Marshall University

Combined Financial Statements and Additional Information as of and for the Years Ended June 30, 2007 and 2006, and Independent Auditors' Reports

MARSHALL UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

To the Governing Board of Marshall University:

We have audited the accompanying combined statements of net assets of Marshall University (the "University") as of June 30, 2007 and 2006, 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 University. Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the discretely presented financial statements of The Marshall University Foundation, Inc. (a component unit of the University). Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the discretely presented financial statements of The Marshall University Foundation, Inc., is based solely on the report of such other auditors.

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. The Marshall University Foundation, Inc.'s financial statements, which were audited by other auditors, were not audited in accordance with *Government Auditing Standards*. 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 University'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, based on our audits and the report of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of the University and the discretely presented component unit of the University as of June 30, 2007 and 2006, and the respective changes in net assets and its 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 11 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 University'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 conducted for the purpose of forming an opinion on the University's basic combined financial statements taken as a whole. The additional information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic combined financial statements. This additional information is the responsibility of the University's management. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic combined financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2007, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 considered in assessing the results of our audit.

Deloitte & Touche LLP

September 27, 2007

Marshall University
Management's Discussion and Analysis (Unaudited)
Fiscal Year 2007

About Marshall University

Marshall University (the "University" or the "Institution") is one of West Virginia's State universities. The University was founded in 1837 and achieved University status in 1961. Integral parts of the Institution, and included in the financial information presented, are the Marshall University Research Corporation (MURC), Joan C. Edwards School of Medicine (SOM) and the Marshall Community and Technical College (MCTC). MURC has a separately presented financial statement which can be referenced for additional information about changes to that organization. MCTC is a separately accredited institution, administratively linked to the University for which additional information is provided immediately following the notes to the financial statements.

Marshall University is governed by a 16-member Board of Governors (the "Board") that determines, controls, supervises and manages the financial, business and educational policies and affairs of the Institution. The Board of Governors also develops a master plan, approves the Institution's budget request, reviews all academic programs offered at the Institution, and fixes tuition and other fees for the different classes or categories of students enrolled.

The University, including MCTC and SOM, has more than 16,000 students, 783 faculty and 836 staff members. The Institution currently operates 13 colleges and schools, offering 26 associate degree programs, 50 baccalaureate degree programs, 45 master's degree programs, 2 post-master's degree programs and 5 doctoral programs, including a doctorate of medicine.

Overview of the Financial Statements and Financial Analysis

The emphasis of discussions about these Statements will be on FY 2007 data explaining with use of approximate dollar amounts the significant changes from the financial statements presented for the year ended June 30, 2006. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and, the Statement of Cash Flows. The Governmental Accounting Standards Board (GASB) issues directives for presentation of college and university financial statements. The reporting format prior to FY 2002 presented financial balances and activities by fund groups. The current reporting format places emphasis on the overall economic resources of the University. Direct comparison with financial statements issued for periods prior to FY 2002 will not always be consistent. The GASB Statement No. 39 "Determining Whether Certain Organizations are Component Units" became effective for financial statement periods beginning after June 15, 2003. Detailed financial information of the Marshall University Foundation, which is controlled and managed by an independent 501(c) (3) corporation with a separate independent Board of Directors, is included. The University does not control these resources.

Statement of Net Assets

A Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. A Statement of Net Assets is a point in time financial statement and provides a fiscal snapshot of Marshall University. A Statement of Net Assets presents end-of-year data concerning assets (current and non-current), liabilities (current and non-current), and net assets (assets minus liabilities). Current assets and liabilities are typically associated with resources or obligations that will be used within the fiscal year. Non-current assets and liabilities are not typically used within the fiscal year. From the data presented, readers of a Statement of Net Assets are able to determine the assets available to continue the operations of the Institution. They are also able to determine how much the Institution owes vendors, employees, lenders and others. Finally, a Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the Institution.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the Institution's equity in or ownership of property, plant and equipment. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. Nonexpendable restricted net assets include endowments. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the Institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of these assets. The final category is unrestricted net assets. Unrestricted net assets are available for general use by the Institution.

Condensed Combined Statements of Net Assets
(In thousands of dollars)

	FY 2007	FY 2006	FY 2005
Assets:			
Current assets	$ 78,687	77,454	$ 80,979
Other noncurrent assets	27,309	26,786	18,442
Capital assets, net	320,126	302,277	258,715
Total Assets	$ 426,122	$ 406,517	$ 358,136
Liabilities			
Current liabilities	$ 31,419	$ 33,119	$ 30,225
Noncurrent liabilities	108,171	110,223	108,841
Total Liabilities	$ 139,590	$ 143,342	$ 139,066
Net Assets			
Invested in capital assets, net of related debt	$ 233,180	$ 213,613	$ 166,923
Restricted - nonexpendable	176	176	176
Restricted - expendable	14,509	12,504	13,130
Unrestricted	38,667	36,882	38,841
Total Net Assets	$ 286,532	$ 263,175	$ 219,070

Changes to Total Assets

Total assets of the Institution increased by $19.6 million in FY 2007 compared to an increase of $48.4 million in FY 2006. Of the current year increase, $16.3 million is associated with the University and $3.3 million, net of eliminations, is associated with MURC. The increase for the University is due to the following:

- Total current and non-current cash and cash equivalents increased $3.8 million. Cash balances associated with auxiliary operations increased $1.1 million primarily due to an increase in advance football season ticket sales. The School of Medicine cash increased $2.2 million of which $0.6 million is attributed to increased private grants and contracts and $1.3 million is associated with student fees.
- Total accounts receivable decreased $1.2 million. This reflects a decrease of $2.3 million associated with current receivables from the Higher Education Policy Commission (the "Commission" or "HEPC") associated with capital projects. Also included in the $1.2 million change is an increase of $1.7 million in noncurrent receivables associated with the second year of the agreement with University Physicians & Surgeons (UP&S) for estimated malpractice liabilities. (See note 2 to the financial statements for more information).
- Investments increased $1.2 million due to interest earnings and market value increases.
- A decrease in other assets of $2.3 million is due to expenditures associated with the Mid Ohio Valley Center (MOVC) addition.
- Capital Assets increased $21 million. Of this amount $3.3 million was to complete the construction of the Robert C. Byrd Biotechnology Science Center; $7.9 million for the SOM Clinical Outreach Facility; $2.3 million for the MOVC addition; and, $4.7 million toward completion of the ongoing Smith Hall renovations.

Changes to Total Liabilities

Total liabilities of the Institution decreased $3.7 million in FY 2007 compared to an increase of $4.3 million in FY 2006. The primary changes to liabilities in FY 2007 are related to accounts payable, deferred revenue, other noncurrent liabilities, and long-term debt including debt obligation to Commission, capital lease obligations and bonds payable.

Total liabilities of the University, excluding the decrease of $2.5 million associated with MURC, decreased $1.2 million related to the following:

- Accounts payable decreased $1.5 million primarily due to completion of several large construction projects prior to June 30.
- Deferred revenue increased $1.3 million including $1.1 million related to advance football season ticket sales.
- Other noncurrent liabilities increased $2.3 million in FY 2007 reflecting the second year SOM agreement with the Board of Risk and Insurance Management (BRIM) establishing a deductible program and lowering the malpractice insurance premiums.
- Current and noncurrent debt decreased by $4.1 million as repayment continues on the debt obligation to Commission, capital leases, and University bonds.
- Accrued liabilities for payroll, compensated absences, and student deposits increased a total of $0.8 million.

Changes to Net Assets

The final section of this Statement reflects the net asset balances. Changes to these balances from one year to the next reflect the net growth or contraction of the Institution over time with each category reflecting the varying degrees of liquidity and restrictions for which these assets are available to be used.

The net asset category "Invested in capital assets, net of related debt" reflects overall changes to the buildings, equipment and other capital assets net of depreciation and net of the liabilities associated with those assets. Investment in capital assets net of related debt increased $19.6 million in FY 2007 and $46.7 million in FY 2006. For the University, the increase is $23.1 million including Smith Hall renovations, Biotechnology Science Center, Clinical Outreach Facility, and MOVC. The net assets-invested in capital assets of MURC decreased $3.5 million.

Endowments are recorded as restricted nonexpendable net assets and did not change.

Total expendable restricted net assets increased $2.0 million in FY 2007 and decreased $0.6 million in FY 2006. Net assets of the University restricted for sponsored projects and loans increased $0.7 million and total expendable restricted net assets of MURC increased by $1.3 million.

The unrestricted net asset balance of $38.7 million in FY 2007 represents a $1.8 million increase from FY 2006, which contrasts to the $2.0 million decrease in FY2006 from FY 2005. Unrestricted net assets increased $0.9 million for the University and $0.9 million for MURC.

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

	FY 2007	FY 2006	FY 2005
Operating revenues	$ 163,611	$ 157,451	$ 148,347
Operating expenses	(229,608)	(215,182)	(197,475)
Operating loss	(65,997)	(57,731)	(49,128)
Nonoperating revenues	72,104	65,793	63,595
Nonoperating expenses	(5,609)	(4,985)	(5,564)
Income before other revenues, expenses, gains or losses	498	3,077	8,903
Other revenues, expenses, gains or losses	23,694	41,028	24,123
Increase in Net Assets before Transfers	24,192	44,105	33,026
Transfer of liability from Policy Commission	(835)	-	(250)
Increase in Net Assets	$ 23,357	$ 44,105	$ 32,776

Statement of Revenues, Expenses and Changes in Net Assets

The purpose of the Statement of Revenues, Expenses, and Changes in Net Assets is to present the revenues and expenses, both operating and non-operating, as well as other gains and losses of the Institution.

Operating Revenues

Operating revenues are received for student tuition and fees, grants and contracts, auxiliary services and miscellaneous revenue. Operating revenues increased to $163.6 million in FY 2007 for an increase of $6.1 million compared to an increase of $9.1 million in FY 2006. These increases are primarily the result of:

- Tuition and fee revenue increased $4.1 million primarily due to an increase in the fee rate, E-courses, remissions and other miscellaneous fees
- Grants and contracts increased $3.6 million including increases of $0.8 million in federal grants, $0.9 million in state grants, and $0.1 million in private grants of the University. MURC grants and contracts, net of eliminations increased $1.8 million.
- Auxiliary revenue increased $674,000 in FY 2007 of which $660,000 is related to an increase in the Athletic student fees.

Operating Expenses

Operating expenses are paid for goods and services to carry out the mission of the Institution. Operating expenses increased to $229.6 million in FY 2007 for an increase of $14.4 million as compared to an increase of $17.7 million in FY 2006. These increases are primarily the result of:

- Salaries, wages and fringe benefits, including health insurance premiums, retirement matching, FICA and similar benefits, increased $6.7 million as the result of an average 2% salary increase and health premium increases. Salaries, wages and fringe benefits at MURC increased $1.7 million.
- Supplies and other services increased to $50.9 million for an increase of $4.4 million. The net increase for the University was $3.3 million, including a $1.9 million increase in equipment purchases. The University

adopted a new capitalization threshold effective for FY 2007 to expense equipment purchases up to $5,000. Previously the University expensed equipment purchases up to $1,000. MURC supplies and other services net of eliminating entries increased $1.1 million.

- Utilities in FY 2007 increased to $6.8 million for an increase of $342,000 primarily due to the opening of the new Biotechnology Science Center. MURC utility expenses increased $43,000.
- Student financial aid increased to $16.8 million in FY 2007 for an increase of $1.8 million primarily attributed to increases in PELL and Higher Education Grants as well as several new grant programs for disadvantaged students, offset by reductions in Promise and HEAPS scholarships.

Non-operating Revenues and Expenses

Revenues for which goods and services are not provided are reported as non-operating revenues. Non-operating revenues for FY 2007 were $72.1 million which was an increase of $6.3 million as a result of:

- State appropriations increased $3.9 million.
- Gift revenue increased $336,000 primarily due to gifts from the MU Foundation.
- Investment income increased $2.1 million. This was the first full year of investment income for the University from multi-strategy funds managed by Commonfund for a net increase of $1.4 million. In addition, interest distributions associated with the State's investment pool increased $0.4 million. Investment income for MURC increased $275,000.

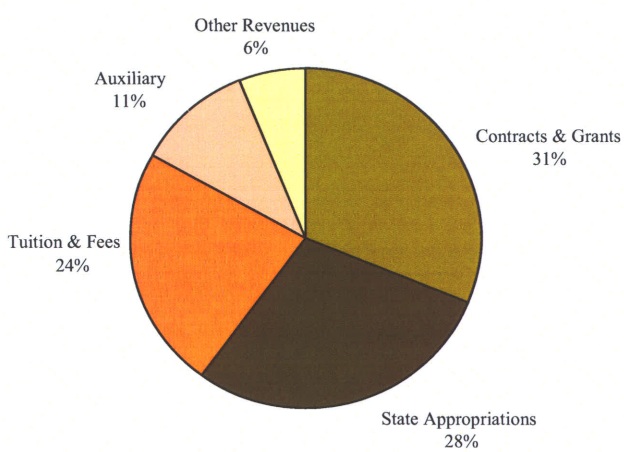
Non-operating expenses increased by $625,000 in FY 2007 associated with the loss on disposal of two storage buildings to accommodate construction of the Student Health and Wellness Center.

Total operating and non-operating revenue for the Institution was $235.7 million in FY 2007 as compared to $223.2 million in FY 2006. Operating and non-operating revenue category percentages for FY 2007 are shown on graph A.

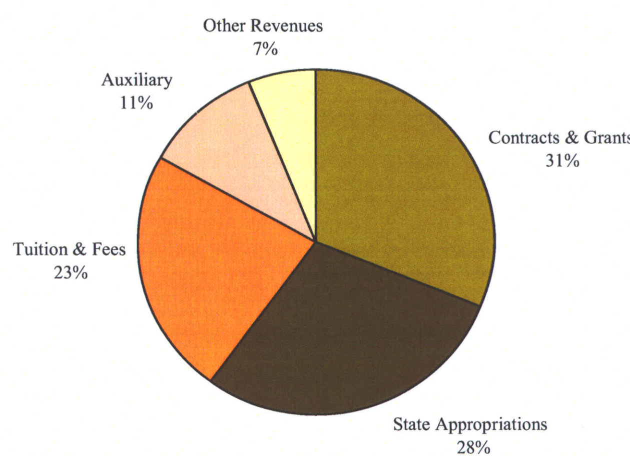
Total operating and non-operating expenses of the Institution amounted to $235.2 million in FY 2007 as compared to $220.1 million in FY 2006. Expenses as a percentage are shown by object of expenditure in graph B and by functional classification in graph C.

Total Operating and Non-operating Revenues (Graph A)

FY 2007



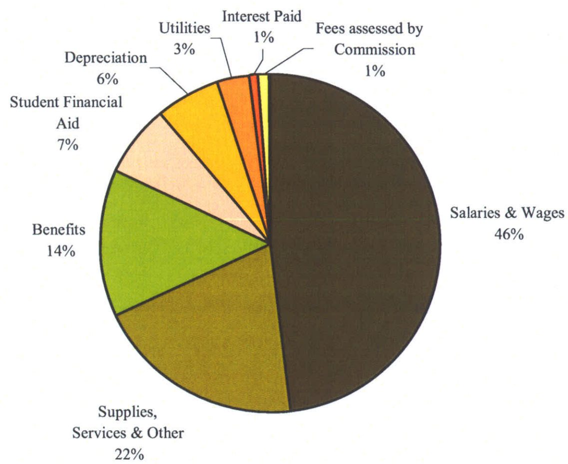
FY 2006



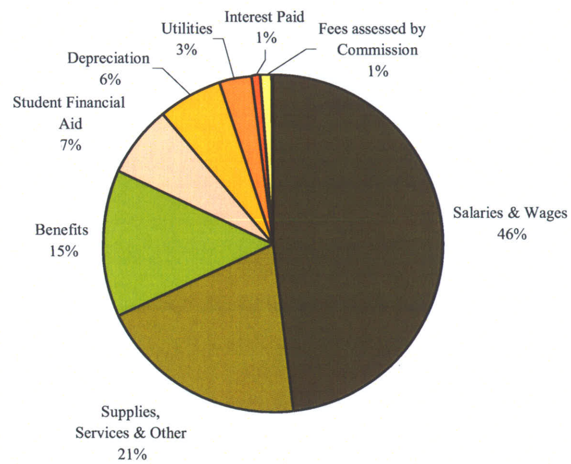
Total Operating and Non-operating Expenses

By Object (Graph B)

FY 2007

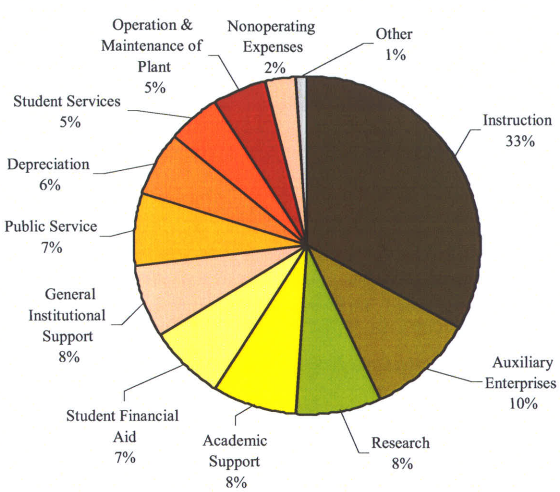


FY 2006

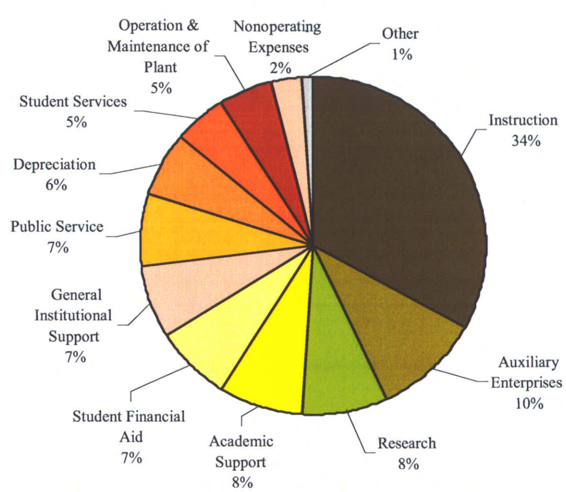


By Function (Graph C)

FY 2007



FY 2006



Income before other Revenues, Expenses and Other items

The total of both operating and non-operating revenues and expenses is reflected in the income before other revenues, expenses and other items. In FY 2007, the income was $498,000 for the Institution. Of this total, the University, including MCTC and SOM, had a loss of $1.4 million in FY 2007. MURC, net of eliminations, had income of $1.9 million for FY 2007.

Changes to Net Assets

The increase in net assets of $23.4 million reflects improvement in the Institution's general financial condition. The net asset increase includes federal and state construction grants of $10.6 million and $12.9 million of Lottery bond proceeds from HEPC.

The $835,000 in FY 2007 and the $250,000 in FY 2005 is attributable to the Commission bond refinancing in those years. There was not any similar activity in FY 2006.

Statement of Cash Flows

The statement of cash flows provides information about the cash receipts, cash payments, and net change in cash resulting from the operating, investing, and financing activities (capital and noncapital) of the University during the year. This statement helps users assess the University's ability to generate net cash flows, its ability to meet obligations as they come due, and its need for external finance.

Condensed Combined Statements of Cash Flows
(In thousands of dollars)

	FY 2007	FY 2006	FY 2005
Cash flows provided by (used in):			
Operating activities	$ (46,694)	$ (45,688)	$ (39,258)
Noncapital financing activities	67,666	64,583	61,513
Capital and related financing activities	(17,272)	(21,936)	(21,459)
Investing activities	3,823	(4,702)	1,312
Net Change in current cash	7,523	(7,743)	2,108
Current cash, beginning of year	57,197	64,940	62,832
Current cash, end of year	$ 64,720	$ 57,197	$ 64,940

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 university. The change in this section reflects increases to cash collections for tuition and fees, auxiliaries, and other operating revenues, offset by increased cash disbursements for operating expenditures. Although operating revenues increased, the decrease in accounts payable in FY 2007 represents a reduction in cash, increasing the cash used by operating activities.
- Cash flows from noncapital financing activities reflect the cash received and paid for nonoperating, noninvesting, and noncapital financing purposes. The increase in State appropriations was the primary reason for the change in this section.
- Cash flows from capital financing activities include cash used for the acquisition and construction of capital and related items. This category reflects the decrease in cash outflows as the Biotechnology Science Center and other construction projects were completed.

- Cash flows from investing activities show the purchases, proceeds, and interest received from investing activities. Increased earnings on investments and cash on deposit in the State investment pool were the primary reason for changes in this section.
- Reconciliation of operating loss to net cash used in operating activities provides a schedule that reconciles the accrual-based operating income loss and net cash used in operating activities.

Capital Asset and Debt Administration

The University continues to expand its facilities. In addition to ongoing maintenance of existing facilities, the addition of new facilities reflects the continued growth of the University. The Robert C. Byrd Biotechnology Science Center on 3rd Avenue in Huntington opened in spring 2007. The total project cost for this facility is $48 million funded primarily by federal and state grants. The Clinical Outreach Center is expected to be completed early in the 2008 fiscal year and will allow the SOM to expand its enrollment. The total cost for this facility is $22 million funded primarily by a federal grant.

The University is also participating in a system-wide bond issue of HEPC. West Virginia Lottery Commission revenues will be used to pay the debt service of this issue. Bond proceeds of $30.5 million available to the University will be used for biotechnology facilities, student health and wellness center, community college facilities, other facilities and major improvements to existing facilities. The University has recognized $27 million of this available amount as of June 30, 2007.

The University has utilized two separate bonding mechanisms in the past for financing major campus improvements. The first method pledges specific revenue sources of the University to repayment of the bonds including two revenue bond issues of the University. The first was for construction of Memorial Student Center (1969) and the second was for construction of housing and parking facilities (2001). Both of these bonds including payment schedules are more fully described in Note 8 to the financial statements.

The second method of bonding pledges specific revenue sources of the entire West Virginia Higher Education System toward repayment of the bond debt with a portion of that debt attributed to each institution within the West Virginia Higher Education System. Fees of the entire system are pledged to repayment of these system-wide bond issues and the obligation for repayment of these bonds rests with the HEPC. Since 1992, all public colleges and universities within the West Virginia Higher Education System maintain a separate payment schedule for any projects of that campus even if consolidated with other projects for a combined bond issue. In FY 2007 principal payments to the HEPC of $2.8 million, interest assessed by HEPC of $2.0 million, and fees assessed for debt service reserve and other bond costs of $48,000 resulted in a total payment of $4.8 million related to system-wide bonds. Total principal and interest payments were distributed to the following bond issues:

- West Virginia Higher Education System bonds of 2003 (Series A) in which the University participated were the result of refinancing of bonds originally issued in 1992. Through prior agreement under the University System of West Virginia (predecessor to the HEPC), the University's portion of these bonds approximated 24%. The annual amount paid for this bond issue is $2.1 million. These bonds will be retired through 2012.

- The University through the University System of West Virginia arranged for issuance of bonds in 1996 for construction of the Drinko Library. A portion of these bonds was refinanced in August 2004 as part of another system-wide bond issue of HEPC. These system-wide bonds will be retired through 2016 and the annual payment is $1.2 million.

- In 1997, the University participated in another system-wide bond issuance through the University System of West Virginia for various projects, including construction of the Jomie Jazz Center, improvements to Henderson Center, and Old Main renovations. The debt service payment on these bonds in FY 2007 was approximately $840,000. These bonds were refinanced in 2007 as part of the 2007 Series A bonds and will be retired through 2027 with annual payments of $0.8 million.

- In 2000, the University participated in a system-wide bond issuance through the University System of West Virginia for purchase of facilities located at Cabell Huntington Hospital and associated with the University's School of Medicine. The debt service payment on these bonds in FY 2007 was $0.7 million. These bonds were refinanced in 2007 as the part of the 2007 Series A bonds and future payments will be approximately $660,000 per year through 2025. Payment on these bonds is made from rental income from University Physicians and Surgeons, Inc., the practice plan associated with the University's School of Medicine.

Economic Outlook

The State of West Virginia continues to experience a downward trend in the number of high school graduates; however, the areas from which the University traditionally recruits students has not experienced as much of a decline as other areas of the state. Additionally, the University is well positioned by virtue of its location in the two largest metropolitan regions of the state to attract and maintain non-traditional students to replace any losses of traditional college-age students. The University continues to place additional emphasis on the retention of all students and the recruitment of out-of-state students. An increase in non-resident headcount of 4.9% (Fall, 2006 over Fall, 2005) is viewed as positive related to the competitiveness of the University in these multi-state markets. The addition of the new Student Health and Wellness Center and the new residential housing complexes, which are slated to open in the Fall of 2008, combined with improvements to existing facilities along with the growth in non-resident students and a marketable fee structure, should allow the University to sustain a positive competitive advantage in the ability to attract new and retain returning students at higher levels than in the past.

Additionally, the availability of electronic courses, which has provided an increase in revenues of approximately $3.8 million over the past four years, assists in the University's efforts to attract the non-traditional student by expanding its outreach opportunities to better serve students in remote markets wherever Internet service is available. Growth in electronic course enrollment is anticipated to continue and will provide the University with a revenue stream apart from state appropriations.

The University's financial position is closely correlated to that of the State of West Virginia. The institution continues to be at risk for the reallocation of state appropriations to other state institutions and/or non-higher education state funded entities. A considerable percentage of the University's operational budget is funded by state appropriations; however, the University has taken strides to lower this dependence through initiatives that will provide greater self-reliance and sustainability for the future.

Significant University resources are expended on salaries and fringe benefits associated with a labor-intensive organization. Over the past four years, the University has granted overall nearly 12.5% in salary increases; however, the increased costs related to health insurance and postemployment benefits continue to place added economic pressure on the operational budget. The ability to compensate personnel and to recruit and maintain quality faculty and staff continues to be an ongoing challenge given the limited resources intertwined with tight budgets to fund salary increases and the uncertainty of future economic conditions.

The adoption of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions,* will result in a cumulative effect adjustment of approximately $9.2 million which will increase net assets as of the beginning of the year in fiscal 2008. The 2008 expense, net of State revenue from payments made on behalf of the University, is expected to be less than this adjustment. However, there is no commitment of any additional funding from the State for years after 2008, at this time. Accordingly, in approximately 2.5 years, the GASB 45 liability will exceed the amount currently recorded as a liability as of June 30, 2007. There are no current plans to fund this liability above the current billing amounts.

The opening of the Robert C. Byrd Biotechnology Science Center on the Huntington campus provides state-of-the-art facilities for the University's biomedical research programs, medical education, and the College of Science. The ability to bring such a facility to students enrolled in these programs together in a central location will enhance educational and research initiatives of the University and will serve as a catalyst for economic development in West Virginia and the surrounding region. A new Engineering Laboratory facility, which will serve the University's new 4-year engineering program, is under construction. This latter program is one of the fastest growing academic programs at the university in terms of enrollment growth.

Management is unable to predict with certainty the full extent or effect of future economic events; however, we are confident the University has a sound financial base and will take the necessary action required should economic conditions of the state negatively impact the institution's operational budget.

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS AS OF JUNE 30, 2007 AND 2006

	2007	2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 64,719,913	$ 57,197,222
Accounts receivable — net	11,981,922	17,708,952
Loans receivable	785,684	801,851
Inventories	812,697	781,212
Other current assets	386,876	965,111
Total current assets	78,687,092	77,454,348
NONCURRENT ASSETS:		
Cash and cash equivalents	4,838,061	4,273,503
Accounts receivable	3,666,248	1,732,641
Loans receivable, net of allowance of $1,505,993 and $1,646,793 in 2007 and 2006, respectively	6,244,981	6,373,190
Investments	11,342,246	10,818,565
Other assets	1,217,322	3,587,913
Capital assets — net	320,126,245	302,276,860
Total noncurrent assets	347,435,103	329,062,672
TOTAL	$ 426,122,195	$ 406,517,020

(Continued)

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2007 AND 2006

	2007	2006
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 4,561,887	$ 8,400,397
Due to Commission	6,604	26,167
Accrued liabilities	6,167,953	5,544,703
Deferred revenue	8,473,610	7,319,062
Deposits	636,583	546,683
Compensated absences — current portion	6,222,462	5,976,778
Debt obligation to Commission — current portion	3,097,400	2,852,475
Capital lease obligations — current portion	1,048,056	1,293,092
Bonds payable — current portion	1,205,000	1,160,000
Total current liabilities	31,419,555	33,119,357
NONCURRENT LIABILITIES:		
Notes payable	41,633	47,715
Advances from federal sponsors	6,601,954	6,681,917
Other noncurrent liability	4,534,425	2,200,976
Compensated absences	10,953,715	10,846,839
Debt obligation to Commission	33,153,400	35,415,800
Capital lease obligations	9,850,888	10,789,802
Bonds payable	43,035,000	44,240,000
Total noncurrent liabilities	108,171,015	110,223,049
Total liabilities	139,590,570	143,342,406
NET ASSETS:		
Invested in capital assets — net of related debt	233,179,806	213,613,286
Restricted for:		
Nonexpendable	176,000	176,000
Expendable:		
Scholarships	93,583	45,418
Sponsored projects	11,248,706	9,520,722
Loans	2,457,684	2,184,830
Capital projects	154,648	210,100
Debt service	554,079	542,293
Total restricted expendable	14,508,700	12,503,363
Unrestricted	38,667,119	36,881,965
Total net assets	286,531,625	263,174,614
TOTAL	$ 426,122,195	$ 406,517,020

See notes to combined financial statements. (Concluded)

MARSHALL UNIVERSITY

THE MARSHALL UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2007 AND 2006

	2007	2006
ASSETS		
Cash and cash equivalents	$ 5,466,278	$ 6,398,321
Notes receivable	251,278	423,496
Unconditional promises to give, less allowance for uncollectible promises of $280,033 and $391,206 in 2007 and 2006, respectively	5,581,670	6,176,250
Contributions receivable from Remainder Trusts	964,151	705,965
Beneficial Interest in Perpetual Trusts	8,130,467	7,450,349
Investments	99,667,407	87,031,682
Net investment in direct financing leases		57,058
Property and equipment — net	1,961,959	1,075,462
Property on operating lease		240,000
Cash surrender value — life insurance — net of policy loans	239,926	285,313
Total assets	$ 122,263,136	$ 109,843,896
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	$	$ 175,241
Notes payable		486,331
Annuity payment liability	648,037	675,018
Total liabilities	648,037	1,336,590
NET ASSETS:		
Unrestricted	20,357,044	22,532,310
Temporarily restricted	40,220,696	29,053,171
Permanently restricted	61,037,359	56,921,825
Total net assets	121,615,099	108,507,306
Total liabilities and net assets	$ 122,263,136	$ 109,843,896

The accompanying notes are an integral part of the financial statements

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
OPERATING REVENUES:		
Student tuition and fees, net of scholarship allowance of $17,726,387 and $18,123,054 in 2007 and 2006, respectively	$ 55,673,025	$ 51,538,957
Contracts and grants:		
Federal	39,090,666	37,457,034
State	19,336,331	17,714,246
Local	788,817	838,260
Private	14,357,499	14,013,160
Interest on loans receivable	132,053	108,919
Sales and services of educational activities	341,914	369,934
Auxiliary enterprise revenue, net of scholarship allowance of $4,408,005 and $3,367,307 in 2007 and 2006, respectively	24,766,375	24,092,665
Other operating revenues	9,124,361	11,317,580
Total operating revenues	163,611,041	157,450,755
OPERATING EXPENSES:		
Salaries and wages	107,055,131	101,606,852
Benefits	33,190,327	31,904,830
Supplies and other services	50,927,551	46,510,703
Utilities	6,839,388	6,497,338
Student financial aid — scholarships and fellowships	16,839,770	14,997,857
Depreciation	14,001,212	12,662,961
Other operating expenses	56,701	318,754
Fees assessed by the Commission for operations	697,748	683,109
Total operating expenses	229,607,828	215,182,404
OPERATING LOSS	(65,996,787)	(57,731,649)

(Continued)

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
NONOPERATING REVENUES (EXPENSES):		
State appropriations	$ 66,754,533	$ 62,864,336
Gifts	991,752	655,505
Investment income	4,357,968	2,273,406
Interest on indebtedness	(2,734,331)	(2,805,110)
Fees assessed by the Commission for debt service	(1,958,913)	(2,159,902)
Other nonoperating expenses — net	(916,094)	(19,518)
Net nonoperating revenues	66,494,915	60,808,717
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	498,128	3,077,068
CAPITAL GRANTS AND GIFTS	10,787,352	28,526,238
CAPITAL BOND PROCEEDS FROM THE COMMISSION	12,906,531	12,501,541
INCREASE IN NET ASSETS BEFORE TRANSFERS	24,192,011	44,104,847
TRANSFER OF LIABILITY FROM THE COMMISSION	(835,000)	
INCREASE IN NET ASSETS	23,357,011	44,104,847
NET ASSETS — Beginning of year	263,174,614	219,069,767
NET ASSETS — End of year	$ 286,531,625	$ 263,174,614

See notes to combined financial statements.

(Concluded)

MARSHALL UNIVERSITY

THE MARSHALL UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT, REVENUES, AND RECLASSIFICATIONS:				
Gifts, contributions, and other	$ 2,660,757	$ 4,080,922	$ 2,775,765	$ 9,517,444
Investment income	10,149,313	3,166,787	213,109	13,529,209
Net assets released from restrictions				
Satisfaction of program restrictions	6,290,696	(6,290,696)		
Total public support, revenues, and reclassifications	19,100,766	957,013	2,988,874	23,046,653
EXPENSES:				
Program services:				
Academic assistance	6,504,736			6,504,736
Student assistance	761,200			761,200
Total program services	7,265,936			7,265,936
Supporting services:				
Management and general	1,759,276			1,759,276
Fundraising	913,648			913,648
Total supporting services	2,672,924			2,672,924
Total expenses	9,938,860			9,938,860
CHANGE IN NET ASSETS	9,161,906	957,013	2,988,874	13,107,793
NET ASSETS — Beginning of year	22,532,310	29,053,171	56,921,825	108,507,306
TRANSFERS	(11,337,172)	10,210,512	1,126,660	
NET ASSETS — End of year	$ 20,357,044	$ 40,220,696	$ 61,037,359	$ 121,615,099

The accompanying notes are an integral part of the financial statements

MARSHALL UNIVERSITY

THE MARSHALL UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT, REVENUES, AND RECLASSIFICATIONS:				
Gifts, contributions, and other	$ 1,005,189	$ 7,428,648	$ 5,906,966	$ 14,340,803
Investment income	6,288,573	290,867	906,282	7,485,722
Net assets released from restrictions				
Satisfaction of program restrictions	4,581,494	(4,581,494)		-
Total public support, revenues, and reclassifications	11,875,256	3,138,021	6,813,248	21,826,525
EXPENSES:				
Program services:				
Academic assistance	4,671,137			4,671,137
Student assistance	568,923			568,923
Total program services	5,240,060	-	-	5,240,060
Supporting services:				
Management and general	1,320,147			1,320,147
Fundraising	589,368			589,368
Total supporting services	1,909,515	-	-	1,909,515
Total expenses	7,149,575	-	-	7,149,575
CHANGE IN NET ASSETS	4,725,681	3,138,021	6,813,248	14,676,950
NET ASSETS — Beginning of year	15,249,237	27,089,912	51,491,207	93,830,356
TRANSFERS	2,557,392	(1,174,762)	(1,382,630)	-
NET ASSETS — End of year	$ 22,532,310	$ 29,053,171	$ 56,921,825	$ 108,507,306

The accompanying notes are an integral part of the financial statements

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 55,756,527	$ 51,515,227
Contracts and grants	75,633,228	66,929,637
Payments to and on behalf of employees	(139,145,798)	(130,955,537)
Payments to suppliers	(50,317,548)	(45,958,027)
Payments to utilities	(6,839,388)	(6,497,338)
Payments for scholarships and fellowships	(16,839,770)	(14,997,857)
Loans issued	(1,243,493)	(1,787,326)
Collection of loans	1,252,401	1,347,405
Sales and service of educational activities	341,914	369,934
Auxiliary enterprise charges	26,174,797	24,373,106
Fees assessed by Commission	(697,748)	(683,109)
Other receipts — net	9,231,123	10,656,463
Net cash used in operating activities	(46,693,755)	(45,687,422)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	66,685,052	63,907,638
Payments on notes and lease payable	(8,178)	(3,194)
Proceeds from notes payable	2,096	9,315
Gift receipts	991,752	655,505
Agency fund receipts	684,420	373,039
Agency fund payments	(689,050)	(359,314)
William D. Ford direct lending receipts	49,932,050	48,377,762
William D. Ford direct lending payments	(49,932,136)	(48,377,400)
Net cash provided by noncapital financing activities	67,666,006	64,583,351
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital grants and gifts received	10,800,352	28,397,301
Capital projects and bond proceeds from Commission	15,245,986	9,818,170
Purchases of capital assets	(32,950,370)	(49,367,793)
Principal paid on bonds and leases	(2,440,622)	(5,402,723)
Interest paid on bonds and leases	(2,671,476)	(2,767,055)
Proceeds from sale of capital assets	119,703	114,674
Principal payment on debt obligation due to Commission	(2,852,475)	(2,725,000)
Fees assessed by Commission	(1,958,913)	(2,159,902)
Lease escrow deposit from restricted cash		2,600,000
Increase in noncurrent cash and cash equivalents	(564,558)	(444,012)
Net cash used in capital financing activities	(17,272,373)	(21,936,340)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(293,255)	(7,925,906)
Sale/maturity of investments	812,564	773,995
Investment income	3,279,430	2,387,981
Lease receipts	24,074	61,888
Net cash provided by (used in) investing activities	3,822,813	(4,702,042)
NET INCREASE (DECREASE) IN CURRENT CASH AND CASH EQUIVALENTS	7,522,691	(7,742,453)
CURRENT CASH AND CASH EQUIVALENTS — Beginning of year	57,197,222	64,939,675
CURRENT CASH AND CASH EQUIVALENTS — End of year	$ 64,719,913	$ 57,197,222

(Continued)

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (65,996,787)	$ (57,731,649)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	14,001,212	12,662,961
Changes in assets and liabilities:		
Accounts receivable — net	2,142,127	(4,656,314)
Loans receivable — net	144,376	(198,312)
Prepaid expenses	578,235	(74,464)
Inventories	(31,485)	7,181
Accounts payable	(2,009,894)	(1,738,237)
Accrued liabilities	2,961,415	3,366,804
Compensated absences	352,560	1,630,763
Deferred revenue	1,154,549	1,014,928
Deposits held in custody for others	89,900	36,000
Advances from federal sponsors	(79,963)	(7,083)
NET CASH USED IN OPERATING ACTIVITIES	$ (46,693,755)	$ (45,687,422)
NONCASH TRANSACTIONS:		
Capital lease obligation incurred for equipment and buildings	$ 97,290	$ 6,772,484
Capital gifts of equipment	$ 148,794	$ 69,722
Loss on disposal of assets	$ 916,093	$ 19,518
Construction in progress additions in accounts payable	$ 552,149	$ 3,014,746

See notes to combined financial statements. (Concluded)

1. ORGANIZATION

Marshall University (the “University”) is governed by the Marshall University Board of Governors (the “Board”). The Board was established by Senate Bill 653 (“S.B. 653”).

Powers and duties of the Board include, but are 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.

S.B. 653 also created the West Virginia Higher Education Policy Commission (the “Commission”), which is responsible for developing, gaining consensus around, and overseeing the implementation and development of a higher education public policy agenda.

As a requirement of Governmental Accounting Standards Board (“GASB”) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the University has included information from the Marshall University Foundation, Inc. (the “Foundation”). Although the University benefits from the activities of the Foundation, the Foundation is independent of the University in all respects. The Foundation is not a subsidiary of the University and is not directly or indirectly controlled by the University. The Foundation has its own separate, independent Board of Directors. Moreover, the assets of the Foundation are the exclusive property of the Foundation and do not belong to the University. The University is not accountable for, and does not have ownership of, any of the financial and capital resources of the Foundation. The University does not have the power or authority to mortgage, pledge, or encumber the assets of the Foundation. The Board of Directors of the Foundation are entitled to make all decisions regarding the business and affairs of the Foundation, including, without limitation, distributions made to the University. Under state law, neither the principal nor income generated by the assets of the Foundation can be taken into consideration in determining the amount of state-appropriated funds allocated to the University. Third parties dealing with the University, the Board and the State of West Virginia (the “State”) (or any agency thereof) should not rely upon the financial statements of the Foundation for any purpose without consideration of all the foregoing conditions and limitations.

The additional information schedules are included to comply with the requirements of the Commission and the West Virginia Council of Community and Technical College Education to provide financial information for all component parts of the University under Senate Bill 448. This presentation provides financial information for the University, which includes the four year, graduate, and medical programs, and Marshall Community and Technical College.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of the University have been prepared in accordance with generally accepted accounting principles as prescribed by the GASB, including Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, an Amendment of GASB Statement No. 34. The combined financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

The 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 combined financial statements.

Reporting Entity — 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 and the Commission (which includes West Virginia Network for Educational Telecomputing), 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 University, including Marshall University Research Corporation (MURC) and Southern West Virginia Brownfields Assistance Center, Inc. ("Center"). 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 14 and 15) 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 these entities under GASB Statement No. 14, *The Financial Reporting Entity*.

On May 25, 2006, the Center was incorporated to foster and promote the redevelopment of Brownfield sites, including providing assistance to eligible entities on state and federal Brownfield programs, securing state and federal funding for Brownfield redevelopment, and acquire property eligible for state and federal Brownfield assistance as set forth in West Virginia State Code 18B-11-7. As of June 30, 2007, the Center had limited financial activity all of which is included in the accompanying combined financial statements.

GASB Statement No. 39, as an amendment to GASB Statement No. 14, was adopted by the University as of July 1, 2003. As a result, the audited financial statements of the Foundation are presented here as a discrete component unit with the University combined financial statements for the fiscal years ended June 30, 2007 and 2006. The Foundation is a separate private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundations audited financial information as it is presented herein (See also Note 14).

Financial Statement Presentation — GASB Statement No. 35, as amended by GASB Statements No. 37, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures* establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a basis to focus on the University as a whole. Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of University obligations. The University's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt **—** This represents the University's total investment in capital assets, net of 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, Expendable **—** This includes resources for which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Restricted Net Assets, Nonexpendable **—** This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift 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 University, and may be used at the discretion of the Board to meet current expenses for any purpose.

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

Cash and Cash Equivalents — For purposes of the combined statements of net assets, the University considers all highly liquid investments with an original maturity of three months or less to be 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 Board of Treasury Investments (BTI). These funds are transferred to the BTI and the BTI is directed by the State Treasurer to invest the funds in specific external investment pools in accordance with West Virginia code, policies set by the BTI, and by provisions of bond indentures and trust agreements, when applicable. Balances in the investment pools are recorded at fair value or amortized cost which approximates fair value. Fair value 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 BTI 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 are available for immediate withdrawal, and accordingly, are presented as cash and cash equivalents in the accompanying combined financial statements.

The BTI maintains the Consolidated Fund Investment Fund which consists of five investment pools and participant-directed accounts, in which the State and local governmental agencies invest. These pools have been structured as multiparticipant variable net asset funds to reduce risk and offer investment liquidity diversification to the Fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the BTI's investment operations pool can be found in its annual report. A copy of that annual report can be obtained from the following address: 1900 Kanawha Blvd., E. Room E-122, Charleston, WV 25305 or http://www.wvbti.com.

Investments — The University has investments in two multi-strategy funds at June 30, 2007. One fund is comprised of high-quality bond investments, with the other being comprised of long-term equity investments. MURC held U.S. government securities and invested in an intermediate term fund comprised of high-quality fixed income securities at June 30, 2007 and 2006.

The fair value of investments, other than alternative investments, are based primarily on quoted market prices as of the last business day of the fiscal year. The alternative investments are carried at estimated fair value as of June 30, 2007 and 2006. These valuations include assumptions and methods that were reviewed by University management. The University believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2007 and 2006. Because alternative investments are not readily marketable, and the estimated value is subject to uncertainty, the reported value may differ from the value that would have been used had a ready market existed.

Permissible investments for all agencies include those guaranteed by the United States of America, its agencies, and instrumentalities, (U.S. government obligations); corporate debt obligations, including commercial paper, which meet certain ratings; certain money market funds; repurchase agreements; reverse repurchase agreements; asset-backed securities; certificates of deposit; state and local government securities (SLGS); and other investments. Other investments consist primarily of investments in accordance with the Linked Deposit Program, a program using financial institutions in the State to obtain certificates of deposit, loans approved by the legislature, and any other program investments authorized by the legislature.

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.

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

Noncurrent Cash and Cash Equivalents — Cash, that is (1) externally restricted to make debt service payments, long-term loans to students, or to maintain sinking or reserve funds, (2) to purchase capital or other noncurrent assets, and (3) permanently restricted net assets, is classified as a noncurrent asset in the combined statements of net assets.

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.

Capital Assets — Capital assets include property, plant, and equipment, books and materials that are part of a catalogued library, and infrastructure assets. 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 15 to 50 years for buildings and infrastructure, 15 years for land improvements, 7 years for library books, and 3 to 10 years for furniture and equipment. The University's capitalization threshold is $100,000 for buildings and $5,000 for most other capital assets. During fiscal year 2006, the University implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairments of Capital Assets and for Insurance Recoveries*. The combined financial statements reflect all adjustments required by GASB Statement No. 42 as of June 30, 2007.

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.

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 1½ 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. Employees hired July 1, 2001, or later, will no longer receive sick leave credit toward insurance premiums when they retire.

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 3⅓ 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 expense and expense incurred for vacation leave, sick leave, or extended health or life insurance benefits are recorded as a component of benefits expense on the combined statements of revenues, expenses, and changes in net assets.

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 (SOM). 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.

SOM established a $250,000 deductible program under the BRIM professional liability coverage effective July 1, 2005. Prior to this date, the SOM was totally covered by BRIM at a limit of $1,000,000 per occurrence. Starting July 1, 2005, the SOM assumed the risk and responsibility for any and all indemnity amounts up to $250,000 per occurrence and all loss expenses associated with medical malpractice claims and/or suits in exchange for a reduction in its premium for medical malpractice insurance.

Under the program SOM entered into an agreement with BRIM whereby the SOM initially deposited $500,000 in an escrow account with the state treasury from which BRIM may withdraw amounts to pay indemnity costs and allocated expenses in connection with medical malpractice claims against the SOM. At June 30, 2007, the balance in the escrow account is $1,044,492. Based on an actuarial valuation of this self insurance program, the University has recorded a liability of $4,534,425 and $2,200,976 at June 30, 2007 and 2006, respectively, to reflect projected claim payments at 90% confidence level. The receivable from UP&S for the funding they have agreed to provide for this liability was $3,489,933 and $1,700,976 at June 30, 2007 and 2006, respectively.

In addition, through its participation in the West Virginia Public Employees Insurance Agency (PEIA) and a third-party insurer, the University has obtained health, life, prescription drug coverage, and coverage for job-related injuries for its employees. In exchange for payment of premiums to PEIA and the third-party insurer, the University has transferred its risks related to health, life, prescription drug coverage, and job related injuries.

Classification of Revenues **—** The University 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) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local, and nongovernmental grants and contracts, and (4) sales and services of educational activities.

Nonoperating Revenues **—** Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB Statement No. 34, such as state appropriations and investment income.

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

Use of Restricted Net Assets — The University 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 University attempts to utilize restricted funds first when practicable.

Federal Financial Assistance Programs — 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 institutions like the University. Direct student loan receivables are not included in the University's combined statement of net assets as the loans are repayable directly to the U.S. Department of Education. In 2007 and 2006, the University received and disbursed approximately $49,900,000 and $48,400,000, respectively, under the Federal Direct Student Loan Program on behalf of the U.S. Department of Education, which is not included as revenue and expense on the combined statements of revenues, expenses, and changes in net assets.

The University also 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 recorded in the accompanying combined financial statements. In 2007 and 2006, the University received and disbursed approximately $11,400,000 and $11,100,000, respectively, under these federal student aid programs.

Scholarship Allowances — Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the combined statements of revenues, expenses, and changes in net assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third-parties making payments on the student's behalf.

Financial aid to students is reported in the combined financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid such as loans, funds provided to students as awarded by third parties, and Federal Direct Lending is accounted for as a third-party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the combined financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a university basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third-party aid.

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. Recovery of related indirect costs is generally recorded at fixed rates negotiated for a period of one to five years.

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.

***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 statement of cash flows.

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 will occur in the near term and that such changes could materially affect the amounts reported in the combined financial statements.

Recent Statements Issued by the GASB — The GASB has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after December 15, 2006. This statement provides standards for the measurement, recognition, and display of other postemployment benefit expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. Effective July 1, 2007, the University will adopt GASB Statement No. 45. The University has not yet determined the effect that the adoption of GASB Statement No. 45 may have on the combined financial statements. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State. Effective July 1, 2007, the University is required to participate in this multiple employer cost-sharing plan sponsored by the State. Details regarding this plan can be obtained by contacting Public Employees Insurance Agency, State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, WV 25305-0710 or http://www.wvpeia.com.

The GASB has issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, effective for fiscal years beginning after December 15, 2006. This statement addresses whether an exchange of an interest in expected cash flows for collecting specific receivables of specific future revenues for an immediate lump sum should be regarded as a sale or as a collateralized borrowing resulting in a liability. It establishes criteria to determine whether proceeds should be reported as revenue or a liability. The University has not yet determined the effect that the adoption of GASB Statement No. 48 may have on the combined financial statements.

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

The GASB has issued Statement No. 50, *Pensions Disclosures* (an amendment of GASB Statements No. 25 and No. 27), effective for fiscal years beginning after June 15, 2007. This statement more closely aligns the financial reporting requirements for pension with those for other postemployment benefits, thus enhancing the information disclosed on the notes to the combined financial statements or presented as required supplementary information. The University has not yet determined the effect that the adoption of GASB Statement No. 50 may have on the combined financial statements.

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

Reclassifications — Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents at June 30, 2007 and 2006, was held as follows:

	2007		
	Current	**Noncurrent**	**Total**
State Treasurer	$43,683,079	$ 176,000	$43,859,079
Municipal Bond Commission	286,564	425,458	712,022
Trustee	83,030	3,192,111	3,275,141
Restricted cash		1,044,492	1,044,492
Money markets	14,160,383		14,160,383
In bank	6,501,146		6,501,146
On hand	5,711		5,711
	$64,719,913	$4,838,061	$69,557,974

	2006		
	Current	**Noncurrent**	**Total**
State Treasurer	$37,096,428	$ 176,000	$37,272,428
Municipal Bond Commission	290,041	404,719	694,760
Trustee	83,121	3,192,104	3,275,225
Restricted cash		500,680	500,680
Money markets	14,606,358		14,606,358
In bank	5,114,693		5,114,693
On hand	6,581		6,581
	$57,197,222	$4,273,503	$61,470,725

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 8). Other cash held by the State Treasurer includes $2,049,646 and $2,130,162 at June 30, 2007 and 2006, respectively, of restricted cash for sponsored projects, loans, and other purposes. 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 8).

MURC has $573,311 and $544,763 of cash equivalents held in highly liquid money market funds comprised of high grade fixed income securities, and $8,123,496 and $4,896,028 of cash equivalents held in repurchase agreements which are collateralized at 102% and the collateral is held in MURC's name at June 30, 2007 and 2006, respectively. The University has $5,463,576 and $9,165,567 of cash equivalents held in highly liquid money market funds comprised of high grade fixed income securities at June 30, 2007 and 2006, respectively.

The combined carrying amount of cash in bank at June 30, 2007 and 2006, was $6,501,146 and $5,114,693, respectively, as compared with the combined bank balance of $6,723,004 and $5,523,728, respectively. The difference is primarily caused by outstanding checks and items in transit. The bank balances are covered by federal depository insurance or are collateralized by securities held by the State's agent.

Restricted Cash — The University entered into an escrow agreement with BRIM for malpractice insurance deductibles with a balance of $1,044,492 and $500,680 at June 30, 2007 and 2006, respectively.

Amounts with the State Treasurer and the Municipal Bond Commission as of June 30, 2007 and 2006, are comprised of the following investment pools:

The BTI has adopted an investment policy in accordance with the "Uniform Prudent Investor Act." The "prudent investor rule" guides those with responsibility for investing the money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The BTI's investment policy to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of BTI's Consolidated Fund, the BTI believes that it is imperative to review and adjust the investment policy in reaction to interest rate market fluctuations/trends on a regular basis and has adopted a formal review schedule. Investment policies have been established for each investment pool and account of the BTI's Consolidated Fund.

Cash Liquidity Pool

Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Neither the BTI nor any of the BTI's Consolidated Fund pools or accounts has been rated for credit risk by any organization. Of the BTI's Consolidated Fund pools and accounts which the University may invest in, three are subject to credit risk: Cash Liquidity Pool, Government Money Market Pool, and Enhanced Yield Pool.

The BTI limits the exposure to credit risk in the Cash Liquidity Pool by requiring all corporate bonds to be rated AA- by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor's and P1 by Moody's. The pool must have at least 15% of its assets in U.S. Treasury issues. The following table provides information on the credit ratings of the Cash Liquidity Pool's investments (in thousands):

	Credit Rating *		2007		2006	
Security Type	Moody's	S&P	Carrying Value	Percent of Pool Assets	Carrying Value	Percent of Pool Assets
Investments:						
Commercial paper	P1	A-1	$ 1,015,926	48.89 %	$ 943,057	54.14 %
Corporate bonds and notes	Aaa	AAA	98,999	4.76	61,992	3.56
	Aa3	AA	20,001	0.96		
	Aa3	A	23,002	1.11		
	Aa2	AA	15,000	0.72		
	Aa2	A	27,000	1.30		
	Aa1	AA	77,023	3.71		
	Aa	AA			55,063	3.16
	Aa	A			12,000	0.69
			261,025	12.56	129,055	7.41
U.S. agency bonds	Aaa	AAA	46,994	2.26	43,663	2.51
U.S. Treasury bills	Aaa	AAA	358,725	17.27	306,279	17.58
Negotiable certificates of deposit	P1	A-1	76,500	3.68	99,000	5.68
U.S. agency discount notes	P1	A-1	21,655	1.04	93,851	5.39
Money market funds	Aaa	AAA	185	0.01	758	0.04
Repurchase agreements (underlying securities):						
U.S. Treasury notes	Aaa	AAA			73,000	4.19
U.S. agency notes	Aaa	AAA	246,821	11.88	29,339	1.69
			246,821	11.88	102,339	5.88
Deposits:						
Nonnegotiable certificates of deposit	NR	NR	50,000	2.41	23,800	1.37
			$ 2,077,831	100.00 %	$ 1,741,802	100.00 %

* NR = Not Rated. See "Deposits" note at the conclusion of this footnote.

At June 30, 2007 and 2006, the University's ownership represents 1.89% and 1.39%, respectively, of these amounts held by the BTI.

Government Money Market Pool

Credit Risk — The BTI limits the exposure to credit risk in the Government Money Market Pool by limiting the pool to U.S. Treasury issues, U.S. government agency issues, money market funds investing in U.S. Treasury issues and U.S. government agency issues, and repurchase agreements collateralized by U.S. Treasury issues and U.S. government agency issues. The pool must have at least 15% of its assets in U.S. Treasury issues. The following table provides information on the credit ratings of the Government Money Market Pool's investments (in thousands):

	Credit Rating		2007		2006	
Security Type	**Moody's**	**S&P**	**Carrying Value**	**Percent of Pool Assets**	**Carrying Value**	**Percent of Pool Assets**
U.S. agency bonds	Aaa	AAA	$ 67,620	29.46 %	$ 21,420	11.76 %
U.S. Treasury bills	Aaa	AAA	36,379	15.85	28,346	15.56
U.S. agency discount notes	P1	A-1	74,143	32.30	112,399	61.70
Money market funds	Aaa	AAA	9		109	0.06
Repurchase agreements (underlying securities):						
U.S. Treasury notes	Aaa	AAA	51,400	22.39		
U.S. Treasury strips	Aaa	AAA			15,602	8.56
U.S. agency bonds	Aaa	AAA			4,298	2.36
			51,400	22.39	19,900	10.92
			$ 229,551	100.00 %	$ 182,174	100.00 %

At June 30, 2007 and 2006, the University's ownership represents 0.65% and 0.32%, respectively, of these amounts held by the BTI.

Enhanced Yield Pool

Credit Risk — The BTI limits the exposure to credit risk in the Enhanced Yield Pool by requiring all corporate bonds to be rated A- by Standards & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standards & Poor's and P1 by Moody's. The following table provides information on the credit ratings of the Enhanced Yield Pool's investments (in thousands):

	Credit Rating		2007		2006	
Security Type	Moody's	S&P	Carrying Value	Percent of Pool Assets	Carrying Value	Percent of Pool Assets
Corporate asset backed securities	P1	A-1	$ 42,122	18.40 %	$ 46,963	17.70 %
Corporate bonds and notes	Aaa	AAA	1,667	0.73	2,448	0.92
	Aa3	AA	7,857	3.43		
	Aa3	A	3,905	1.70		
	Aa2	AA	950	0.41		
	Aa2	A	2,177	0.95		
	Aa1	AA	6,431	2.81		
	A3	A	6,958	3.04		
	A2	AA	747	0.33		
	A2	A	8,188	3.58		
	A1	AA	3,034	1.32		
	A1	A	10,706	4.68		
	Aa	AA			3,790	1.43
	Aa	A			15,660	5.90
	A	AA			3,048	1.15
	A	A			46,847	17.65
			52,620	22.98	71,793	27.05
U.S. agency bonds	Aaa	AAA	46,075	20.13	87,215	32.86
U.S. Treasury bills	Aaa	AAA			58,067	21.88
U.S. Treasury notes	Aaa	AAA	55,877	24.41		
U.S. agency mortgage backed securities	Aaa	AAA	11,741	5.13		
Repurchase agreements (underlying securities):						
U.S. agency mortgage backed securities	Aaa	AAA			1,346	0.51
U.S. agency notes	Aaa	AAA	20,485	8.95		
			20,485	8.95	1,346	0.51
			$ 228,920	100 %	$ 265,384	100.00 %

At June 30, 2007 and 2006, the University's ownership represents 0.99% and 4.76%, respectively, of these amounts held by the BTI.

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All the BTI's Consolidated Fund pools and accounts are subject to interest rate risk.

The overall weighted average maturity of the investments of the Cash Liquidity Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides information on the weighted average maturities for the various asset types in the Cash Liquidity Pool:

Security Type	2007 Carrying Value (In Thousands)	2007 WAM (Days)	2006 Carrying Value (In Thousands)	2006 WAM (Days)
Repurchase agreements	$ 246,821	2	$ 102,339	3
U.S. Treasury bills	358,725	30	306,279	32
Commercial paper	1,015,926	52	943,057	25
Certificates of deposit	126,500	76	122,800	105
U.S. agency discount notes	21,655	113	93,851	89
Corporate notes	261,025	58	129,055	77
U.S. agency bonds/notes	46,994	156	43,663	208
Money market funds	185	1	758	1
	$2,077,831	48	$1,741,802	42

The overall weighted average maturity of the investments of the Government Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides information on the weighted average maturities for the various asset types in the Government Money Market Pool:

Security Type	2007 Carrying Value (In Thousands)	2007 WAM (Days)	2006 Carrying Value (In Thousands)	2006 WAM (Days)
Repurchase agreements	$ 51,400	2	$ 19,900	3
U.S. Treasury bills	36,379	29	28,346	42
U.S. agency discount notes	74,143	106	112,399	39
U.S. agency bonds/notes	67,620	60	21,420	152
Money market funds	9	1	109	1
	$ 229,551	49	$ 182,174	49

The overall weighted average maturity of the investments of the Enhanced Yield Pool cannot exceed 731 days. Maximum maturity of individual securities cannot exceed 1,827 days (five years) from date of purchase. The following table provides information on the weighted average maturities for the various asset types in the Enhanced Yield Pool:

	2007		2006	
Security Type	**Carrying Value (In Thousands)**	**WAM (Days)**	**Carrying Value (In Thousands)**	**WAM (Days)**
Repurchase agreements	$ 20,485	2	$ 1,346	3
U.S. Treasury bonds/notes	55,877	1,092	58,067	894
Corporate notes	52,620	557	71,793	588
Corporate asset backed securities	42,122	421	46,963	688
U.S. agency bonds/notes	46,075	927	87,215	594
U.S. agency mortgage backed securities	11,741	814		
	$ 228,920	700	$ 265,384	672

Other Investment Risks — Other investment risks include concentration of credit risk, custodial credit risk, and foreign currency risk. None of the BTI's Consolidated Fund's investment pools or accounts is exposed to these risks as described below.

Concentration of credit risk is the risk of loss attributed to the magnitude of the BTI Consolidated Fund pool or account's investment in a single corporate issuer. The BTI investment policy prohibits those pools and accounts permitted to hold corporate securities from investing more than 5% of their assets in any one corporate name of one corporate issue.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the BTI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. Securities lending collateral that is reported on the BTI's Statement of Fiduciary Net Assets is invested in the lending agent's money market fund in the BTI's name. In all transactions, the BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. None of the BTI's Consolidated Fund's investment pools or accounts holds interests in foreign currency or interests valued in foreign currency.

Deposits — Custodial credit risk of deposits is the risk that in the event of failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits include nonnegotiable certificates of deposit. The Cash Liquidity Pool contains nonnegotiable certificates of deposit valued at $50,000,000, which represents 2.41% of the pool's assets. The BTI does not have a deposit policy for custodial credit risk.

Cash in Bank with Trustee

Credit Risk **—** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Cash in bank with Trustee is governed by provisions of the bond agreement. Investments authorized by the Trustee have credit quality ratings from nationally recognized statistical organizations.

	2007		2006	
Investment Type	**Moody's Rating**	**Carrying Value**	**Moody's Rating**	**Carrying Value**
Money market fund	Aaa	$ 180	Aaa	$ 173
Money market fund	Aaa	83,030	Aaa	83,121
(Credit Enhancers/Collateral 1.000 Financial Guaranty Insurance Co. Municipal Bond Insurance Policy)				
MBIA Guaranteed Investment Contract		3,191,931		3,191,931
		$ 3,275,141		$ 3,275,225

The objective of the money market fund is to increase the current level of income while continuing to maintain liquidity and capital. Assets are invested in high quality, short-term money market instruments.

Custodial Credit Risk — Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The University's Investment Policy requires commercial paper assets must be rated at least A1 or P-1 (by Moody's or Standard & Poor's). The University has an MBIA Guaranteed Investment Contract (GIC) with a fixed rate of interest of 5.18%.

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University's Investment Policy limits investment maturities from potential fair value losses due to increasing interest rates. No more than 5% of the money market fund's total market value may be invested in the obligations of a single issuer, with the exception of the U.S. Government and its agencies.

Foreign Currency Risk — Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The University has no securities with foreign currency risk.

4. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2007 and 2006, were as follows:

	2007 Current	2007 Noncurrent	2007 Total
Student tuition and fees, net of allowance for doubtful accounts of $220,117	$ 710,821	$ -	$ 710,821
Grants and contracts receivable, net of allowance for doubtful accounts of $189,359	7,649,335		7,649,335
Due from the Commission	1,258,837		1,258,837
Due from other State agencies	1,265,105		1,265,105
Other accounts receivable	1,097,824	3,666,248	4,764,072
	$ 11,981,922	$ 3,666,248	$ 15,648,170

	2006 Current	2006 Noncurrent	2006 Total
Student tuition and fees, net of allowance for doubtful accounts of $222,934	$ 851,796	$ -	$ 851,796
Grants and contracts receivable, net of allowance for doubtful accounts of $325,242	10,077,798		10,077,798
Due from the Commission	3,756,546		3,756,546
Due from other State agencies	1,635,924		1,635,924
Other accounts receivable	1,386,888	1,732,641	3,119,529
	$ 17,708,952	$ 1,732,641	$ 19,441,593

5. INVESTMENTS

Investments at June 30, 2007 and 2006, consist of the following:

	2007	2006
U.S. Government Agency Securities (MURC)	$ 1,191,500	$ 1,966,376
Alternative Investments:		
Fixed Income Bond Fund — Commonfund (MURC)	2,023,934	1,919,237
Multi-Strategy Bond Fund — Commonfund (University)	2,443,747	2,053,179
Multi-Strategy Equity Fund — Commonfund (University)	5,683,065	4,879,773
Total investments	$ 11,342,246	$ 10,818,565

Credit Risk — MURC's investment policy limits individual investments to U.S. government securities and nationally recognized Bond Funds holding those securities. The U.S. government agency securities have an average maturity of 0.8 and 1.1 years and the Fixed Income Bond Fund had an average maturity of 2.2 and 2.8 years as of June 30, 2007 and 2006, respectively. At June 30, 2007 and 2006, MURC's investments in U.S. government agency securities were rated Aaa by Moody's Investors Service and AAA by Standard & Poor's rating service. The average rating of the Fixed Income Bond Fund was AA+. The Multi-Strategy Bond Fund has a weighted average maturity of 7.85 years and an effective duration of 4.41 years as of both June 30, 2007 and 2006.

The University's investment policy adheres to fiduciary responsibilities in accordance with the provisions of the Uniform Prudent Investor Act, *(WV State Code §44-6C-1 Prudent Investor Rule)*. Oversight will occur with care, skill, prudence and diligence. The objective of the Long-Term Investment Pool (LTIP) is to enhance long-term viability by maximizing the value of the LTIP with a prudent level of risk. The credit quality rating for the Multi-Strategy Bond Fund is AA.

Concentration of Credit Risk — To minimize risk, MURC's investment policy allows for no more than 60% of available assets to be invested with any one issuer, except U.S. government securities.

The University's investment policy states investments of a single issuer, with the exception of the U.S. government and its agencies (including GNMA, FNMA, and FHLMC) may not exceed 5% of the total market value of the Fund. No more than 25% of the fixed income portfolio may be rated below-investment grade.

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk is managed by limiting the time period or duration of the specific investment.

Foreign Currency Risk — The University has no investments with foreign currency risk.

6. CAPITAL ASSETS

Capital asset transactions for the University for the years ended June 30, 2007 and 2006, are as follows:

	2007				
	Beginning Balance	Additions	Reductions	Other	Ending Balance
Capital assets not being depreciated:					
Land	$ 24,068,123	$ 6,097,578	$ (752,840)	$ -	$ 29,412,861
Antiques and artwork (inexhaustible)	132,107				132,107
Construction in progress	70,623,545	23,318,333		(62,444,222)	31,497,656
Total capital assets not being depreciated	94,823,775	29,415,911	(752,840)	(62,444,222)	61,042,624
Other capital assets:					
Land improvements	1,688,425				1,688,425
Infrastructure	19,724,833	92,738	(51,111)	2,774,667	22,541,127
Buildings	247,975,948		(1,010,152)	59,669,555	306,635,351
Equipment	67,150,443	3,941,742	(3,530,033)		67,562,152
Library books	8,033,338	176,022	(90,725)		8,118,635
Total other capital assets	344,572,987	4,210,502	(4,682,021)	62,444,222	406,545,690
Less accumulated depreciation for:					
Land improvements	918,849	112,562			1,031,411
Infrastructure	11,364,071	1,150,611	(51,112)		12,463,570
Buildings	76,336,253	5,933,963	(546,446)		81,723,770
Equipment	41,212,254	6,525,637	(2,970,762)		44,767,129
Library books	7,288,475	278,439	(90,725)		7,476,189
Total accumulated depreciation	137,119,902	14,001,212	(3,659,045)	-	147,462,069
Other capital assets — net	$ 302,276,860	$ 19,625,201	$(1,775,816)	$ -	$ 320,126,245
Capital asset summary:					
Capital assets not being depreciated	$ 94,823,775	$ 29,415,911	$ (752,840)	$ (62,444,222)	$ 61,042,624
Other capital assets	344,572,987	4,210,502	(4,682,021)	62,444,222	406,545,690
Total cost of capital assets	439,396,762	33,626,413	(5,434,861)		467,588,314
Less accumulated depreciation	(137,119,902)	(14,001,212)	3,659,045		(147,462,069)
Capital assets — net	$ 302,276,860	$ 19,625,201	$(1,775,816)	$ -	$ 320,126,245

	2006				
	Beginning Balance	Additions	Reductions	Other	Ending Balance
Capital assets not being depreciated:					
Land	$ 20,128,380	$ 3,939,743	$ -	$ -	$ 24,068,123
Antiques and artwork (inexhaustible)	132,107				132,107
Construction in progress	33,790,842	39,334,719		(2,502,016)	70,623,545
Total capital assets not being depreciated	54,051,329	43,274,462	-	(2,502,016)	94,823,775
Other capital assets:					
Land improvements	1,522,704	165,721			1,688,425
Infrastructure	19,478,320	243,937	(5,324)	7,900	19,724,833
Buildings	241,019,128	4,462,704		2,494,116	247,975,948
Equipment	62,161,301	8,053,889	(3,064,747)		67,150,443
Library books	7,940,131	161,882	(68,675)		8,033,338
Total other capital assets	332,121,584	13,088,133	(3,138,746)	2,502,016	344,572,987
Less accumulated depreciation for:					
Land improvements	816,415	102,434			918,849
Infrastructure	10,342,263	1,027,132	(5,324)		11,364,071
Buildings	71,588,791	4,747,462			76,336,253
Equipment	37,663,245	6,475,452	(2,926,443)		41,212,254
Library books	7,046,669	310,481	(68,675)		7,288,475
Total accumulated depreciation	127,457,383	12,662,961	(3,000,442)	-	137,119,902
Other capital assets — net	$ 258,715,530	$ 43,699,634	$ (138,304)	$ -	$ 302,276,860
Capital asset summary:					
Capital assets not being depreciated	$ 54,051,329	$ 43,274,462	$ -	$(2,502,016)	$ 94,823,775
Other capital assets	332,121,584	13,088,133	(3,138,746)	2,502,016	344,572,987
Total cost of capital assets	386,172,913	56,362,595	(3,138,746)		439,396,762
Less accumulated depreciation	(127,457,383)	(12,662,961)	3,000,442		(137,119,902)
Capital assets — net	$ 258,715,530	$ 43,699,634	$ (138,304)	$ -	$ 302,276,860

The University maintains certain collections of inexhaustible assets to which no value can be practically determined. Accordingly, such collections are not capitalized or recognized for financial statement purposes. Such collections include contributed works of art, historical treasures, and literature that are held for exhibition, education, research, and public service. These collections are neither disposed of for financial gain nor encumbered in any means.

Title for certain real property is with the Commission.

At June 30, 2007, the University, excluding MURC, had outstanding contractual commitments of approximately $3,150,000 for property, plant, and equipment expenditures.

7. LONG-TERM LIABILITIES

Long-term obligation transactions for the University for the years ended June 30, 2007 and 2006, are as follows:

	2007				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and capital leases:					
Revenue bonds payable, including unexpended funds of $3,191,931	$ 45,400,000	$ -	$ (1,160,000)	$ 44,240,000	$ 1,205,000
Capital leases payable	12,082,894	97,290	(1,281,240)	10,898,944	1,048,056
Total bonds and capital leases	57,482,894	97,290	(2,441,240)	55,138,944	
Other long-term liabilities:					
Notes payable	47,715	2,096	(8,178)	41,633	
Other noncurrent liability	2,200,976	2,333,449		4,534,425	
Accrued compensated absences	16,823,617	6,230,258	(5,877,698)	17,176,177	6,222,462
Advances from Federal sponsors	6,681,917		(79,963)	6,601,954	
Debt obligation to Commission	38,268,275	835,000	(2,852,475)	36,250,800	3,097,400
Total long-term liabilities	$ 121,505,394	$ 9,498,093	$ (11,259,554)	$ 119,743,933	

	2006				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and capital leases:					
Revenue bonds payable, including unexpended funds of $3,192,104	$ 46,515,000	$ -	$ (1,115,000)	$ 45,400,000	$ 1,160,000
Capital leases payable	9,610,820	6,762,411	(4,290,337)	12,082,894	1,293,092
Total bonds and capital leases	56,125,820	6,762,411	(5,405,337)	57,482,894	
Other long-term liabilities:					
Notes payable	41,594	9,315	(3,194)	47,715	
Other noncurrent liability		2,200,976		2,200,976	
Accrued compensated absences	15,192,853	6,005,218	(4,374,454)	16,823,617	5,976,778
Advances from Federal sponsors	6,689,000		(7,083)	6,681,917	
Debt obligation to Commission	40,993,275		(2,725,000)	38,268,275	2,852,475
Total long-term liabilities	$ 119,042,542	$ 14,977,920	$ (12,515,068)	$ 121,505,394	

8. BONDS

Bonds payable at June 30, 2007 and 2006, consisted of the following:

		2007		2006	
	Original Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding	Annual Principal Installment Due	Principal Amount Outstanding
University Center Revenue Bonds due through 2009	4%–6%	$ 205,000 to 215,000	$ 420,000	$ 195,000 to 215,000	$ 615,000
University Facilities Revenue Bonds due through 2031	3.6%–5.3%	$ 1,000,000 to 3,035,000	43,820,000	$ 965,000 to 3,035,000	44,785,000
			$ 44,240,000		$ 45,400,000

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 are 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 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 a commercial bank for payment to the Trustee of the bond issue and the bondholders. Mandatory debt service transfers are recorded as the funds are so remitted. The Municipal Bond Commission or a commercial bank may hold certain cash and cash equivalents (see Note 4) 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, 2007, is as follows:

Year Ending	University Center		University Facilities		Total	Total
June 30, 2007	Principal	Interest	Principal	Interest	Principal	Interest
2008	$205,000	$20,900	$ 1,000,000	$ 2,187,926	$ 1,205,000	$ 2,208,826
2009	215,000	8,600	1,045,000	2,146,676	1,260,000	2,155,276
2010			1,085,000	2,102,264	1,085,000	2,102,264
2011			1,135,000	2,055,609	1,135,000	2,055,609
2012			1,185,000	2,005,669	1,185,000	2,005,669
2013–2017			6,865,000	9,078,169	6,865,000	9,078,169
2018–2022			8,860,000	7,089,056	8,860,000	7,089,056
2023–2027			11,335,000	4,609,725	11,335,000	4,609,725
2028–2032			11,310,000	1,448,000	11,310,000	1,448,000
Total	$420,000	$29,500	$43,820,000	$32,723,094	$44,240,000	$32,752,594

9. LEASES

Operating — Future annual minimum lease payments on operating leases for years subsequent to June 30, 2007, are as follows:

Year Ending June 30, 2007	
2008	$ 529,736
2009	413,115
2010	313,080
2011	296,180
2012	277,050
2013	44,917
	$ 1,874,078

Total rent expense for the years ended June 30, 2007 and 2006, was $557,317 and $603,867, respectively. The University does not have any noncancellable leases.

Capital — The University leases various equipment and buildings through capital leases. At June 30, 2007 and 2006, leased equipment with a net book value of $821,441 and $788,490, respectively, and leased buildings with a net book value of $14,279,114 and $15,966,389, respectively, 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 defease the MUGC Foundation's bonds on the date of such purchase.

In December 1998, the University entered into a lease-purchase agreement with the Mason County Building Commission for the Mid Ohio Valley Center (MOVC). The construction of the center was financed by the Mason County Building Commission through the issuance of revenue bonds and was completed in January 2000. This lease was terminated and replaced with a new lease-purchase agreement in December 2005 with the new lease including an addition to be constructed at MOVC with funds from new bonds issued by the Mason County Building Commission. Ownership of the Facility transfers to the University at the end of the lease term.

In December 1998, the University also entered into a sublease with Pleasant Valley Hospital for partial ownership of MOVC. This sublease was terminated and replaced with a new sublease in January 2006. Under the terms of the new sublease, Pleasant Valley Hospital's percentage of equity in MOVC will decline over the following three years. On July 1, 2009, the equity contribution of Pleasant Valley Hospital will revert to the University. As of June 30, 2007, the total minimum lease payments to be received on the new sublease through June 30, 2009, are $97,510 including unearned income of $45,254 for a net investment in direct financing and sales type leases of $52,256

Future annual minimum lease payments for years subsequent to June 30, 2007, are as follows:

Year Ending June 30	Principal	Interest	Total
2008	$ 1,048,056	$ 432,280	$ 1,480,336
2009	831,470	388,356	1,219,826
2010	792,139	353,681	1,145,820
2011	785,033	319,957	1,104,990
2012	764,212	287,969	1,052,181
2013–2017	3,885,241	940,307	4,825,548
2018–2022	1,917,702	352,843	2,270,545
2023–2025	875,091	38,812	913,903
			14,013,149
Less interest			3,114,205
			$ 10,898,944

10. COMPENSATED ABSENCES

The composition of the compensated absence liability at June 30, 2007 and 2006, was as follows:

	2007	2006
Health or life insurance benefits	$ 9,199,784	$ 10,354,463
Accrued vacation leave	7,976,393	6,469,154
	$ 17,176,177	$ 16,823,617

The cost of health and life insurance benefits paid by the University is based on a combination of years of service and age. For the years ended June 30, 2007 and 2006, the amount paid by the University for extended health or life insurance coverage retirement benefits totaled approximately $379,307 and $329,035, respectively. As of June 30, 2007 and 2006, there were 195 and 162 retirees, respectively, receiving these benefits.

11. 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 Commission 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 Regents, the former University System of West Virginia, the former State College System of West Virginia, or the former Interim Governing Board (the "Boards"). These obligations administered by the Commission are the direct and total responsibility of the Commission, as successor to the former Boards.

The Commission has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The education and general capital fees (previously tuition and registration fees) of the members of the former State University System are generally pledged as collateral for the Commission's bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. Although the bonds remain as capital obligation of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission.

Payments to the Commission for the 2007 and 2006 years were $4,811,388 and $4,884,902, respectively, which consisted of $2,852,475 and $2,725,000 in principal, and $1,958,913 and $2,159,902 in interest and other related charges, respectively. Certain bonds issued by the Commission were refinanced in August 2004 at lower interest rates.

During the year ended June 30, 2005, the Commission issued $167 million of 2005 Series B 30-year Revenue Bonds to fund capital projects at various higher education institutions in the State. The University has been approved to receive $30.5 million of these funds. The University has recognized $27 million of this approved amount as of June 30, 2007. State lottery funds will be used to repay the debt, although the University revenues are pledged if lottery funds prove insufficient.

12. UNRESTRICTED NET ASSETS

The University has not formally designated any of its unrestricted net assets. However, as a general rule, unrestricted auxiliary net asset balances in the amount of $5,717,828 and $6,262,470 at June 30, 2007 and 2006, respectively, have been used only for auxiliaries. In addition, unrestricted net asset balances of $6,320,400 and $7,351,744 at June 30, 2007 and 2006, respectively, have been allocated to repairs and maintenance, debt payments, capital projects, and equipment purchases.

13. 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.

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the Educators Money 401(a) basic retirement plan. New hires have the choice of either plan. As of June 30, 2007 and 2006, 23 and 16 employees, respectively, were enrolled in the Educators Money 401(a) basic retirement plan.

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, 2007 and 2006. Required employee contributions were at the rate of 6% of total annual salaries for the years ended June 30, 2007 and 2006. Participants in the STRS may retire with full benefits upon reaching age 60 with 5 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.

Total contributions to the STRS for the years ended June 30, 2007, 2006, and 2005 were approximately $1,267,000, $1,282,000, and $1,305,000, respectively, which consisted of approximately $905,000, $916,000, and $932,000 from the University and approximately $362,000, $366,000, and $373,000 from covered employees, respectively.

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.

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. In addition, employees may elect to make additional contributions to TIAA-CREF which are not matched by the University.

Total contributions to TIAA-CREF for the years ended June 30, 2007, 2006, and 2005 were approximately $11,014,000, $10,343,000, and $9,765,000, respectively, which consisted of approximately $5,443,000, $5,104,000, and $4,792,000 from the University and approximately $5,572,000, $5,239,000, and $4,973,000 from covered employees, respectively.

The University's total payroll for the years ended June 30, 2007 and 2006, was approximately $107,055,000 and $101,607,000, respectively; total covered employees salaries in the STRS and TIAA-CREF were approximately $6,035,000 and $91,223,000, respectively, in 2007 and $6,107,000 and $83,150,000, respectively, in 2006.

14. MARSHALL UNIVERSITY FOUNDATION, INCORPORATED

The Foundation is a separate nonprofit organization incorporated in the State having as its purpose to benefit the work and services of the University and its affiliated nonprofit organizations. The Foundation has a board of directors consisting of 34 members selected by its Board members. The President of the University is a non voting ex-officio member of the Foundation's Board. In carrying out its responsibilities, the board of directors of the Foundation employs management, forms policy, and maintains fiscal accountability over funds administered by the Foundation. The University administration does not control the resources of the Foundation. The Foundation's financial statements are presented as part of the University's combined financial statements, in accordance with GASB Statement No. 39.

15. AFFILIATED ORGANIZATIONS

The University has separately incorporated affiliated organizations, including the MUGC Foundation, the University Physicians & Surgeons, Inc., the Big Green Scholarship Foundation, Inc., MSH – Marshall, LLC, and others. 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 combined financial statements under GASB Statement No. 14. They are not included in the University's accompanying combined financial statements under GASB Statement No. 39 as they are 1) not material or 2) have dual purpose (i.e. not entirely or almost entirely for the benefit of the University).

16. 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. In the opinion of management, all known claims are covered by insurance or are such that an award against the University would not seriously impact the financial position of the University.

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.

17. SEGMENT INFORMATION

The University issues revenue bonds to finance certain of its auxiliary enterprise activities. Investors in those bonds rely solely on the revenues generated by the activities of the auxiliaries for repayment.

a. *State of West Virginia, West Virginia Board of Education, University Center Revenue Bonds of 1969*

In January 1969, the Board of Education sold $3,600,000 of Revenue Bonds, University Center Revenue Bonds of 1969 (the "1969 Bonds"). The 1969 Bonds were issued under the authority contained in Chapters 18 and 25 of the West Virginia State Code, as amended. The proceeds of the 1969 Bonds were used for construction of a University Center (the "Center") on the Huntington campus of the University. The 1969 Bonds are secured by and payable from the revenues of the Center.

b. *State of West Virginia, Higher Education Interim Governing Board, University Facilities Revenue Bonds, 2001 Series A*

In June 2001, the Board sold $46,610,000 of Revenue Bonds, University Facilities 2001 Series A (the "2001 Bonds"). The 2001 Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended, and the 2001 Bonds will be secured pursuant to a Indenture dated as of June 1, 2001, by and between the Trustee. The 2001 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 2001 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 2001 Bonds, (3) to fund debt service reserves for the 2001 Bonds, and (4) to pay a portion of the costs of issuance of the 2001 Bonds.

Condensed financial information for each of the University's segments as of June 30, 2007 and 2006, is as follows:

	State of West Virginia, West Virginia Board of Education, University Center Revenue Bonds 1969		State of West Virginia, Higher Education Interim Governing Board University Facilities Revenue Bonds, 2001 Series A	
	2007	2006	2007	2006
CONDENSED STATEMENT OF NET ASSETS				
Assets:				
Current assets	$ 1,795,365	$ 2,034,744	$ 6,467,873	$ 6,052,996
Noncurrent assets	4,298,617	4,047,685	48,254,429	49,466,698
Total assets	$ 6,093,982	$ 6,082,429	$ 54,722,302	$ 55,519,694
Liabilities:				
Current liabilities	$ 556,468	$ 316,759	$ 2,665,123	$ 2,312,341
Noncurrent liabilities	57,976	480,192	43,142,831	44,170,370
Total liabilities	614,444	796,951	45,807,954	46,482,711
Net assets:				
Invested in capital assets — net of related debt	3,453,158	3,027,965	4,434,249	4,681,524
Restricted:				
Debt service	471,049	459,172	83,030	83,121
Capital projects	230,525	219,288	180	
Unrestricted	1,324,806	1,579,053	4,396,889	4,272,338
Total net assets and liabilities	$ 6,093,982	$ 6,082,429	$ 54,722,302	$ 55,519,694
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS				
Operating:				
Operating revenues	$ 1,321,411	$ 1,339,663	$ 14,940,540	$ 14,672,921
Operating expenses	(1,136,766)	(1,132,291)	(12,265,561)	(11,488,629)
Net operating income	184,645	207,372	2,674,979	3,184,292
Nonoperating:				
Nonoperating revenues	36,337	25,888	170,331	235,445
Nonoperating expenses	(26,922)	(38,150)	(2,291,422)	(2,326,463)
Transfers from (to) the university		(12,059)	(676,523)	(101,589)
Changes in net assets	194,060	183,051	(122,635)	991,685
Net assets — beginning of year	5,285,478	5,102,427	9,036,983	8,045,298
Net assets — end of year	$ 5,479,538	$ 5,285,478	$ 8,914,348	$ 9,036,983
CONDENSED STATEMENT OF CASH FLOWS				
Net cash provided by operating activities	$ 292,871	$ 261,526	$ 4,386,842	$ 3,570,851
Net cash used in capital and related financing	(490,691)	(147,384)	(3,864,649)	(3,106,040)
Net increase (decrease) in cash and cash equivalents	(197,820)	114,142	522,193	464,811
Cash and cash equivalents — beginning of year	2,405,080	2,290,938	8,986,800	8,521,989
Cash and cash equivalents — end of year	$ 2,207,260	$ 2,405,080	$ 9,508,993	$ 8,986,800

18. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2007 and 2006, the following table represents operating expenses within both natural and functional classifications:

2007

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Other Operating Expense	Fees Assessed by Commission	Total
Instruction	$ 52,248,600	$14,634,679	$ 9,650,639	$ 117	$ -	$ -	$ -	$ -	$ 76,534,035
Research	6,826,825	2,628,383	8,893,983	346,532					18,695,723
Public service	8,758,782	2,876,577	5,080,297	209,666					16,925,322
Academic support	10,384,265	2,842,277	6,473,760	2,848					19,703,150
Student services	6,033,054	2,196,847	3,259,627	1,306					11,490,834
General institutional support	11,182,571	3,451,759	3,874,222	100,059					18,608,611
Operations and maintenance of plant	3,856,695	1,463,687	1,952,145	4,264,958					11,537,485
Student financial aid					16,839,770				16,839,770
Auxiliary enterprises	7,764,339	3,096,118	11,742,878	1,913,902					24,517,237
Depreciation						14,001,212			14,001,212
Other							56,701	697,748	754,449
Total	$107,055,131	$33,190,327	$50,927,551	$6,839,388	$16,839,770	$14,001,212	$56,701	$697,748	$229,607,828

2006

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Other Operating Expense	Fees Assessed by Commission	Total
Instruction	$ 50,112,880	$14,803,258	$10,183,463	$ 58	$ -	$ -	$ -	$ -	$ 75,099,659
Research	6,578,133	2,352,296	7,656,454	415,294			83,865		17,086,042
Public service	8,424,900	2,468,372	4,253,686	177,012					15,323,970
Academic support	9,353,214	2,796,751	4,825,210	6,850					16,982,025
Student services	6,064,921	2,086,983	3,418,052	2,540					11,572,496
General institutional support	10,173,488	3,468,060	2,725,655	19,766			312		16,387,281
Operations and maintenance of plant	3,718,965	1,661,271	2,556,723	3,879,104					11,816,063
Student financial aid					14,997,857				14,997,857
Auxiliary enterprises	7,180,351	2,267,839	10,891,460	1,996,714					22,336,364
Depreciation						12,662,961			12,662,961
Other							234,577	683,109	917,686
Total	$101,606,852	$31,904,830	$46,510,703	$6,497,338	$14,997,857	$12,662,961	$318,754	$683,109	$215,182,404

19. COMPONENT UNIT'S DISCLOSURES

The following are the notes taken directly from the audited financial statements of the Foundation:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND NATURE OF ACTIVITIES

The Marshall University Foundation, Inc. ("Foundation") was established in January, 1947 as a non-profit, tax-exempt, educational corporation to solicit, receive, manage and administer gifts on behalf of Marshall University. It is a public charity under Section 501(c)(3) of the Internal Revenue Code.

PUBLIC SUPPORT AND REVENUE

Contributions are generally available for unrestricted use unless specifically restricted by the donor. Unconditional promises to give are recorded as received. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts. An allowance for uncollectible promises is provided based on management's evaluation of potential uncollectible promises receivable at year end.

Contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Endowment contributions are permanently restricted by the donor. Investment earnings on endowment funds inclusive of realized and unrealized gains and losses are recorded in temporarily restricted net assets except for endowments that require investment earnings to be added to the endowment principal.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management's estimates.

CASH AND CASH EQUIVALENTS

The Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

INVESTMENTS

Investments are reported in the financial statements at market value using quoted market prices. The current year increase or decrease in market value over book value is recognized currently in the statement of activities. The majority of the investment funds are pooled into three categories – Operating Pool, Project Pool and Endowment Pool. The total investment return consists of interest and dividend income, realized gains and losses and capital appreciation, net of related investment expenses.

PROPERTY AND EQUIPMENT

Property and equipment purchased for use by the Foundation has been capitalized at cost and is depreciated over the estimated useful life of the property and equipment which ranges from five to forty years using the straight line method. Property and equipment purchased for Marshall University departments is expensed when received and immediately donated to the University by The Marshall University Foundation, Inc.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF ACCOUNTING
The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

ADVERTISING COSTS
Advertising costs totaling $48,996 and $6,484 for 2007 and 2006, respectively are charged to operations when incurred.

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2007 and 2006 are comprised of the following:

	2007	2006
Cash	$ 1,133,384	$ 1,864,060
Short-term investments	4,332,894	4,534,261
TOTAL	$ 5,466,278	$ 6,398,321

NOTE 3 - NOTES RECEIVABLE

Notes receivable at June 30, 2007 and 2006 consist of the following:

	2007	2006
$600,000 - original face, receivable at borrower's discretion, interest at 6.5%, unsecured, due June, 2008.	$ -0-	$ 84,763
$500,000 - original face, receivable in 40 quarterly installments of $15,355 inclusive of interest at 5%, unsecured, due September 30, 2012.	251,278	338,733
Total	$ 251,278	$ 423,496

NOTE 4 - INVESTMENTS

Investments as of June 30, 2007 and 2006 are summarized as follows:

	2007		
	Book Value	Fair Value	Unrealized Gain/(Loss)
Bonds	$ 26,632,139	$ 27,022,195	$ 390,056
Stocks	31,477,232	50,410,195	18,932,963
Other	17,468,636	22,235,017	4,766,381
TOTAL	$ 75,578,007	$ 99,667,407	$ 24,089,400

NOTE 4 - INVESTMENTS (CONTINUED)

	2006		
	Book Value	Fair Value	Unrealized Gain/(Loss)
Bonds	$ 24,359,666	$ 25,315,249	$ 955,583
Stocks	36,141,370	46,128,158	9,986,788
Other	13,361,751	15,588,275	2,226,524
TOTAL	$ 73,862,787	$ 87,031,682	$ 13,168,895

The following summarizes the investment return for the years ended June 30, 2007 and 2006:

	2007	2006
Interest and dividends	$ 2,459,105	$ 2,120,984
Realized gain	303,877	2,078
Unrealized gain	10,920,505	5,509,905
Investment fees	(154,278)	(147,245)
Net investment return	$ 13,529,209	$ 7,485,722

Gain or loss on sale of investments is determined by utilizing the average cost method.

As of June 30, 2007 and 2006, the aggregate amount of the deficiencies for all donor-restricted endowment funds for which the fair value of the investments is less than the level required by donor stipulation or law totaled $ 0 and $4,267, respectively.

NOTE 5 - NET INVESTMENT IN DIRECT FINANCING LEASES

On June 25, 1997, the Foundation entered into a direct financing lease with the State of West Virginia (the lessee) and Marshall University (the tenant) for the Athletics Facilities Building. In July, 2003, the Foundation renegotiated this lease. Under the new lease terms, the Foundation was to receive semi-annual lease payments in the amount of $34,368 beginning July 1, 2003 with final payment due January 1, 2019. This lease was received in full during the June 30, 2007 fiscal year. Upon receipt of all lease payments, the Foundation transferred ownership of the building to the tenant.

Following is a summary of the components of the Foundation's net investment in the direct financing leases at June 30, 2007 and 2006:

	2007	2006
Total Minimum Lease Payments to Be Received	$ -0-	$ 59,501
Unearned Income	-0-	(2,443)
Net Investment	$ -0-	$ 57,058

NOTE 6 - PROMISES TO GIVE

Unconditional promises to give at June 30, 2007 and 2006 are as follows:

	2007	2006
Receivable in less than one year	$ 3,848,617	$ 3,032,692
Receivable in one to five years	2,424,938	4,174,844
Receivable in more than five years	141,354	133,857
Total unconditional promises to give	6,414,909	7,341,393
Less discounts to net present value	(553,206)	(773,937)
Less allowance for uncollectible promises	(280,033)	(391,206)
Net unconditional promises to give	$ 5,581,670	$ 6,176,250

Discount rates used on long-term promises to give ranged from 4.00% to 9.5% for fiscal years ended June 30, 2007 and 2006.

NOTE 7 - PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at June 30, 2007 and 2006:

	2007	2006
Land	$ 1,510,000	$ 220,000
Buildings	595,000	1,034,275
Office equipment	240,159	293,070
	2,345,159	1,547,345
Less: Accumulated depreciation	(383,200)	(471,883)
	$ 1,961,959	$ 1,075,462

Depreciation expense charged to operations was $50,520 and $47,094 for the years ended June 30, 2007 and 2006, respectively.

NOTE 8 - CONTINGENT ASSETS

The Foundation is the beneficiary of various whole life insurance policies. Proceeds payable to the Foundation upon the demise of the insured parties totaled approximately $1,324,926 and $1,661,884 at June 30, 2007 and 2006, respectively.

NOTE 9 - INCOME TAXES

The Foundation is a tax exempt organization under Internal Revenue Code Section 501(c)(3). The Foundation does, however, engage in some activities that are considered by the Internal Revenue Service to be unrelated business activities and therefore subject to unrelated business tax at the prevailing corporate rates. The Foundation's income tax expense for the fiscal years ended June 30, 2007 and 2006 totaled $-0-.

NOTE 10 - NOTES PAYABLE

Notes payable at June 30, 2007 and 2006 consist of the following:

	2007	2006
$450,000 - original face, 7% note payable, payable in 180 monthly installments of $4,045 including interest, due September 2012, secured by real estate with a book value of $431,542 at June 30, 2006.	$ -0-	$ 245,131
$750,000 - original face, 5.25% note payable, payable in one lump sum due June 1, 2007 with regular monthly payments of accrued interest beginning June 30, 2002, secured by investment accounts.	-0-	241,200
TOTAL	$ -0-	$ 486,331

Interest expense for the years ended June 30, 2007 and 2006 totaled $19,000 and $36,077, respectively.

NOTE 11 - CHARITABLE GIFT ANNUITIES

As of June 30, 2007 and 2006, the Foundation had liabilities under irrevocable charitable gift annuities. The Foundation agrees to pay to the donors, quarterly annuity payments until the donor's death. Based on the donor's life expectancy and the IRS discount rate (3.4% at June 30, 2007), the present value of future liabilities expected to be paid by the Foundation to the beneficiaries totaled $648,037 and $675,018 as of June 30, 2007 and 2006, respectively.

Assets received under these split interest agreements are recognized at fair market value at the date of receipt. The assets have been deposited in the Foundation's regular cash and investment accounts. The difference between the fair value of the assets received and the present value of the future distributions to the donors is recorded as contribution revenue.

Contribution revenue net of change in valuation of charitable gift annuities totaled ($69,330) and ($4,701) for the years ended June 30, 2007 and 2006, respectively.

NOTE 12 - CHARITABLE REMAINDER TRUSTS

The Foundation is named as the residual beneficiary of five charitable remainder unitrusts. Under the terms of the unitrusts, a primary beneficiary receives annual distributions of a certain percentage of the net fair market value of the trust as of the first day of the taxable year. At the death of the primary beneficiary the Foundation receives all of the principal and income of the trust. Because these unitrusts are administered by third-party trustees, the Foundation records this as a contribution receivable and contribution revenue for the present value of the future benefits expected to be received from the trusts. The present value is calculated based on IRS actuarial formulas based on the primary beneficiary's life expectancy utilizing a rate of 3.4 % at June 30, 2007. At June 30, 2007 and 2006, the contribution receivable from the remainder trusts totaled $964,151 and $705,965, respectively.

NOTE 12 - CHARITABLE REMAINDER TRUSTS (CONTINUED)

Contribution revenue net of change in valuation of charitable remainder trusts totaled $258,186 and ($22,640) for the years ended June 30, 2007 and 2006, respectively.

NOTE 13 - PERPETUAL TRUSTS HELD BY THIRD PARTIES

The Foundation is the beneficiary of numerous perpetual trusts. The assets of the perpetual trusts are held by third parties. The Foundation has an irrevocable right to receive the income earned from the trusts' assets in perpetuity.

The Foundation records its beneficial interest in the perpetual trust assets at fair market value with a corresponding entry to permanently restricted contribution revenue. At June 30, 2007 and 2006, the beneficial interest in perpetual trusts totaled $8,130,467 and $7,450,349, respectively.

The change in the fair market value of the beneficial interest in perpetual trusts assets is recorded in permanently restricted other income in the accompanying financial statements and totaled $680,118 and $206,003 for the years ended June 30, 2007 and 2006, respectively.

NOTE 14 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2007 and 2006 are available for the following purposes or periods:

Periods after June 30,	2007	2006
Program activities		
Academic assistance	$ 18,609,382	$ 17,144,894
Student assistance	2,011,726	1,420,567
Unrealized gain on investments - unallocated	20,228,038	11,310,176
Unconditional promises to give, net - unallocated	(628,448)	(822,466)
Total temporarily restricted net assets	$ 40,220,696	$ 29,053,171

Net assets were released from donor restrictions during the years ended June 30, 2007 and 2006 by incurring expenses satisfying the purpose specified by donors as follows:

Purpose restrictions accomplished:	2007	2006
Academic assistance	$ 5,418,208	$ 3,925,821
Student assistance	761,201	568,923
Fundraising	111,287	86,750
Total restrictions released	$ 6,290,696	$ 4,581,494

NOTE 15 - PERMANENTLY RESTRICTED NET ASSETS

Net assets were permanently restricted for the following purposes at June 30, 2007 and 2006:

	2007	2006
Academic assistance	$ 18,107,978	$ 15,395,732
Student assistance	42,902,550	41,401,005
Unrealized gain on investments - unallocated	195,159	212,309
Unconditional promises to give, net - unallocated	(168,328)	(87,221)
Total permanently restricted net assets	$ 61,037,359	$ 56,921,825

NOTE 16 - CONCENTRATIONS OF CREDIT RISK

The Foundation receives pledges from alumni as well as other individuals and companies. The pledges are unsecured. Unconditional promises to give are recorded net of an allowance for bad debts of $280,033 and $391,206 at June 30, 2007 and 2006, respectively.

The Foundation maintains substantially all of its cash balances with two financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $100,000. The Foundation had gross bank balances of $373,137 and $327,906 at these two financial institutions at June 30, 2007 and 2006, respectively.

NOTE 17 - RETIREMENT PLAN

The Foundation sponsors a defined contribution pension plan that covers all full-time employees and certain other employees. Full-time employees are eligible for participation on the first day of the month following employment. Employees hired on a part-time, temporary or irregular basis for less than 1,000 hours a year are eligible for participation "only if credited with 1,000 hours or more of service (including paid absence) during any 12 consecutive calendar month period commencing with his or her date of employment or any anniversary date, in which event he or she becomes an eligible employee as of the beginning of the 12 month period during which he or she was credited with at least 1,000 hours of service. Eligible employee does not include a person whose employment is incidental to his or her educational program.

Contributions to the plan are based on a percentage of salary as follows:

Employer	6%
Employee	6%

Pension expense for the fiscal years ended June 30, 2007 and 2006 was $32,978 and $33,746, respectively.

NOTE 18 - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

NOTE 19 - DONATED SERVICES

The Foundation receives a significant amount of donated services from unpaid volunteers who assist in fund raising activities. No amounts have been recognized in the Statement of Activities because the criteria for recognition under SFAS No. 116 have not been satisfied.

NOTE 20 - COMMITMENTS

In June, 2002, the Foundation entered into an operating lease with the State of West Virginia (the lessee) and Marshall University (the tenant) for land. Under the terms of the agreement, the Foundation committed to sell the property to the tenant at the termination of the lease at a purchase price of $748,800. The tenant had the option of paying the purchase price or a portion thereof prior to the termination of the lease. Under the lease agreement, the Foundation was to receive monthly payments ($2,873 at June 30, 2006) based on the outstanding purchase price beginning June 1, 2002 and ending May 31, 2007 unless otherwise cancelled. If the tenant exercised its option to pay a portion of the purchase price prior to termination of the lease, that portion of the property was to be deeded to the tenant. The tenant opted to exercise this right in December 2005; December 2004; January, 2004; and May, 2003 and made partial payments of $172,500, $132,850, $103,200 and $100,250, respectively. The tenant paid the remaining balance of the purchase price totaling $240,000 in May, 2007. The lease has, therefore, terminated and the Foundation deeded the remaining land to the tenant.

Following is a summary of property on or held for lease at June 30, 2007 and 2006:

	2007	2006
Land	$ -0-	$ 240,000

In connection with the purchase of property from Marshall University, the Foundation has agreed to demolish the building on one of its current properties and transfer ownership of the property to Marshall University. The book value of the property to be transferred totaled approximately $190,000 as of June 30, 2007. The Foundation has also agreed to provide $294,087 to Marshall University to help finance the construction of a softball field.

NOTE 21 - PRIOR PERIOD ADJUSTMENT

Net assets at the beginning of 2006 has been adjusted by $7,244,346 to correct for the omission of the Foundation's beneficial interest in perpetual trusts in years prior to 2006. The omission had no effect on the change in net assets for 2006.

NOTE 22 - RECLASSIFICATIONS

Certain amounts in the 2006 financial statements have been reclassified for comparative purposes.

NOTE 23 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial condition. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Statement No. 107 excludes certain financial instruments and all nonfinancial instruments for its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Organization.

The following methods and assumptions were used by the Organization in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amount reported in the statements of financial position for cash and cash equivalents approximate those assets' fair values.

Notes receivable: It is not practicable to estimate the fair value of notes receivable due to the lack of available software capable of calculating fair value.

Unconditional promises to give: It is not practicable to estimate the fair value of unconditional promises to give due to the lack of available software capable of calculating fair value.

Contributions receivable from Remainder Trusts - the carrying amount reported in the statement of financial position for contributions receivable from remainder trusts approximate those assets' fair value.

Beneficial Interest in Perpetual Trusts - the carrying amount reported in the statement of financial position for beneficial interest in perpetual trusts approximate those assets' fair values.

Investments - fair value for investments are based on quoted market prices, where available. If quoted market prices are not available, fair value is based on quoted market prices of comparable instruments.

Cash surrender value - life insurance, net of policy loans - the carrying amount reported in the statements of financial position for cash surrender value - life insurance, net of policy loans approximate those assets' fair values.

Accounts payable - the carrying amount reported in the statement of financial position for accounts payable approximate those liabilities' fair values.

Notes payable - it is not practicable to estimate the fair value of notes payable due to the lack of available software capable of calculating fair value.

Annuity payment liability - it is not practicable to estimate the fair value of annuity payment liability due to the lack of available software capable of calculating fair value.

NOTE 23 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The estimated fair values of the Organization's financial instruments at June 30, 2007 and 2006 are as follows:

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	$ 5,466,278	$ 5,466,278	$ 6,398,321	$ 6,398,321
Notes receivable	251,278	Not Practicable	423,496	Not Practicable
Unconditional promises to give, net	5,581,670	Not Practicable	6,176,250	Not Practicable
Contribution receivable from Remainder Trusts	964,151	964,151	705,965	705,965
Beneficial interest in Perpetual Trusts	8,130,467	8,130,467	7,450,349	7,450,349
Investments	99,667,407	99,667,407	87,031,682	87,031,682
Cash surrender value - life insurance, net	239,926	239,926	285,313	285,313
Financial Liabilities:				
Accounts payable	-0-	-0-	175,241	175,241
Notes payable	-0-	-0-	486,331	Not Practicable
Annuity payable liability	648,037	Not Practicable	675,018	Not Practicable

NOTE 24 - SUBSEQUENT EVENT

On September 20, 2007 the Foundation obtained a $10 million line of credit with a local bank to be drawn upon as needed with a variable interest rate of .55% above the LIBOR Rate.

ADDITIONAL INFORMATION

MARSHALL UNIVERSITY

ADDITIONAL INFORMATION — COMPONENT FINANCIAL DATA
SCHEDULE OF NET ASSETS INFORMATION
AS OF JUNE 30, 2007

ASSETS	Community and Technical College	Four-Year and Other Components	Combined Institution
CURRENT ASSETS:			
Cash and cash equivalents	$ 8,871,103	$ 55,848,810	$ 64,719,913
Accounts receivable — net	462,122	11,519,800	11,981,922
Loans receivable	181,839	603,845	785,684
Inventories		812,697	812,697
Other current assets		386,876	386,876
Total current assets	9,515,064	69,172,028	78,687,092
NONCURRENT ASSETS:			
Cash and cash equivalents		4,838,061	4,838,061
Accounts receivable		3,666,248	3,666,248
Loans receivable		6,244,981	6,244,981
Investments		11,342,246	11,342,246
Other assets		1,217,322	1,217,322
Capital assets — net	2,910,336	317,215,909	320,126,245
Total noncurrent assets	2,910,336	344,524,767	347,435,103
TOTAL	$ 12,425,400	$ 413,696,795	$ 426,122,195

(Continued)

MARSHALL UNIVERSITY

ADDITIONAL INFORMATION — COMPONENT FINANCIAL DATA
SCHEDULE OF NET ASSETS INFORMATION
AS OF JUNE 30, 2007

LIABILITIES AND NET ASSETS	Community and Technical College	Four-Year and Other Components	Combined Institution
CURRENT LIABILITIES:			
Accounts payable	$ 119,808	$ 4,442,079	$ 4,561,887
Due to Commission	3,671	2,933	6,604
Accrued liabilities	265,911	5,902,042	6,167,953
Deferred revenue	426,931	8,046,679	8,473,610
Deposits		636,583	636,583
Compensated absences — current portion	126,862	6,095,600	6,222,462
Debt obligation to Commission — current portion		3,097,400	3,097,400
Capital lease obligations — current portion	4,577	1,043,479	1,048,056
Bonds payable — current portion		1,205,000	1,205,000
Total current liabilities	947,760	30,471,795	31,419,555
NONCURRENT LIABILITIES:			
Notes payable	36,072	5,561	41,633
Advances from federal sponsors	291,418	6,310,536	6,601,954
Other noncurrent liability		4,534,425	4,534,425
Compensated absences	272,097	10,681,618	10,953,715
Debt obligation to Commission		33,153,400	33,153,400
Capital lease obligations	1,356	9,849,532	9,850,888
Bonds payable		43,035,000	43,035,000
Total noncurrent liabilities	600,943	107,570,072	108,171,015
Total liabilities	1,548,703	138,041,867	139,590,570
NET ASSETS:			
Invested in capital assets — net of related debt	2,904,402	230,275,404	233,179,806
Restricted for:			
Nonexpendable		176,000	176,000
Expendable:			
Scholarships	4,379	89,204	93,583
Sponsored projects	1,575	11,247,131	11,248,706
Loans		2,457,684	2,457,684
Capital projects		154,648	154,648
Debt service		554,079	554,079
Total restricted expendable	5,954	14,502,746	14,508,700
Unrestricted	7,966,341	30,700,778	38,667,119
Total net assets	10,876,697	275,654,928	286,531,625
TOTAL	$ 12,425,400	$ 413,696,795	$ 426,122,195

See note to additional information — component financial data. (Concluded)

ADDITIONAL INFORMATION — COMPONENT FINANCIAL DATA
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2007

	Community and Technical College	Four-Year and Other Components	Combined Institution
OPERATING REVENUES:			
Student tuition and fees (net of scholarship allowance of $2,003,017, $15,723,370, and $17,726,387, respectively)	$ 3,264,792	$ 52,408,233	$ 55,673,025
Contracts and grants:			
Federal	2,162,943	36,927,723	39,090,666
State	1,199,383	18,136,948	19,336,331
Local	7,500	781,317	788,817
Private		14,357,499	14,357,499
Interest on loans receivable	6,248	125,805	132,053
Sales and services of educational activities	29,190	312,724	341,914
Auxiliary enterprise revenue (net of scholarship allowance of $0, $4,408,005, and $4,408,005, respectively)	243,760	24,522,615	24,766,375
Other operating revenues	1,355,877	7,768,484	9,124,361
Total operating revenues	8,269,693	155,341,348	163,611,041
OPERATING EXPENSES:			
Salaries and wages	3,906,993	103,148,138	107,055,131
Benefits	862,550	32,327,777	33,190,327
Supplies and other services	6,212,443	44,715,108	50,927,551
Utilities	7,421	6,831,967	6,839,388
Student financial aid — scholarships and fellowships	1,843,034	14,996,736	16,839,770
Depreciation	218,219	13,782,993	14,001,212
Other operating expenses		56,701	56,701
Fees assessed by the Commission for operations	66,117	631,631	697,748
Total operating expenses	13,116,777	216,491,051	229,607,828
OPERATING LOSS	(4,847,084)	(61,149,703)	(65,996,787)

(Continued)

MARSHALL UNIVERSITY

ADDITIONAL INFORMATION — COMPONENT FINANCIAL DATA
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2007

	Community and Technical College	Four-Year and Other Components	Combined Institution
NONOPERATING REVENUES (EXPENSES):			
State appropriations	$ 5,483,460	$ 61,271,073	$ 66,754,533
Gifts		991,752	991,752
Investment income	425,242	3,932,726	4,357,968
Interest on indebtedness	(440)	(2,733,891)	(2,734,331)
Fees assessed by the Commission for debt service		(1,958,913)	(1,958,913)
Other nonoperating expenses — net	(6,922)	(909,172)	(916,094)
Net nonoperating revenues	5,901,340	60,593,575	66,494,915
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	1,054,256	(556,128)	498,128
CAPITAL GRANTS AND GIFTS		10,787,352	10,787,352
CAPITAL BOND PROCEEDS FROM THE COMMISSION	2,203,761	10,702,770	12,906,531
INCREASE IN NET ASSETS BEFORE TRANSFERS	3,258,017	20,933,994	24,192,011
TRANSFER OF LIABILITY FROM THE COMMISSION		(835,000)	(835,000)
TRANSFERS — Including debt	(683,857)	683,857	
INCREASE IN NET ASSETS	2,574,160	20,782,851	23,357,011
NET ASSETS — Beginning of year	8,302,537	254,872,077	263,174,614
NET ASSETS — End of year	$ 10,876,697	$ 275,654,928	$ 286,531,625

See note to additional information — component financial data. (Concluded)

MARSHALL UNIVERSITY

ADDITIONAL INFORMATION — COMPONENT FINANCIAL DATA
SCHEDULE OF CASH FLOW INFORMATION
FOR THE YEAR ENDED JUNE 30, 2007

	Community and Technical College	Four Year and Other Components	Combined Institution
CASH FLOWS FROM OPERATING ACTIVITIES:			
Student tuition and fees	$ 3,264,382	$ 52,492,145	$ 55,756,527
Contracts and grants	3,353,007	72,280,221	75,633,228
Payments to and on behalf of employees	(4,754,351)	(134,391,447)	(139,145,798)
Payments to suppliers	(6,549,719)	(43,767,829)	(50,317,548)
Payments to utilities	(7,421)	(6,831,967)	(6,839,388)
Payments for scholarships and fellowships	(1,843,034)	(14,996,736)	(16,839,770)
Loans issued		(1,243,493)	(1,243,493)
Collection of loans	99,691	1,152,710	1,252,401
Sales and service of educational activities	29,190	312,724	341,914
Auxiliary enterprise charges	243,760	25,931,037	26,174,797
Fees assessed by Commission	(66,117)	(631,631)	(697,748)
Other receipts — net	1,283,695	7,947,428	9,231,123
Net cash used in operating activities	(4,946,917)	(41,746,838)	(46,693,755)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
State appropriations	5,494,688	61,190,364	66,685,052
Payments on notes and lease payable		(8,178)	(8,178)
Proceeds from notes payable	2,096		2,096
Gift receipts		991,752	991,752
Agency fund receipts		684,420	684,420
Agency fund payments		(689,050)	(689,050)
William D. Ford direct lending receipts	4,233,844	45,698,206	49,932,050
William D. Ford direct lending payments	(4,233,690)	(45,698,446)	(49,932,136)
Net cash provided by noncapital financing activities	5,496,938	62,169,068	67,666,006
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:			
Capital grants and gifts received		10,800,352	10,800,352
Capital projects and bond proceeds from Commission	2,201,475	13,044,511	15,245,986
Purchases of capital assets	(2,323,173)	(30,627,197)	(32,950,370)
Principal paid on bonds and leases	(3,379)	(2,437,243)	(2,440,622)
Interest paid on bonds and leases	(429)	(2,671,047)	(2,671,476)
Proceeds from sale of capital assets		119,703	119,703
Principal payment on debt obligation due to Commission		(2,852,475)	(2,852,475)
Fees assessed by Commission		(1,958,913)	(1,958,913)
Transfers — including debt	(683,857)	683,857	
Increase in noncurrent cash and cash equivalents		(564,558)	(564,558)
Net cash used in capital financing activities	(809,363)	(16,463,010)	(17,272,373)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments		(293,255)	(293,255)
Sale/maturity of investments		812,564	812,564
Investment income	422,074	2,857,356	3,279,430
Lease receipts		24,074	24,074
Net cash provided by (used in) investing activities	422,074	3,400,739	3,822,813
INCREASE (DECREASE) IN CURRENT CASH AND CASH EQUIVALENTS	162,732	7,359,959	7,522,691
CURRENT CASH AND CASH EQUIVALENTS — Beginning of year	8,708,371	48,488,851	57,197,222
CURRENT CASH AND CASH EQUIVALENTS — End of year	$ 8,871,103	$ 55,848,810	$ 64,719,913

(Continued)

MARSHALL UNIVERSITY

ADDITIONAL INFORMATION — COMPONENT FINANCIAL DATA
SCHEDULE OF CASH FLOW INFORMATION
FOR THE YEAR ENDED JUNE 30, 2007

	Community and Technical College	Four Year and Other Components	Combined Institution
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:			
Operating loss	$ (4,847,084)	$ (61,149,703)	$ (65,996,787)
Adjustments to reconcile net operating loss to net cash used in operating activities:			
Depreciation expense	218,219	13,782,993	14,001,212
Changes in assets and liabilities:			
Accounts receivable — net	(324,884)	2,467,011	2,142,127
Loans receivable — net	99,691	44,685	144,376
Prepaid expenses		578,235	578,235
Inventories		(31,485)	(31,485)
Accounts payable	(50,541)	(1,959,353)	(2,009,894)
Accrued liabilities	23,400	2,938,015	2,961,415
Compensated absences	(8,208)	360,768	352,560
Deferred revenue	21,257	1,133,292	1,154,549
Deposits held in custody for others		89,900	89,900
Advances from federal sponsors	(78,767)	(1,196)	(79,963)
NET CASH USED IN OPERATING ACTIVITIES	$ (4,946,917)	$ (41,746,838)	$ (46,693,755)
NONCASH TRANSACTIONS:			
Capital lease obligation incurred for equipment and buildings	$	$ 97,290	$ 97,290
Capital gifts of equipment	$	$ 148,794	$ 148,794
Loss on disposal of assets	$ 6,922	$ 909,171	$ 916,093
Construction in progress additions in accounts payable	$	$ 552,149	$ 552,149

See note to additional information — component financial data (Concluded)

MARSHALL UNIVERSITY

ADDITIONAL INFORMATION — COMPONENT FINANCIAL DATA
SCHEDULE OF NATURAL CLASSIFICATIONS WITHIN FUNCTIONAL CLASSIFICATIONS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2007

Community and Technical College

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Other Operating Expenses	Fees Assessed by Commission	Total
Instruction	$ 3,163,066	$ 678,826	$ 1,564,224	$ -	$ -	$ -	$ -	$ -	$ 5,406,116
Research									
Public service	99,870	15,088	265,209	591					380,758
Academic support	270,705	72,699	738,895						1,082,299
Student services			886,870						886,870
General institutional support	373,352	95,937	1,215,015						1,684,304
Operations and maintenance of plant			1,298,470	6,830					1,305,300
Student financial aid					1,843,034				1,843,034
Auxiliary enterprises			243,760						243,760
Depreciation						218,219			218,219
Other								66,117	66,117
Total	$ 3,906,993	$ 862,550	$ 6,212,443	$ 7,421	$ 1,843,034	$ 218,219	$ -	$ 66,117	$ 13,116,777

Four Year and Other Components

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Other Operating Expenses	Fees Assessed by Commission	Total
Instruction	$ 49,085,534	$13,955,853	$ 8,086,415	$ 117	$ -	$ -	$ -	$ -	$ 71,127,919
Research	6,826,825	2,628,383	8,893,983	346,532					18,695,723
Public service	8,658,912	2,861,489	4,815,088	209,075					16,544,564
Academic support	10,113,560	2,769,578	5,734,865	2,848					18,620,851
Student services	6,033,054	2,196,847	2,372,757	1,306					10,603,964
General institutional support	10,809,219	3,355,822	2,659,207	100,059					16,924,307
Operations and maintenance of plant	3,856,695	1,463,687	653,675	4,258,128					10,232,185
Student financial aid					14,996,736				14,996,736
Auxiliary enterprises	7,764,339	3,096,118	11,499,118	1,913,902					24,273,477
Depreciation						13,782,993			13,782,993
Other							56,701	631,631	688,332
Total	$103,148,138	$32,327,777	$44,715,108	$6,831,967	$14,996,736	$13,782,993	$56,701	$631,631	$216,491,051

See note to additional information — component financial data.

NOTE TO ADDITIONAL INFORMATION — COMPONENT FINANCIAL DATA FOR THE YEAR ENDED JUNE 30, 2007

1. COMMUNITY AND TECHNICAL COLLEGE

The University operates a Community and Technical College (“CTC”) for which certain separate revenues and expenditures are identified.

Education and general capital fees, student center operations fees, and similar fees are recorded as CTC revenue based on the student’s classification. These fees are used for general institutional activities (including debt service on bonds, major capital projects, and student center operations) that are utilized by the entire institution and for which operational expenditures are not attributed to the CTC. Payments to the University for services provided to the CTC are recorded as an operating expense for CTC and a reduction of operating expense for the University.

Tuition and required education and general fees, specific course fees, and similar fees are collected on the basis of student classification, specific course or specific activity directly associated with the CTC and are maintained by the CTC to meet operational and instructional costs. State appropriations are also maintained by the CTC to meet both direct and indirect operational and instructional costs.

Instructional, public service, academic support, and similar expenditures exclusively related to CTC students and operations are recorded in both functional and natural classifications of the CTC component.

A percentage of the total institutional operating costs related to overall operations including building and ground maintenance, purchasing, registration, accounts payable, computing services, and similar activities are recorded as a cost recovery from the CTC based on estimates and recorded in both functional and natural classifications. The CTC’s share of the Institution’s operating expenses are calculated through the use of cost pools following cost allocation methods based on FTE enrollment of the CTC and the University.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT 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, 2007, and have issued our report thereon dated September 27, 2007, which states reliance on other auditors for the discretely presented component unit. 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. The audit of the University's discretely presented component unit was audited in accordance with generally accepted auditing standards but not in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University'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 University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's combined financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University'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 combined 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 and use of the Marshall University Governing Board, managements of the University and the West Virginia Higher Education Policy Commission, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

September 27, 2007