,340,502	1,277,750	338,826	14,770,774
FUND BALANCES, END OF YEAR	$ 16,176,256	$ 6,447,194	$ 7,925,655	$ 278,602,809

See notes to combined financial statements.

MARSHALL UNIVERSITY

COMBINED STATEMENT OF CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2000

	Current Funds		Loan	Plant
	Unrestricted	Restricted	Funds	Funds
FUND BALANCES, BEGINNING OF YEAR	$ 13,066,697	$ 4,799,382	$ 7,054,392	$ 238,123,261
REVENUES AND OTHER ADDITIONS:				
Unrestricted current fund revenues	115,421,699			
Auxiliary enterprise revenues	18,089,390			
Contracts and grants - restricted:				
Federal		49,727,029	122,780	
State		3,077,533		
Local		6,812		
Private gifts, grants and contracts		3,457,116	35,740	200,000
U.S. government advances			98,394	
Investment income		205	38,119	238,376
Interest on loans receivable			136,616	
Expended for plant facilities				31,562,348
Retirement of indebtedness				1,287,825
Miscellaneous income		1,387,490	93,127	2,882,151
Total revenues and other additions	133,511,089	57,656,185	524,776	36,170,700
EXPENDITURES AND OTHER DEDUCTIONS:				
Educational and general expenditures	105,171,201	53,677,189		
Indirect costs recovered		2,092,544		
Auxiliary enterprise expenditures	16,977,430			
Loan cancellations and write-offs			119,747	
Net tuition and fees retained by the Board	4,751,968			
Expended for plant facilities				10,950,286
Disposal and write-off of plant facilities				3,636,935
Retirement of indebtedness				1,287,825
Interest on indebtedness				781,133
Administrative and collection fees			34,986	1,176
Total expenditures and other deductions	126,900,599	55,769,733	154,733	16,657,355
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS):				
Mandatory transfers - principal and interest	(649,115)			649,115
Mandatory transfers - plant activity		(610,396)		610,396
Nonmandatory transfers	(4,192,318)	(905,994)	162,394	4,935,918
Total transfers	(4,841,433)	(1,516,390)	162,394	6,195,429
NET INCREASE	1,769,057	370,062	532,437	25,708,774
FUND BALANCES, END OF YEAR	$ 14,835,754	$ 5,169,444	$ 7,586,829	$ 263,832,035

See notes to combined financial statements.

MARSHALL UNIVERSITY

COMBINED STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, TRANSFERS AND OTHER CHANGES YEAR ENDED JUNE 30, 2001

	Unrestricted	Restricted	Total
REVENUES:			
Tuition and fees	$ 42,489,846		$ 42,489,846
State government appropriations	66,905,143		66,905,143
Government contracts and grants:			
Federal	2,438,800	$ 49,811,888	52,250,688
State	3,235,338	2,488,606	5,723,944
Local	1,037,839		1,037,839
Private gifts, grants and contracts	1,521,804	2,003,514	3,525,318
Income from investments	2,229,354		2,229,354
Sales and services of auxillary enterprises	18,763,029		18,763,029
Sales and services of educational activities	170,032		170,032
Other sources	3,897,749	864,621	4,762,370
TOTAL REVENUES	142,688,934	55,168,629	197,857,563
EXPENDITURES, TRANSFERS AND OTHER CHANGES:			
Educational and general:			
Instruction	52,292,445	1,837,117	54,129,562
Research	2,144,703	6,279,370	8,424,073
Public service	3,581,507	8,022,829	11,604,336
Academic support	13,451,003	141,821	13,592,824
Student services	8,680,844	481,938	9,162,782
Operations and maintenance of plant	8,248,017	2,769	8,250,786
General institutional support	12,974,449	203,918	13,178,367
Student financial aid - scholarships and fellowships	12,367,474	38,182,990	50,550,464
Total educational and general expenditures	113,740,442	55,152,752	168,893,194
Transfers and other deductions:			
Net tuition and fees retained by the Commission	5,761,002		5,761,002
Refunds to grantors		7,639	7,639
Mandatory transfers - principal and interest	493,531		493,531
Mandatory transfers - plant activity		190,621	190,621
Nonmandatory transfers	2,653,913	501,333	3,155,246
Total transfers and other deductions	8,908,446	699,593	9,608,039
Total educational and general expenditures, transfers and other deductions	122,648,888	55,852,345	178,501,233
Auxiliary enterprises:			
Expenditures	16,375,566	15,877	16,391,443
Mandatory transfers - principal and interest	226,600		226,600
Nonmandatory transfers	2,097,378		2,097,378
Total auxiliary expenses	18,699,544	15,877	18,715,421
TOTAL EXPENDITURES, TRANSFERS AND OTHER CHANGES	141,348,432	55,868,222	197,216,654
RESTRICTED RECEIPTS LESS RECOGNIZED REVENUES		1,977,343	1,977,343
NET INCREASE	$ 1,340,502	$ 1,277,750	$ 2,618,252

See notes to combined financial statements.

MARSHALL UNIVERSITY

COMBINED STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, TRANSFERS AND OTHER CHANGES YEAR ENDED JUNE 30, 2000

	Unrestricted	Restricted	Total
REVENUES:			
Tuition and fees	$ 39,309,048		$ 39,309,048
State government appropriations	63,873,820		63,873,820
Government contracts and grants:			
Federal	1,752,731	$ 48,869,472	50,622,203
State	3,356,315	2,236,081	5,592,396
Local	1,092,216		1,092,216
Private gifts, grants and contracts	1,851,261	1,935,426	3,786,687
Income from investments	1,447,006		1,447,006
Auxiliary enterprise revenues	18,089,390		18,089,390
Sales and services of educational activities	176,759		176,759
Other sources	2,562,543	636,210	3,198,753
TOTAL REVENUES	133,511,089	53,677,189	187,188,278
EXPENDITURES, TRANSFERS AND OTHER CHANGES:			
Educational and general:			
Instruction	49,120,952	1,542,397	50,663,349
Research	802,609	5,723,937	6,526,546
Public service	3,445,949	7,370,375	10,816,324
Academic support	12,908,242	118,355	13,026,597
Student services	7,731,746	378,643	8,110,389
Operations and maintenance of plant	8,199,481	4,646	8,204,127
General institutional support	11,938,994	152,410	12,091,404
Student financial aid - scholarships and fellowships	11,023,228	38,386,426	49,409,654
Total educational and general expenditures	105,171,201	53,677,189	158,848,390
Transfers and other deductions:			
Net tuition and fees retained by the Board	4,751,968		4,751,968
Mandatory transfers - principal and interest	419,265		419,265
Mandatory transfers - plant activity		610,396	610,396
Nonmandatory transfers	2,909,233	905,994	3,815,227
Total transfers and other deductions	8,080,466	1,516,390	9,596,856
Total educational and general expenditures, transfers and other deductions	113,251,667	55,193,579	168,445,246
Auxiliary enterprises:			
Expenditures	16,977,430		16,977,430
Mandatory transfers - principal and interest	229,850		229,850
Nonmandatory transfers	1,283,085		1,283,085
Total auxiliary expenses	18,490,365		18,490,365
TOTAL EXPENDITURES, TRANSFERS AND OTHER CHANGES	131,742,032	55,193,579	186,935,611
RESTRICTED RECEIPTS LESS RECOGNIZED REVENUES		1,886,452	1,886,452
NET INCREASE	$ 1,769,057	$ 370,062	$ 2,139,119

See notes to combined financial statements.

1. ORGANIZATION

Through June 30, 2000 Marshall University was governed by the Board of Trustees of the University System of West Virginia (the "Board"). The Board was an agency of the State of West Virginia (the "State") and was responsible for the general determination, control, supervision and management of the financial, business and educational policies and affairs of the State's higher education institutions within the State University System of West Virginia, of which Marshall University was one.

Effective July 1, 2000, the West Virginia Legislature has made changes to the governance and structure of West Virginia higher education. On March 19, 2000, the West Virginia Legislature enacted Senate Bill No. 653 ("S.B. 653"), which restructured public higher education in West Virginia. S.B. 653 abolished the Board effective June 30, 2000, and replaced it with a transition year board, the West Virginia Higher Education Interim Governing Board (the "Interim Governing Board"). The Interim Governing Board is granted all powers, duties, and authorities of the Board and is transferred each valid agreement and obligation previously transferred to or vested in the Board. The Interim Governing Board is comprised of nine persons appointed by the Governor with the advice and consent of the Senate.

S.B. 653 also creates the West Virginia Higher Education Policy Commission (the "Commission"), which will be responsible for developing, gaining consensus around and overseeing the implementation and development of a higher education public policy agenda. Effective July 1, 2001, certain powers of the Interim Governing Board were transferred to newly created Governing Boards of each of the institutions of higher education.

Each Governing Board shall have certain powers and duties including but not limited to, the power to determine, control, supervise and manage the financial, business and educational policies and affairs of the institution(s) under its jurisdiction, the duty to develop a master plan for the institution, the power to prescribe the specific functions and institution's budget request, the duty to review at least every five years all academic programs offered at the institution, and the power to fix tuition and other fees for the different classes or categories of students enrolled at its institution.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of Marshall University have been prepared in accordance with the accounting guidance and reporting practices applicable to public colleges and universities, as outlined in the accounting pronouncements issued by the Governmental Accounting Standards Board ("GASB"), the American Institute of Certified Public Accountants Industry Audit Guide *Audits of Colleges and Universities,* and the *College and University Business Administration,* published by the National Association of College and University Business Officers. Marshall University 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.

a. *Reporting Entity* - Marshall 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. Marshall University is a separate entity which, along with all State institutions of higher education, the Commission and the West Virginia Network for Educational Telecomputing ("WVNET"), form the Higher Education Fund of the State. Marshall University is considered a component unit of the State, and its financial statements are combined with the other higher education institutions and related component units; such combined 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 Marshall University (the "University"), including Marshall University Research Corporation ("MURC") . All intercompany balances and transactions have been eliminated in combination. The basic criteria for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the University's ability to significantly influence operations and accountability for fiscal matters of related entities. Related foundations and other affiliates of the University (see Notes 11 and 12) are not part of the University reporting entity and are not included in the accompanying combined financial statements as the University has no ability to designate management, cannot significantly influence operations of these entities and is not accountable for the fiscal matters of the foundations and other affiliates.

b. *Basis of Accounting* - The combined financial statements of the University have been prepared on the accrual basis of accounting. Revenues are reported when earned and expenditures when materials or services are received. The combined statement of current funds revenues, expenditures, transfers and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the year as would a statement of income or a statement of revenues and expenses.

   To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of library books and movable equipment, (2) mandatory transfers, in the case of required provisions for debt amortization and interest, equipment renewal and replacement and current restricted fund grants and contracts and (3) transfers of a nonmandatory nature for all other cases.

c. *Fund Accounting* - The accounts of the University are maintained in accordance with the principles of fund accounting for educational organizations to reflect the limitations and restrictions on the use of available resources. The accounts relating to specified activities or objectives have been classified into separate funds. Similar funds have been combined for financial reporting purposes.

   Within each fund group, resources restricted as to use by outside sources are distinguished from unrestricted resources allocated or designated to specific purposes by the University president or the Interim Governing Board. Restricted resources may only be used for the purposes established by the source of such funds. Restricted current funds are recorded in the restricted fund balance until they are reported as revenues and expenditures when expended for current operating purposes.

   Loan funds of the University are used to account for resources that may be lent to students, or for resources that may be lent by MURC to small businesses and businesses owned and operated by minorities, women, or those who are economically disadvantaged. These funds are provided by various sources including the U.S. government, private donors or by transfer of University funds. Generally, loan funds are operated on a revolving fund basis with principal and interest payments remaining in the loan funds for future lending.

Agency funds consist of funds held by MURC as custodian for Ebenezer Medical Outreach, Inc.

Plant funds are used to account for unexpended plant funds, long-lived assets, related indebtedness and retirement of indebtedness. Maintenance and repairs are recorded as current funds expenditures.

d. *Cash and Cash Equivalents* - Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer's Office (the "State Treasurer") are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Investment Management Board (the "IMB"). These funds are transferred to the IMB and the IMB is directed by the State Treasurer to invest the funds in specific external investment pools. Balances in the investment pools are recorded at fair value, which is determined by a third-party pricing service based on asset portfolio pricing models and other sources, in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments for External Investment Pools." The IMB was established by the State Legislature and is subject to oversight by the State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit with the State Treasurer are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying combined financial statements.

e. *Allowance for Doubtful Accounts* - It is the University'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 University on such balances and such other factors which, in the University's judgment, require consideration in estimating doubtful accounts.

f. *Inventories* - Inventories are stated at the lower-of-cost or market, cost being determined on the first-in, first-out method.

g. *Other Assets* - Other assets consist primarily of debt issuance costs that have been incurred in connection with the issuance of the 2001 Housing and Parking Facilities Series A Bonds. These costs, consisting primarily of the underwriter's discount and legal and consulting fees, are amortized over the term of the bonds.

h. *Investment in Plant* - Investment in plant and books and materials, which are part of a catalogued library, 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. Consistent with current accounting principles generally accepted in the United States of America for public colleges and universities, depreciation on plant assets is not recorded. The University capitalizes items costing over $1,000.

i. *Deferred Revenue* - Revenues for programs or activities to be conducted primarily in the next fiscal year are classified as deferred revenue, including items such as football ticket sales, tuition and fees, and room and board. Financial aid and other deposits are separately classified as deposits.

j. *Compensated Absences* - The University 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 or sick leave, as such benefits are earned and payment becomes probable.

The University's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1-1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage.

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally 3-1/3 years of teaching service extend health insurance for one year of single coverage and five years extend health insurance for one year of family coverage.

The estimate of the liability for the extended health or life insurance benefit has been calculated using the vesting method in accordance with the provisions of GASB Statement No. 16. Under that method, the University has identified the accrued sick leave benefit earned to date by each employee, determined the cost of that benefit by reference to the benefit provisions and the current cost experienced by the University for such coverage, and estimated the probability of the payment of that benefit to employees upon retirement.

The estimated liability for vacation leave, sick leave or extended health or life insurance retirement payments is recorded within the University's current funds.

k. *Risk Management* - The State's Board of Risk and Insurance Management ("BRIM") provides general, property and casualty, and medical malpractice liability coverage to the University and its employees, including those physicians employed by the University and related to the University's school of medicine. Such coverage may be provided to the University 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 University or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums the University is currently charged by BRIM and the ultimate cost of that insurance based on the University's actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to the University and the University's ultimate actual loss experience, the difference will be recorded as the change in estimate becomes known.

l. *Student Aid* - The University makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through universities like the University. The activity of this program is recorded in the accompanying combined financial statements as current restricted funds revenues and expenditures. Direct student loan receivables are not included in the University's balance sheets as the loans are repayable directly to the U.S. Department of Education. In 2001 and 2000, the University received and disbursed $28,800,000 and $28,600,000, respectively, under the Federal Direct Student Loan Program on behalf of the U.S. Department of Education.

The University distributes other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant and College Work Study programs. The activity of these programs is also recorded in the accompanying combined financial statements as current restricted funds revenues and expenditures. In 2001 and 2000, the University received and disbursed $8,000,000 and $8,700,000, respectively, under these federal student aid programs.

m. *Government Grants and Contracts* - Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The University recognizes revenue associated with direct costs as the related costs are incurred in the current restricted funds. Recovery of related indirect costs is generally recorded at fixed rates negotiated for a period of one to five years.

n. *Income Taxes* - The University is exempt from income taxes, except for unrelated business income, as a nonprofit organization under federal income tax laws and regulations of the Internal Revenue Service.

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

p. *Recent Statements Issued by the Governmental Accounting Standards Board* - The colleges and universities of the West Virginia Higher Education Fund adopted GASB Statement No. 33, “Accounting and Financial Reporting for Nonexchange Transactions,” as amended by GASB Statement No. 36, during the year ended June 30, 2001. The effect of the adoption of this statement did not have a material impact on the University’s combined financial statements. GASB has also issued Statement No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments,” and GASB Statement No. 35, “Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities.” These statements are effective for periods beginning after June 15, 2001. The University has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 34 and No. 35 on its combined financial statements. These statements, when adopted, will substantially alter the appearance of the University’s combined financial statements.

q. *Reclassification* - Certain reclassifications of the 2000 balances have been made to conform to current year presentation.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was as follows at June 30, 2001 and 2000:

	2001				
	Current Funds		Loan	Agency	Plant
	Unrestricted	Restricted	Funds	Funds	Funds
Cash on deposit with the State Treasurer:					
University	$ 30,081,963	$ 609,425	$ 361,537		$ 8,721,669
Municipal Bond Commission for the University					722,062
Cash on deposit with Trustee					45,252,226
Cash in bank	2,433,463	59,975	578,131	$ 124,458	
Cash on hand	64,483				
	$ 32,579,909	$ 669,400	$ 939,668	$ 124,458	$ 54,695,957

	2000				
	Current Funds		Loan	Agency	Plant
	Unrestricted	Restricted	Funds	Funds	Funds
Cash on deposit with the State Treasurer:					
University	$ 26,857,380	$ 544,169	$ 279,750	$ 215,054	$ 7,860,446
Municipal Bond Commission for the University					685,957
Cash in bank	3,319,434	1,989,625	1,131,570	84,602	
Cash on hand	46,627				
	$ 30,223,441	$ 2,533,794	$ 1,411,320	$ 299,656	$ 8,546,403

Cash designated as held by the Municipal Bond Commission for the University represents various repair and replacement and debt service accounts trusteed with the State's Municipal Bond Commission related to various University specific bond issues (see Note 5). Cash on deposit with Trustee represents funds reserved for acquisition and construction of housing and parking facilities as well as various repair and replacement and debt service accounts and relates to the 2001 Housing and Parking Series A Bonds (see Note 5).

The combined carrying amount of cash in bank at June 30, 2001 and 2000 was $3,196,027 and $6,525,231, respectively, as compared with the combined bank balances of $4,167,405 and $7,399,040, respectively. The difference is primarily caused by outstanding checks and items in transit. Of these combined bank balances at June 30, 2001 and 2000, $4,144,914 and $7,358,478, respectively, were covered by federal depository insurance or were collateralized by securities held by the State's agent, while $22,491 and $40,562 of deposits in transit, as of June 30, 2001 and 2000, respectively, were uninsured and uncollateralized. The uninsured and uncollateralized balances were maintained by MURC.

Cash on deposit with the State Treasurer and with Trustee is a noncategorized deposit (with respect to risk and collateral disclosure) in accordance with GASB Statement No. 3.

4. INVESTMENT IN PLANT

The composition of investment in plant was as follows at June 30, 2001 and 2000:

	2001	2000
Land	$ 20,517,280	$ 20,517,280
Buildings	206,306,359	197,989,767
Equipment	48,729,983	44,853,417
Library books	6,865,785	6,475,556
	$ 282,419,407	$ 269,836,020

Amounts recorded as expended for plant facilities during the years ended June 30, 2001 and 2000 include $190,621 and $610,396, respectively, provided by federal grants to MURC for the purpose of various construction projects undertaken by the University. These grant proceeds have been recorded by the University as restricted fund revenues and as mandatory transfers - plant activity.

Amounts recorded as expended for plant facilities additions during the year ended June 30, 2001 and 2000 include $509,459 and $2,545,871, respectively, provided to the University through revenue bonds issued by the Board (see Note 6).

5. BONDS PAYABLE

Bonds payable consisted of the following at June 30, 2001 and 2000:

	Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding 2001	Principal Amount Outstanding 2000
University Center Revenue Bonds, due through 2009	4%-6%	$ 150,000 to $ 215,000	$ 1,445,000	$ 1,585,000
University Facilities Revenue Bonds due through 2031	3.6%-5.3%	$ 895,000 to $ 3,035,000	46,610,000	
			$ 48,055,000	$ 1,585,000

The University Center Revenue Bonds were issued in 1969 to finance the construction of the University Student Center. Interest is payable semiannually on January 1 and July 1 of each year, at varying rates up to 6% per annum. These bonds are secured by a first lien on and pledge of the entire University Center fees charged to students at the University and the net revenues, excluding bookstore revenues, derived from the operation of the University Center.

In June 2001, the Board sold $46,610,000 of Revenue Bonds, 2001 Housing and Parking Facilities Series A (the "Bonds"). The Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended, and the Bonds will be secured pursuant to a Trust Indenture (the "Indenture") dated as of June 1, 2001, by and between the Interim Governing Board and Bank One, West Virginia, National Association, Charleston, West Virginia (the "Trustee"). The Bonds are secured by and payable from the revenues of the dormitories and parking facilities and certain funds held under the Indenture. The proceeds of the Bonds are being used (1) to finance a portion of the costs of acquisition, construction and equipping of a new student housing complex and parking facilities at the University and renovations and improvements to existing dormitories at the University, (2) to fund capitalized interest on the Bonds, (3) to fund debt service reserves for the Bonds, and (4) to pay a portion of the costs of issuance of the Bonds.

The above bond issues are specific to the University, although the bonds were also issued in the name of the Interim Governing Board or the State itself. As debt service is required on these bond issues, the University remits the funds to either the State's Municipal Bond Commission or Bank One for payment to the trustee of the bond issue and the bond holders. Mandatory debt service transfers are recorded as the funds are so remitted. The Municipal Bond Commission or Bank One may hold certain cash and cash equivalents (see Note 3) for debt service or other bond issue purposes on behalf of the University.

A summary of the annual aggregate principal payments for years subsequent to June 30, 2001 is as follows:

Year Ending June 30,	University Center	University Facilities
2002	$ 150,000	
2003	155,000	
2004	165,000	
2005	175,000	$ 895,000
2006	185,000	930,000
Thereafter	615,000	44,785,000
Total	$ 1,445,000	$46,610,000

6. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

The University is a State institution of higher education. It receives a State appropriation to finance its operations. In addition, it is subject to the legislative and administrative mandates of State government. Those mandates affect all aspects of the University's operations, its tuition and fee structure, its personnel policies and its administrative practices.

The State has chartered the Interim Governing Board with the responsibility to construct or renovate, finance and maintain various academic and other facilities of the State's universities and colleges, including certain facilities of the University. Financing for these facilities was provided through revenue bonds issued by the former Board of Education and Board of Regents, the University System of West Virginia, the State College System of West Virginia or the Interim Governing Board (the "Boards"). These obligations are the direct and total responsibility of the Boards.

Students of the State's universities and colleges, including students of the University, are assessed certain tuition charges and fees which must be remitted by the universities and the colleges to the Commission, on behalf of the Boards, for use in repayment of the bonds so issued. Any shortfalls between such tuition and fees remitted and actual debt service obligations are the responsibility of the Boards. To the extent that tuition charges and fees so collected by the Commission exceed debt service obligations, the Commission may remit funds back to the universities and colleges for renewal and replacement or maintenance and repair of the facilities so financed.

The amount of tuition and fees remitted by the University to the Commission and the amounts returned or due back from the Commission to the University are summarized as follows for the years ended June 30:

	2001	2000
Tuition and fees contractually required to be remitted by the University to the Commission	$ 5,761,002	$ 4,909,524
Less amounts returned or due back from the Commission to the University for capital purposes		157,556
Net amount retained by the Commission	$ 5,761,002	$ 4,751,968

To the extent that any funds returned to the University are not currently expended, they are transferred to the plant funds for future capital purposes.

The Boards' debt information cannot be extracted so as to present the University's portion of the Boards' bond indebtedness outstanding. It cannot be assumed that the amount of the tuition and fees contractually assessed and collected from University students, or that the net amount retained by the Commission, bears any relationship to the University's portion of the Boards' debt service.

The University's tuition and fees generally are pledged as collateral for the Boards' bond indebtedness.

7. LEASES

a. *Operating* - Future annual minimum lease payments on operating leases for years subsequent to June 30, 2001 are as follows:

Year Ending June 30,	
2002	$ 195,782
2003	187,409
2004	186,083
2005	186,884
2006	187,220
Thereafter	471,150
Total	$ 1,414,528

Total rent expense for each of the years ended June 30, 2001 and 2000 was approximately $213,000.

b. *Capital* - The University leases various equipment and buildings through capital leases. At June 30, 2001, leased equipment with a cost of $3,490,634 and leased buildings with a cost of $15,052,000 are included in equipment and buildings. At June 30, 2000, leased equipment with a cost of $3,892,048 and leased buildings with a cost of $15,052,000 are included in equipment and buildings.

The University has a capital lease agreement with the Marshall University Graduate College Foundation, Inc. (the "MUGC Foundation") for the Marshall University Graduate College's administration facility (the "Facility"). The fair value of the Facility was estimated by independent appraisal during the year ended June 30, 1995 at $5 million (building $4,300,000, land $700,000), and the 21-year lease term commenced with the Marshall University Graduate College's occupancy of the facility in June 1995. Ownership of the Facility transfers to the University at the end of the lease term.

In December 1996, the University entered into a lease agreement with the MUGC Foundation for an academic center to be used by the Marshall University Graduate College. The construction of the academic center was financed by the MUGC Foundation through the issuance of governmental revenue bonds. Effective September 1, 1997, the MUGC Foundation leased the academic center to the University for 20 years. Upon expiration of the lease term, the University will have the right to purchase the academic center for a sum equal to the amount required to redeem or otherwise satisfy or decrease the MUGC Foundation's bonds on the date of such purchase.

Future annual minimum lease payments for years subsequent to June 30, 2001 are as follows:

Year Ending June 30.	
2002	$ 1,428,916
2003	1,294,518
2004	1,154,128
2005	1,105,265
2006	1,049,016
Thereafter	13,060,726
	19,092,569
Less interest	6,723,904
	$ 12,368,665

c. *Direct Financing* - The University has a direct financing lease arrangement for a portion of an educational facility being leased under a capital lease, with title delivered to the University at completion of lease. The facility sub-lease expires in 25 years. At the end of the sub-lease the subleasee shall have the option to purchase its leased premises for the sum of one dollar. The following lists the components of the net investment in direct financing lease as of June 30, 2001.

Total minimum lease payments to be received	$ 1,795,190
Less: unearned income	744,788
Net investment in direct financing and sales-type leases	$ 1,050,402

8. RETIREMENT PLANS

Substantially all eligible employees of the University participate in either the West Virginia State Teachers Retirement System (the "STRS") or the Teachers Insurance and Annuities Association - College Retirement Equities Fund (the "TIAA-CREF"). Previously, upon full-time employment, all employees were required to make an irrevocable election between the STRS and TIAA-CREF. Effective July 1, 1991, the STRS was closed to new participants. Current participants in the STRS are permitted to make a one-time election to cease their participation in that plan and commence contributions to the West Virginia Teachers' Defined Contribution Plan. Contributions to and participation in the West Virginia Teachers' Defined Contribution Plan by University employees have not been significant to date.

The STRS is a cost-sharing, defined benefit public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The University's contributions to the STRS were at the rate of 15% of each enrolled employee's total annual salaries for the years ended June 30, 2001 and 2000, respectively. Required employee contributions were at the rate of 6% of total annual salaries for the years ended June 30, 2000 and 1999. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service or any age with 35 years of service. Lump sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest 5 years of salary out of the last 15 years) multiplied by the number of years of service.

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 University matches the employees' 6% contributions. Contributions are immediately and fully vested.

Total contributions to the STRS for the years ended June 30, 2001, 2000 and 1999 were approximately $1,439,000, $1,439,000 and $1,431,000, respectively, which consisted of approximately $1,028,000, $1,028,000 and $990,000, respectively, from the University and approximately $411,000, $411,000 and $441,000, respectively, from covered employees.

The contribution rate is set by the State Legislature on an overall basis and the STRS does not perform a calculation of the contribution requirement for individual employers, such as the University. Historical trend and net pension obligation information is available from the annual financial report of the Consolidated Public Retirement Board. A copy of this report may be obtained by writing to the Consolidated Public Retirement Board, Building 5, Room 1000, Charleston, WV 25305.

Total contributions to TIAA-CREF for the years ended June 30, 2001, 2000 and 1999 were approximately $7,022,000, $6,624,000 and $6,242,000, respectively, which consisted of approximately $3,511,000, $3,312,000 and $3,121,000, respectively, from the University and approximately $3,511,000, $3,312,000 and $3,121,000, respectively, from covered employees.

The University's total payroll for the year ended June 30, 2001 was approximately $72,601,000; total covered employees salaries in the STRS and TIAA-CREF were approximately $6,853,524 and $60,301,000, respectively. The University's total payroll for the year ended June 30, 2000 was approximately $68,736,000; total covered employees salaries in the STRS and TIAA-CREF were approximately $6,853,000 and $54,978,000, respectively.

9. COMPENSATED ABSENCES

The composition of the compensated absence liability was as follows at June 30, 2001 and 2000:

	2001	2000
Health or life insurance benefits	$ 7,256,043	$ 6,967,325
Accrued vacation leave	4,756,400	4,541,680
	$ 12,012,443	$ 11,509,005

For the years ended June 30, 2001 and 2000, the amount paid by the University for extended health or life insurance coverage retirement benefits totaled approximately $263,000 and $269,000, respectively. As of June 30, 2001 and 2000, there were 159 and 187 retirees, respectively, currently eligible for these benefits.

10. NONMANDATORY TRANSFERS

During the year ended June 30, 2001, Marshall University had nonmandatory transfers of $4,751,291 from the unrestricted fund.

Of the total amount transferred $1,586,227 were required based on the source of funds as follows:

Unrestricted fund to loan fund for medical education fees	$ 134,486
Unrestricted fund to plant fund for athletic fees	135,981
Unrestricted fund to plant fund for tuition and registration fees	1,315,760
	$ 1,586,227

In addition to the above transfers the University had the following nonmandatory transfers:

Nonmandatory transfers from the auxiliary unrestricted fund to the plant fund in the amount of $1,486,397 were authorized by the Senior Vice President of Operations for various auxiliary equipment and building projects.

Nonmandatory transfers from the unrestricted fund to the plant fund in the amount of $2,180,000 were authorized by the Senior Vice President for Finance for future equipment needs.

Nonmandatory transfers from the restricted fund to the unrestricted fund by the Marshall University Research Corporation in the amount of $501,333 were primarily the result of funds originally recorded as restricted but subsequently determined to be unrestricted.

11. FOUNDATIONS (UNAUDITED)

The Marshall University Foundation, Incorporated and the MUGC Foundation (the "Foundations") are separate nonprofit organizations incorporated in the State having as their purpose to benefit the work and services of the University and its affiliated nonprofit organizations. Independently elected Boards of Directors, not otherwise affiliated with the University, are responsible for oversight of the Foundations. In carrying out their responsibilities, the Boards of Directors of the Foundations employ management, form policy and maintain fiscal accountability over funds administered by the Foundations. Accordingly, the financial statements of the Foundations are not included in the accompanying combined financial statements.

The Foundations' restricted and unrestricted fund balances totaled approximately $70,943,000, and $72,312,000 at June 30, 2001 and 2000, respectively. The restricted fund balance includes amounts which are restricted by donors to use for specific projects or departments of the University and its affiliated organizations. The restricted and unrestricted fund balances related to endowments totaled approximately $44,338,000 and $39,686,000 at June 30, 2001 and 2000, respectively. Contributions to the Foundations, which are not reflected in the accompanying combined financial statements, totaled approximately $5,588,000 and $7,671,000 for the years ended June 30, 2001 and 2000, respectively.

12. AFFILIATED ORGANIZATIONS

The University has separately incorporated affiliated organizations, including the University Physicians Medical Services, Inc. and the Big Green Scholarship Foundation, Inc. Oversight responsibility for these entities rests with independent Boards and management not otherwise affiliated with the University. Accordingly, the financial statements of such organizations are not included in the accompanying University combined financial statements.

13. CONTINGENCIES AND COMMITMENTS

The nature of the educational industry is such that, from time to time, claims will be presented against the University 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.

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

The University owns various buildings which are known to contain asbestos. The University is not required by federal, state or local law to remove the asbestos from its buildings. The University is required under federal environmental, health and safety regulations to manage the presence of asbestos in its buildings in a safe condition. The University addresses its responsibility to manage the presence of asbestos in its buildings on a case by case basis. Significant problems of dangerous asbestos conditions are abated as the condition becomes known. The University also addresses the presence of asbestos as building renovation or demolition projects are undertaken and through asbestos operation and maintenance programs directed at containing, managing or operating with the asbestos in a safe condition.

* * * * * *

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

To the Marshall University Governing Board:

We have audited the combined financial statements of Marshall University (the "University") as of and for the year ended June 30, 2001, and have issued our report thereon dated October 5, 2001. 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.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the University's internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we will report to management of the University in a separate letter dated October 5, 2001.

This report is intended solely for the information and use of the Marshall University Governing Board, managements of the University and the West Virginia Higher Education Policy Commission, 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 5, 2001