Marshall University Research Corporation
(A Component Unit of Marshall University)

Financial Statements as of and for the Years Ended June 30, 2007 and 2006, Supplemental Schedule for the Year Ended June 30, 2007, Independent Auditors' Report, and Reports Required by OMB Circular A-133 for the Year Ended June 30, 2007

MARSHALL UNIVERSITY RESEARCH CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Marshall University Research Corporation:

We have audited the accompanying statements of net assets of Marshall University Research Corporation (the "Corporation") as of June 30, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets, and of cash flows for the years then ended. These financial statements are the responsibility of the management of the Corporation. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Corporation, at June 30, 2007 and 2006, and its revenues, expenses, and changes in net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audits were performed for the purpose of forming an opinion on the basic financial statements of the Corporation taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2007, is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The accompanying schedules of RHEP revenue, expenditures, and carryforward funds for the year ended June 30, 2007, are presented for the purposes of additional analysis and is not a required part of the financial statements. These schedules are the responsibility of the management of the Corporation. Such information has been subjected to the auditing procedures applied in our audit of the 2007 basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the 2007 basic financial statements taken as a whole.

In accordance with *Government Auditing Standards,* we have also issued our report dated August 30, 2007, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 be considered in assessing the results of our audit.

Deloitte & Touche LLP

August 30, 2007

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

Introduction

The Marshall University Research Corporation ("MURC" or the "Corporation") is a non-profit state entity created by the West Virginia Legislature to further research and economic development activities within the State of West Virginia. MURC is a blended component unit of Marshall University and is included as an integral part of Marshall University's annual combined financial statements.

Overview of the Financial Statements and Financial Analysis

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

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

The emphasis of the discussion about these Statements will be on FY 2007 data explaining significant changes from the financial statements presented for the year ended June 30, 2006. This discussion and analysis of the Corporation's financial statements provides an overview of its financial activities and is required supplementary information.

Statement of Net Assets

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

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the Corporation's equity in equipment owned by the Corporation less accumulated depreciation and debt used to purchase those assets. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. MURC does not have nonexpendable restricted net assets at June 30, 2007 or 2006. Expendable restricted net assets are available for expenditure by the Corporation but must be spent for purposes as determined by external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available for any lawful purpose of the Corporation, and may be designated for specific purposes by the Corporation's Board of Directors. While the Corporation has not specifically designated Net Asset balances at June 30, 2007, certain amounts are reserved for specific programs.

Condensed Statement of Net Assets (In thousands of dollars)	**June 30, 2007**	**June 30, 2006**	**June 30, 2005**	**Percent Change 2007-2006**	**Percent Change 2006-2005**
Assets:					
Current assets	$ 21,242	$ 20,970	$ 18,456	1.3%	13.6%
Other noncurrent assets	3,530	4,136	6,689	-14.7%	-38.2%
Capital assets, net	10,723	14,292	10,002	-25.0%	42.9%
Total Assets	$ 35,495	$ 39,398	$ 35,147	-9.9%	12.1%
Liabilities:					
Current liabilities	$ 5,144	$ 7,617	$ 7,740	-32.5%	-1.6%
Noncurrent liabilities	333	418	415	-20.3%	0.7%
Total Liabilities	$ 5,477	$ 8,035	$ 8,155	-31.8%	-1.5%
Net Assets:					
Invested in capital assets	$ 10,717	$ 14,278	$ 9,993	-24.9%	42.9%
Restricted-expendable	10,321	8,983	9,678	14.9%	-7.2%
Unrestricted	8,980	8,102	7,321	10.8%	10.7%
Total Net Assets	$ 30,018	$ 31,363	$ 26,992	-4.3%	16.2%

Changes to Net Assets

The decrease in net assets of $1,345,722 for FY2007 was due to a decrease in equity in capital assets which were offset by increases in the Restricted and Unrestricted components. The increase in net assets of $4,370,790 for FY2006 was the result of increases in all three components of Net Assets.

The first component is the Corporation's net assets invested in capital assets, net of related debt, which decreased $3,569,146 during FY2007 and increased $4,285,021 during FY2006. During FY2007 a building previously leased by the Corporation under a capital lease was transferred to Marshall University, resulting in a reduction in this category totaling $3,266,232. The remaining decrease in this category was primarily a result of equipment disposals and depreciation in excess of equipment acquisitions. During FY2006 a significant addition to capital assets was the recording of a significant building lease. The remaining increase in this component was primarily a result of equipment acquisitions in excess of depreciation and disposals. More information on both the lease and subsequent transfer of this building is found in Note 6 to the financial statements. Although contributing to the growth of the Corporation, these non-current assets are not typically available for operating purposes.

Additionally, restricted expendable net assets increased by $1,338,046 during FY2007 and decreased by $695,589 during FY2006. These monies have been restricted for use by entities outside the Corporation, mainly by granting agencies. Net Asset increases in Program Income Funds generated most of the growth in this component during FY2007. The funding of the capital building lease more than offset increases in other restricted programs during FY2006.

Finally, unrestricted net assets increased by $877,200 during FY2007 and $781,358 during FY2006 over the prior year total. Surplus activity in Cost Recovery and Operating Funds account for the growth in this component. These monies can be expended for any legal purpose.

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Assets. The purpose of the statement is to present the revenues received by the Corporation, both operating and nonoperating, and the expenses paid by the Corporation, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the Corporation.

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

Condensed Statements of Revenues, Expenses and Changes in Net Assets (In thousands of dollars)	**June 30, 2007**	**June 30, 2006**	**June 30, 2005**	**Percent Change 2007-2006**	**2006-2005**
Operating revenues	$ 51,365	$ 68,117	$ 56,166	-24.6%	21.3%
Operating expenses	(49,803)	(64,317)	(51,778)	-22.6%	24.2%
Operating income	1,562	3,800	4,388	-58.9%	-13.4%
Nonoperating revenues	358	571	103	-37.3%	454.4%
Building Transfer	(3,266)	0	0	n/a	n/a
(Decrease) Increase in Net Assets	$ (1,346)	$ 4,371	$ 4,491		

Changes to Operating Revenues and Expenses

For FY2007, Operating Revenues were $51,364,856 which compared with $68,117,127 for FY2006, a decrease of $16,752,271 or 24.6%. This decrease was primarily related to building construction projects financed by grants being completed in early FY2007, offset slightly by an increase in non-construction grant activity. The 21.3% increase in FY2006 over FY2005 was primarily due to an increase in grant activity also related to building construction.

Operating Expenses were $49,802,737 for FY2007 compared to $64,317,636; a decrease of $14,514,899 or 22.6%, compared to a 24.2% increase during FY2006. Operating expenses decreased in the Supplies and Other Services category due to the decrease in construction activity, which was offset slightly by an increase the Salary, Benefits, and Depreciation categories as a result of normal business operations. For FY2006, the Supplies and Other Services category increased markedly due primarily to construction related activities.

Excluding construction related grant revenue, Operating Revenues for FY2007 increased $616,213 or 1.6% over FY2006 which excluding construction increased $1,787,546 or 5.0% over FY2005. Additionally, FY2007 Operating Expenses excluding construction related grant expenses increased $3,003,020 or 8.9% over FY2006 which increased $2,489,538 or 8.0% over FY2005 excluding construction. These changes were the result of an increase in grant activity and normal business operations.

Statement of Cash Flows

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

Condensed Statements of Cash flows (In thousands of dollars)	**June 30, 2007**	**June 30, 2006**	**June 30, 2005**	**Percent Change 2007-2006**	**2006-2005**
Cash provided (used) by:					
Operating activities	$ 5,478	$ 3,312	$ 5,677	65.4%	-41.7%
Noncapital financing activities	94	126	121	-25.4%	4.1%
Capital and related financing activities	(2,636)	(3,531)	(4,982)	-25.3%	-29.1%
Investing activities	1,356	343	176	295.3%	94.9%
Net increase in cash and cash equivalents	4,292	250	992		
Cash and cash equivalents, beginning of year	8,801	8,551	7,559		
Cash and cash equivalents, end of year	$ 13,093	$ 8,801	$ 8,551		

The primary factors increasing cash balances were increased grant activity and continued focus on accounts receivable billing and collection efforts.

Capital Asset and Debt Administration

The Corporation does not own land or buildings, but entered into a capital lease agreement for a building as explained in Note 6 to the financial statements. The capital assets owned by the Corporation are equipment purchased with funds provided for directly within grant agreements or using indirect costs recovered. The only debt incurred by the Corporation, other than the capital lease, is in conjunction with the Revolving Loan Fund and is explained in Note 5 to the financial statements.

Economic Outlook

Although the economic forecasts for the state of West Virginia are less than promising, state grants and contracts account for 21.3% of operating revenues. However, the Corporation is well positioned in the areas of federal and private research, which make up 66.9% and 4.0% of current year revenues, respectively. The Corporation should remain competitive for new and continuing research project dollars.

A significant portion of Corporation resources is expended on salaries and fringe benefits associated with a labor-intensive organization. The increasing costs of health insurance and post employment benefits place economic pressure on the Corporation to keep up with these expenses.

Management is unable to predict with certainty the full extent or effect of these economic events. However, we are confident the Corporation has a sound financial base and will take the necessary action required should economic conditions adversely impact the Corporation's budget.

MARSHALL UNIVERSITY RESEARCH CORPORATION

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

	2007	2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$13,093,067	$ 8,800,529
Grants and contracts receivable, net of allowance of $189,359 and $325,242, respectively	7,624,150	11,041,765
Other accounts receivable	50,961	10,966
Loans receivable, net of allowance of $123,761 and $121,895, respectively	28,758	31,336
Prepaid expenses	444,882	1,085,728
Total current assets	21,241,818	20,970,324
NONCURRENT ASSETS:		
Other accounts receivable	161,589	
Loans receivable, net of allowance of $292,950 and $255,116, respectively	153,081	250,194
Investments	3,215,434	3,885,613
Capital assets — net	10,722,959	14,292,105
Total noncurrent assets	14,253,063	18,427,912
TOTAL	$35,494,881	$39,398,236

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

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

LIABILITIES AND NET ASSETS	2007	2006
CURRENT LIABILITIES:		
Accounts payable	$ 861,751	$ 3,204,300
Accrued liabilities	764,646	558,538
Compensated absences	706,307	629,448
Deferred revenue	2,811,269	2,963,095
Capital lease obligations		261,376
Total current liabilities	5,143,973	7,616,757
NONCURRENT LIABILITIES:		
Notes payable	41,633	47,715
Advances from federal sponsors	291,418	370,185
Total noncurrent liabilities	333,051	417,900
Total liabilities	5,477,024	8,034,657
NET ASSETS:		
Invested in capital assets — net of related debt	10,717,397	14,278,365
Restricted for — expendable, sponsored projects	10,320,755	8,982,709
Unrestricted	8,979,705	8,102,505
Total net assets	30,017,857	31,363,579
TOTAL	$35,494,881	$39,398,236

See notes to financial statements. (Concluded)

MARSHALL UNIVERSITY RESEARCH CORPORATION

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

	2007	2006
OPERATING REVENUES:		
Contracts and grants:		
Federal	$34,273,853	$46,500,694
State	10,904,113	14,510,158
Private and local	2,043,066	1,794,869
Interest on loans receivable	6,248	11,943
Program income	1,033,326	1,051,406
Miscellaneous — net	3,104,250	4,248,057
Total operating revenues	51,364,856	68,117,127
OPERATING EXPENSES:		
Salaries and wages	15,944,802	14,851,933
Benefits	4,105,628	3,503,352
Supplies and other services	26,619,044	43,013,152
Utilities	710,142	667,379
Student financial aid — scholarships and fellowships	173,494	134,669
Depreciation	2,249,627	2,147,151
Total operating expenses	49,802,737	64,317,636
OPERATING INCOME	1,562,119	3,799,491
NONOPERATING REVENUES (EXPENSES):		
Investment income, net of unrealized gain (loss) of $27,152 and $(4,704), respectively	685,914	410,566
(Loss) gain on disposal of equipment	(427,523)	40,733
Net nonoperating revenues	258,391	451,299
GIFTS	100,000	120,000
TRANSFER OF BUILDING TO MARSHALL UNIVERSITY	(3,266,232)	
(DECREASE) INCREASE IN NET ASSETS	(1,345,722)	4,370,790
NET ASSETS — Beginning of year	31,363,579	26,992,789
NET ASSETS — End of year	$30,017,857	$31,363,579

See notes to financial statements

MARSHALL UNIVERSITY RESEARCH CORPORATION

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

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Contracts and grants	$50,622,704	$61,284,780
Payments to and on behalf of employees	(19,507,161)	(18,342,698)
Payments to suppliers	(28,782,633)	(44,256,722)
Payments for utilities	(710,142)	(667,379)
Payments for scholarships and fellowships	(173,494)	(134,669)
Loans issued		(4,065)
Collection of loans	20,924	33,089
Program income	1,033,326	1,051,406
Other receipts — net	2,974,615	4,348,277
Net cash provided by operating activities	5,478,139	3,312,019
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Payments on notes and lease payable	(8,178)	(3,194)
Proceeds from notes payable	2,096	9,315
Gifts	100,000	120,000
Net cash provided by noncapital financing activities	93,918	126,121
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Purchases of capital assets	(2,407,940)	(3,124,108)
Payments on capital lease transaction	(261,376)	(3,085,878)
Lease escrow deposit from restricted cash		2,600,000
Proceeds from disposal of equipment	33,705	78,500
Net cash used in capital financing activities	(2,635,611)	(3,531,486)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(104,697)	(848,580)
Sale/maturity of investments	800,000	770,000
Investment income	660,789	421,566
Net cash provided by investing activities	1,356,092	342,986
INCREASE IN CASH AND CASH EQUIVALENTS	4,292,538	249,640
CASH AND CASH EQUIVALENTS — Beginning of year	8,800,529	8,550,889
CASH AND CASH EQUIVALENTS — End of year	$13,093,067	$ 8,800,529

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

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

	2007	2006
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 1,562,119	$ 3,799,491
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation expense	2,249,627	2,147,151
Changes in assets and liabilities:		
Accounts receivable — net	3,216,031	(2,123,183)
Prepaid expenses	640,846	(157,690)
Loans — net	99,691	36,055
Accounts payable	(2,342,549)	(1,326,326)
Accrued liabilities	206,108	183,448
Deferred revenue	(151,826)	686,420
Compensated absences	76,859	69,585
Advances from federal sponsors	(78,767)	(2,932)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 5,478,139	$ 3,312,019
NONCASH TRANSACTIONS:		
CAPITAL LEASE OBLIGATIONS	$	$3,357,327
TRANSFER OF BUILDING TO MARSHALL UNIVERSITY	$3,266,232	$
(LOSS) GAIN ON DISPOSAL OF EQUIPMENT	$ (427,523)	$ 40,733

See notes to financial statements. (Concluded)

MARSHALL UNIVERSITY RESEARCH CORPORATION

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

1. ORGANIZATION

Marshall University Research Corporation (the "Corporation") is a not-for-profit corporation incorporated in 1987, pursuant to the laws of the State of West Virginia (the "State"). The purpose of the Corporation is to foster, support, and assist in any research and economic development activities consistent with the educational objectives and mission of Marshall University (the "University"). The Corporation has been designated by the University to fulfill the role of public institutions to work in partnership with business, industry, or government. The Corporation encourages the acceptance of gifts, grants, contracts, and equipment, and the sharing of facilities, equipment, and skilled personnel to promote and develop joint, applied research and development, technical assistance, and instructional programs in the State. The Corporation is considered a component unit of the University.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Invested in Capital Assets, Net of Related Debt — This represents the Corporation's total investment in capital assets.

Restricted Net Assets, Expendable — This includes resources for which the Corporation is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted Net Assets, Nonexpendable — This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The Corporation does not have any restricted nonexpendable net assets at June 30, 2007 or 2006, respectively.

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

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

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

Investments — The Corporation held U.S. government securities at June 30, 2007 and 2006. Additionally, the Corporation invested in an intermediate term fund comprised of high-quality fixed income securities at of June 30, 2007 and 2006, respectively. The estimated fair value of all financial instruments has been determined using available market information.

Allowance for Doubtful Accounts — It is the Corporation's policy to provide for future losses on uncollectible accounts, contracts, grants, and loans receivable based on an evaluation of the underlying account, contract, grant, and loan balances, the historical collectibility experienced by the Corporation on such balances and such other factors which, in the Corporation's judgment, require consideration in estimating doubtful accounts.

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

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

Compensated Absences — The Corporation accounts for compensated absences in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*. This statement requires entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation, as such benefits are earned and payment becomes probable.

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

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

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

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

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

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

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

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

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

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

Recent Accounting Pronouncements — The GASB has issued Statement No. 45, *Accounting and Financial Reporting for 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. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State of West Virginia. Effective July 1, 2007, the Corporation is required to participate in this multiple employer cost-sharing plan sponsored by the State of West Virginia. 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 Corporation has not yet determined the effect that the adoption of GASB Statement No. 48 may have on the 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 Corporation has not yet determined the effect that the adoption of GASB Statement No. 49 may have on the 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 financial statements or presented as required supplementary information. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 50 may have on the financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of June 30, 2007 and 2006, is as follows.

	2007	2006
Cash in bank	$ 4,396,260	$ 3,358,868
Cash equivalents	8,696,807	5,440,791
Cash on hand		870
	$ 13,093,067	$ 8,800,529

The carrying amount of cash in bank at June 30, 2007 and 2006, was $4,396,260 and $3,358,868, respectively, as compared with a bank balance of $4,384,991 and $3,342,171, respectively. The difference is primarily caused by outstanding checks and items in transit.

Of these balances, $200,000 at both June 30, 2007 and 2006, was covered by federal depository insurance and $3,191,810 and $3,037,498, respectively, were collateralized by securities held by the State's agent. Additionally, at June 30, 2007 and 2006, $993,181 and $104,673, respectively, was held in cash accounts with brokerage firms and was insured by the Security Investor Protection Corporation (SIPC).

Cash equivalents at June 30, 2007 and 2006, consisted of $573,311 and $544,763, respectively, held in highly liquid money market funds comprised of high grade fixed income securities, and $8,123,496 and $4,896,028, respectively, held in repurchase agreements and a business savings account which are collateralized at 102% and the collateral is held in the name of the Corporation.

4. INVESTMENTS

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

	2007	2006
U.S. government agency securities	$1,191,500	$1,966,376
Fixed income bond fund — Commonfund	2,023,934	1,919,237
Total investments	$3,215,434	$3,885,613

Credit Risk — The Corporation'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, respectively, and the Fixed Income Bond Fund had an average maturity of 2.2 and 2.8 years, respectively, for Fiscal 2007 and 2006. At June 30, 2007 and 2006, the Corporation's investments in U.S. government agency securities were rated AAA by both Moody's Investors Service and Standard & Poor's. The average rating of the Fixed Income Bond Fund was AA+ for both years, by both services.

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

5. REVOLVING LOAN FUND

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

Under the provisions of the RLF, the Corporation received $500,000 from the US EDA, and obtained $167,000 in required matching funds consisting of loans to the Corporation from the US EDA and local banks and grants from local sources. Matching funds received in the form of loans have a 30-year maturity and do not bear interest. Related loans payable are recorded by the Corporation at their net present value. At June 30, 2007 and 2006, the recorded balance of the related loans payable was $36,072 and $33,976, respectively.

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

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

6. CAPITAL LEASE TRANSACTION

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

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

7. CAPITAL ASSETS

The following is a summary of capital asset transactions for the Corporation for the years ended June 30, 2007 and 2006:

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

	2006			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets:				
Building	$ -	$ 3,349,982	$ -	$ 3,349,982
Equipment	21,043,492	3,124,108	(527,331)	23,640,269
Total capital assets	21,043,492	6,474,090	(527,331)	26,990,251
Less accumulated depreciation:				
Building		(44,667)		(44,667)
Equipment	(11,040,559)	(2,102,484)	489,564	(12,653,479)
Total accumulated depreciation	(11,040,559)	(2,147,151)	489,564	(12,698,146)
Capital assets—net	$ 10,002,933	$ 4,326,939	$ (37,767)	$ 14,292,105

The Corporation's capitalization threshold was $5,000, and $1,000, respectively, for the years ended June 30, 2007 and 2006. The impact to Fiscal 2007 represents an additional $703,000 in Supplies and Other Services on the accompanying financial statements.

8. LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions for the Corporation for the years ended June 30, 2007 and 2006:

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

	2006			
	Beginning Balance	Additions	Reductions	Ending Balance
Notes payable	$ 41,594	$9,315	$ (3,194)	$ 47,715
Advances from federal sponsors	373,117		(2,932)	370,185
Total long-term liabilities	$414,711	$9,315	$ (6,126)	$417,900

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

9. LEASES

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

Years Ending June 30	
2008	$ 148,768
2009	107,663
2010	102,300
2011	104,400
2012	104,400
Total	$ 567,531

Total rent expense for the years ended June 30, 2007 and 2006, was $220,550 and $272,629, respectively.

10. RELATED-PARTY TRANSACTIONS

A summary of balances and transactions with the University as of and for the year ended June 30, 2007 and 2006, is as follows:

	2007	2006
Grants and contracts receivable	$2,224,319	$2,347,939
Advances payable	250,000	250,000
Other sources of revenue	298,118	283,894
Payroll and benefits expense	4,670,818	3,826,779
Other expenses	502,379	709,298

Other expenses during the years ended June 30, 2007 and 2006, include $50,000 and $195,000, respectively, provided by the Corporation to the University under the provisions of a federal grant for various construction projects.

11. UNRESTRICTED NET ASSETS

At June 30, 2007 and 2006, the Corporation has no designated net assets.

12. RETIREMENT PLAN

All eligible employees of the Corporation participate in the Teachers Insurance and Annuities Association — College Retirement Equities Fund (the "TIAA-CREF"). The TIAA-CREF is a defined contribution plan in which benefits are based solely upon amounts contributed plus investment earnings. Each employee who elects to participate in this plan is required to make a contribution equal to 6% of total annual compensation. The Corporation matches the employees' 6% contributions. Contributions are immediately and fully vested. In addition, employees may elect to make additional contributions to TIAA-CREF which is not matched by the Corporation.

Total contributions to the TIAA-CREF for the years ended June 30, 2007, 2006, and 2005, were $1,693,099, $1,552,247, and $1,535,135, respectively, which consisted of $782,085, $708,262, and $676,860, respectively, from the Corporation and $911,014, $843,985, and $858,275, respectively, from employees.

The Corporation's total payroll for the years ended June 30, 2007 and 2006, was $15,760,635 and $14,557,425, respectively. Total covered employees' salaries in TIAA-CREF were $13,034,754 and $11,804,374, respectively.

13. CONTINGENCIES

The nature of the educational industry is such that, from time to time, claims will be presented against universities on account of alleged negligence, acts of discrimination, breach of contract, or disagreements arising from the interpretation of laws or regulations. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system. In the opinion of management, all known claims are covered by insurance or are such that an award against the Corporation would not seriously impact the financial status of the Corporation.

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

14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 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	Total
Instruction	$ 213,036	$ 17,085	$ 194,032	$ 117	$ -	$ -	$ 424,270
Research	6,345,237	1,493,152	8,753,301	346,532	33,852		16,972,074
Public service	6,684,386	1,800,451	16,160,930	209,666	100,945		24,956,378
Academic support	90,906	12,021	282,167	2,848	300		388,242
Student services	158,530	42,855	232,010	1,306			434,701
General institutional support	2,452,707	740,064	982,784	100,059	38,397		4,314,011
Operations and maintenance of plant			13,820	49,614			63,434
Depreciation						2,249,627	2,249,627
Total	$15,944,802	$4,105,628	$26,619,044	$710,142	$173,494	$2,249,627	$49,802,737

2006	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 264,263	$ 21,817	$ 187,277	$ 58	$ 9,050	$ -	$ 482,465
Research	5,986,584	1,316,306	7,621,868	415,294	51,475		15,391,527
Public service	6,450,679	1,586,627	33,233,453	177,012	62,200		41,509,971
Academic support	43,779	4,516	190,742	6,850	1,050		246,937
Student services	164,663	42,023	303,038	2,540	7,844		520,108
General institutional support	1,941,965	532,063	1,084,558	19,766	3,050		3,581,402
Operations and maintenance of plant			392,216	45,859			438,075
Depreciation						2,147,151	2,147,151
Total	$14,851,933	$3,503,352	$43,013,152	$667,379	$134,669	$2,147,151	$64,317,636

* * * * * *

SUPPLEMENTAL SCHEDULES

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal Agency	Source	CFDA / Contract Number	Indirect Agency	Federal Expenditures
Research and Development:				
Cooperative State Research, Education and Extension Service	D	10.200		$ 474,605
Cooperative State Research, Education and Extension Service	D	10.206		21,371
Forest Service	I	10.664	WVU	70
Department of Agriculture Total				496,046
Economic Development Administration	I	11.302	Region IV Planning and Development Council	98,041
Department of Commerce Total				98,041
Office of Naval Research	D	12.300		11,686
Army Research and Material Command	D	12.420		125,083
Army Research and Material Command	D	12.431		108,887
Army Research and Material Command	I	12.431	University of Virginia	7,708
Defense Advanced Research Projects Agency	D	12.910		2,908,638
U.S. Army Research Office	D	12.W911NF-05-1-0309		123,523
U.S. Army Corps of Engineers	D	12.W91237-04-C-0008		308,357
U.S. Army Corps of Engineers	D	12.W91237-04-P-0147		17,602
U.S. Army Corps of Engineers	D	12.W91237-06-P-0203		10,009
U.S. Army Corps of Engineers	D	12.W91237-06-R-0016		605,675
Department of Defense Total				4,227,168
National Park Service	D	15.916		423
Department of the Interior	D	15.H4780-020-004		4,138
Department of the Interior Total				4,561
Office of Juvenile Justice and Delinquency Prevention	I	16.540	WV Department of Criminal Justice	24,689
Office of Justice Programs	D	16.560		3,602,276
Office of Justice Programs	D	16.580		158,203
National Institute of Justice	D	16.741		194,564
Department of Justice Total				3,979,732
Federal Railroad Administration	D	20.313		119,745
Federal Railroad Administration	D	20.314		132,386
Department of Transportation Total				252,131
National Aeronautics and Space Administration	D	43.001		1,611,088
National Aeronautics and Space Administration	I	43.001	West Virginia University	96,703
National Aeronautics and Space Administration	I	43.001	WVU (91-175-MURC)	19,329
National Aeronautics and Space Administration	I	43.001	WVU (99-390A-MURC)	86,674
				1,813,794
National Aeronautics and Space Administration	D	43.002		374,656
National Aeronautics and Space Administration Total				2,188,450

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal Agency	Source	CFDA / Contract Number	Indirect Agency	Federal Expenditures
National Science Foundation	D	47.041		$ 70,936
National Science Foundation	D	47.049		18,319
National Science Foundation	D	47.050		3,904
National Science Foundation	D	47.074		210,176
National Science Foundation	D	47.075		184,651
National Science Foundation	I	47.076	University of Kentucky	919
National Science Foundation	I	47.076	WV EPSCoR	131,141
National Science Foundation	I	47.076	WV Higher Education Policy Commission	374,607
				506,667
National Science Foundation Total				994,653
Research and Development:				
Economic Development Administration	I	66.500	Woods Hole Oceanographic Institution	12,143
Environmental Protection Agency	D	66.606		107,771
Environmental Protection Agency Total				119,914
Department of Energy	I	81.05-839	WV Development Office	10,991
Department of Energy Total				10,991
Substance Abuse and Mental Health Services Administration	I	93.104	Prestera Center (SM52917-05)	15,303
Health Resources and Services Administration	D	93.110		27,680
National Institutes of Health	D	93.113		255
National Institutes of Health	I	93.273	Ohio University (UT 12061)	41,988
Centers for Disease Control and Prevention	D	93.283		(6,838)
National Institutes of Health	D	93.389		5,492,055
National Institutes of Health	D	93.393		27,506
Administration for Children and Families	I	93.630	WV Department of Health and Human Resources	447
National Institutes of Health	D	93.837		22,488
National Institutes of Health	I	93.847	Charles R. Drew University of Medicine and Science	872
National Institutes of Health	I	93.865	Johns Hopkins University	43,582
National Institutes of Health	I	93.865	The Children's Hospital of Philadelphia	16,443
National Institutes of Health	D	93.866		19,701
Health Resources and Services Administration	D	93.888		861,207
Department of Health and Human Services Total				6,562,689
Subtotal Research and Development				18,934,376
Other Programs:				
The White House Office of National Drug Control Policy	I	07.000	Financial Commission of Appalachia	(24)
Executive Office of the President Total				(24)
Rural Business-Cooperative Service	D	10.769		(160)
Department of Agriculture Total				(160)
Economic Development Administration	D	11.307		146,526
Department of Commerce Total				146,526

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal Agency	Source	CFDA / Contract Number	Indirect Agency	Federal Expenditures
U.S. Army Corps of Engineers	D	12.000		$ 87,393
U.S. Army Corps of Engineers	D	12.W91237-05-C-0005		5,000
U.S. Army Corps of Engineers	D	12.W91237-05-P-0092		14,034
Department of Defense Total				106,427
Office of Community Oriented Policing Services	D	16.710		334,805
Office of Juvenile Justice and Delinquency Prevention	I	16.727	WV Department of Criminal Justice	17,432
Department of Justice Total				352,237
Federal Highway Administration	I	20.205	WV Department of Transportation	65,285
Federal Railroad Administration	D	20.313		496,454
Federal Transit Administration	I	20.509	WV Department of Transportation	30,145
Research and Special Programs Administration	D	20.701		1,454,478
Research and Special Programs Administration	I	20.701	WV Department of Transportation	75,337
				1,529,815
Department of Transportation Total				2,121,699
Appalachian Regional Commission	D	23.001		108,025
Appalachian Regional Commission	D	23.002		201,271
Appalachian Regional Commission	D	23.011		29,900
Appalachian Regional Commission Total				339,196
National Endowment for the Humanities	I	45.129	WV Humanities Council	7,610
National Foundation on the Arts and the Humanities Total				7,610
National Science Foundation	I	47.049	University of Kentucky	118,529
National Science Foundation	D	47.076		13,270
National Science Foundation	I	47.076	University of Tennessee (OR1103-001.02, AMEND 5)	16,438
National Science Foundation	I	47.076	WV EPSCoR (EPS-02-MURC)	6,194
				35,902
National Science Foundation Total				154,431
Small Business Administration	I	59.000	MU Foundation	358
Small Business Administration Total				358
Office of Waste and Emergency Response	I	66.815	West Virginia University	546
Environmental Protection Agency Total				546

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal Agency	Source	CFDA / Contract Number	Indirect Agency	Federal Expenditures
Office of Energy Efficiency and Renewable Energy	I	81.041	WV Development Office	$ 36,886
Department of Energy Total				36,886
Office of Assistance Secretary of Postsecondary Education	D	84.044		455,360
Office of Assistance Secretary of Postsecondary Education	D	84.066		211,957
Office of Assistance Secretary of Postsecondary Education	D	84.116		5,636
Office of Safe and Drug-Free Schools	I	84.184	WV Department of Education	186,804
Department of Education	I	84.928		128,027
Department of Education Total				987,784
Substance Abuse and Mental Health Services Administration	I	93.104	Prestera Center for Mental Health Services	73,423
Substance Abuse and Mental Health Services Administration	I	93.104	WV Department of Health and Human Services	(204)
				73,219
Health Resources and Services Administration	I	93.130	WV Department of Health and Human Resource	22,999
Agency for Health Care Policy and Research	I	93.226	West Virginia Medical Institute	290
Substance Abuse and Mental Health Services Administration	I	93.243	Prestera Center for Mental Health Services	22,731
Substance Abuse and Mental Health Services Administration	I	93.243	WV Division of Criminal Justice Services	611,454
				657,474
Centers for Disease Control and Prevention	I	93.283	WV Department of Health and Human Resources	161,709
Administration for Children and Families	I	93.570	The National Youth Sports Program	1,340
Administration for Children and Families	I	93.630	WV Developmental Disabilities Council	67,465
Administration for Children and Families	I	93.658	WV Department of Health and Human Resources	130,553
Health Resources and Services Administration	I	93.824	West Virginia University	128,153
Health Resources and Services Administration	I	93.824	WVU (00-293MURC)	46,610
				174,763
Health Resources and Services Administration	D	93.887		7,875,822
Substance Abuse and Mental Health Services Administration	I	93.958	WV Department of Health and Human Resource	162,881
Substance Abuse and Mental Health Services Administration	I	93.959	WV Department of Health and Human Resource	1,652,515
Centers for Disease Control and Prevention	I	93.988	WV Bureau of Public Health	(2,387)
Centers for Disease Control and Prevention	I	93.988	WV Department of Health and Human Resources	130,944
				128,557
Centers for Disease Control and Prevention	I	93.991	WV Department of Health and Human Resources	(488)
Health Resources and Services Administration	I	93.996	WVU (03-655-MURC)	512
Department of Health and Human Services Total				11,086,322
Subtotal Other Programs				15,339,838
Total Federal Expenditures				$34,274,214

See notes to the schedule of expenditures of federal awards.

(Concluded)

MARSHALL UNIVERSITY RESEARCH CORPORATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2007

1. The purpose of the Schedule of Expenditures of Federal Awards (the “Schedule”) is to present a summary of the expenditures of Marshall University Research Corporation (the “Corporation”) for the year ended June 30, 2007, which have been financed by the federal government. For purposes of the Schedule, federal awards have been classified into two types: direct federal funds (“D”), and indirect federal funds (“I”) received from nonfederal organizations made under federally sponsored programs conducted by those organizations.

2. The Schedule is prepared on the accrual basis of accounting.

3. Catalog of Federal Domestic Assistance (CFDA) numbers are presented for those programs for which such numbers are available. When CFDA numbers are not available, contract numbers are presented. If a contract number is not available, it is presented as .999.

4. U.S. Office of Management and Budget (OMB) Circular A-21 (“A-21”), *Cost Principles for Educational Institutions*, requires submission of a Certificate of Facilities and Administrative (“F&A”) Costs (the “Certificate”) to an institution’s cognizant agency. The Certificate is prepared by the Corporation and is used in negotiations with its cognizant agency, the Department of Health and Human Services (DHHS), in determining a rate at which the Corporation will be reimbursed for the F&A costs associated with the completion of sponsored research.

   The Corporation receives reimbursement of F&A costs as part of the granting agreement at either the rate negotiated with DHHS or at special rates negotiated with the granting agency.

   On January 6, 2003, DHHS approved F&A cost recovery rates effective from July 1, 2002 through June 30, 2004. On May 11, 2004, DHHS approved an extension of the recovery rate through June 30, 2008. The F&A cost rate structure is as follows:

Rate Type	Rate as Submitted Within Certificate	Negotiated Rate
Organized research — off-campus	26.00%	26.00%
Instruction — on-campus	56.28	52.60
Organized research — on-campus	40.33	40.00

Differences between the rates submitted in the Certificate and the rates negotiated with DHHS result from DHHS' review of the underlying support and assumptions used by the Corporation in the preparation of the Certificate. Despite DHHS' approval, negotiated rates could be adjusted retroactively, and reimbursement to granting agencies could be required if costs identified as unallowable per OMB Circular A-21 were improperly included in amounts included in the Certificate.

Subrecipient expenditures in the Schedule of Expenditures of Federal Awards at June 30, 2007, include:

Federal Agency	**Subrecipient**	**CFDA**	**Subrecipient Expenditures**
Research and Development:			
Department of Health and Human Services	Alderson Broaddus College In	93.389	$ 18,613
Department of Health and Human Services	CAMC Health, Ed & Research	93.389	77,703
Department of Health and Human Services	Fairmont State University	93.389	237,561
Department of Health and Human Services	Lincoln Primary Care	93.389	15,420
Department of Health and Human Services	Tug River Health Association	93.389	15,667
Department of Health and Human Services	Valley Health Systems Inc	93.389	19,096
Department of Health and Human Services	West Liberty State College	93.389	302,184
Department of Health and Human Services	Wheeling Jesuit University	93.389	25,551
Department of Health and Human Services	WV State Univ Research & Dev	93.389	256,304
Department of Health and Human Services	WVU Research Corp	93.389	1,766,404
Department of Defense	Enviromental Support Service	12.W91237-04-C-0008	184,756
Department of Defense	WVU Research Corp	12.W91237-04-C-0008	92,013
Other Programs:			
Department of Transportation	Univ of Tennessee	20.701	66,180
Department of Transportation	WVU Research Corp	20.701	1,413
			$3,078,865

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MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF RURAL HEALTH EDUCATION PARTNERSHIP (RHEP)
REVENUES AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2007

	FY2006/2007 APPROVED BUDGET	CHANGES TO BUDGET	TOTAL AVAILABLE FUNDS	EXPENDITURES FY2006/2007 YTD	UNEXPENDED BUDGET 6/30/2007
I DIRECT SERVICE EXPENSE					
Student/Resident Housing	$ 14,000	$ -	$ 14,000	$ 9,822	$ 4,178
Student/Resident LRC	2,500	-	2,500	902	1,598
Student/Resident Rotation Coordination	123,433	-	123,433	128,418	(4,985)
IDS Prep & Presentation	10,000	-	10,000	2,400	7,600
Annual Honorarium	8,000	-	8,000	11,500	(3,500)
Graduate Medical Education	-	-	-	-	-
Recruitment & Retention	-	-	-	-	-
Community Service/Health Promotion	1,813	-	1,813	(689)	2,502
On-Site Clinical Director	7,000	-	7,000	7,000	-
Faculty Development	4,500	-	4,500	2,561	1,939
Earned Interest					
Subtotal	171,246	-	171,246	161,914	9,332
II INDIRECT SERVICE EXPENSE					
Site Administration	42,394	-	42,394	42,112	282
Administrative Travel	3,750	-	3,750	1,976	1,774
Office Expense	13,000	-	13,000	14,450	(1,450)
Fiscal Management	23,039	-	23,039	25,345	(2,306)
Subtotal	82,183	-	82,183	83,883	(1,700)
III ADMINISTRATIVE ADJUSTMENTS	-	-	-	-	-
TOTAL	$ 253,429	$ -	$ 253,429	$ 245,797	- $ 7,632

FY 2006/2007 FUNDING RECEIVED THROUGH 6/30	$ 253,429
FY 2006/2007 FUNDING RECEIVABLE AT 6/30	$ (0)
ACCOUNT BALANCE AT 6/30	$ 7,632

See notes to schedules of RHEP revenues, expenditures, and carryforward funds

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF RURAL HEALTH EDUCATION PARTNERSHIP (RHEP)
REVENUES AND EXPENDITURES -- CARRYFORWARD FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	FUND BALANCE RETAINED	CHANGES TO FUNDING	TOTAL AVAILABLE FUNDS	EXPENDITURES FY2006/2007 YTD	UNEXPENDED BUDGET 6/30/2007
I DIRECT SERVICE EXPENSE					
Student/Resident Housing	$ 12,956	$ -	$ 12,956	$ 12,956	$ -
Student/Resident LRC	-	-	-	-	-
Student/Resident Rotation Coordination	-	-	-	-	-
IDS Prep & Presentation	-	-	-	-	-
Annual Honorarium	10,100	-	10,100	10,100	-
Granduate Medical Education	10,000	-	10,000	3,725	6,275
Recruitment & Retention	3,000	-	3,000	2,129	871
Community Service/Health Promotion	15,479	-	15,479	3,027	12,452
On-Site Clinical Director	500	-	500	500	-
Faculty Development	-	-	-	-	-
Earned Interest					
Subtotal	52,035	-	52,035	32,437	19,598
II INDIRECT SERVICE EXPENSE					
Site Administration	-	-	-	-	-
Administrative Travel	1,235	-	1,235	1,235	-
Office Expense	-	-	-	-	-
Fiscal Management	-	-	-	-	-
Subtotal	1,235	-	1,235	1,235	-
III ADMINISTRATIVE ADJUSTMENTS	$ 53,270	$ -	$ 53,270	$ 33,672	$ 19,598

See notes to the schedules of RHEP revenues, expenses, and carryforward funds.

MARSHALL UNIVERSITY RESEARCH CORPORATION

NOTES TO SCHEDULES OF RURAL HEALTH EDUCATION PARTNERSHIP (RHEP) REVENUES, EXPENDITURES, AND CARRYFORWARD FUNDS FOR THE YEAR ENDED JUNE 30, 2007

1. The purpose of the Schedules of Rural Health Education Partnership (RHEP) Revenues, Expenditures, and Carryforward Funds (the "Schedules") is to present a summary of the revenues and expenditures by the Corporation for the year ended June 30, 2007, as authorized by RHEP program staff.

2. The Corporation acts as fiscal agent for the RHEP program, which is managed by its own Board of Directors. The RHEP program receives its financing from the West Virginia Higher Education Policy Commission.

3. The schedule of RHEP Revenues and Expenditures presents the funding awarded for the fiscal year ended June 30, 2007, and the schedule of RHEP Revenues and Expenditures – Carryforward Funds presents the funding carried forward from the fiscal year ended June 30, 2006.

4. The Schedules are prepared on the accrual basis of accounting.

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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 Board of Directors of
Marshall University Research Corporation:

We have audited the financial statements of the Marshall University Research Corporation (the "Corporation") as of and for the year ended June 30, 2007, and have issued our report thereon dated August 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's 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 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 Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Deloitte & Touche LLP

August 30, 2007

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of
Marshall University Research Corporation:

Compliance

We have audited the compliance of Marshall University Research Corporation (the "Corporation") with the types of compliance requirements described in the *U.S. Office of Management and Budget* (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The Corporation's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to each of its major federal programs is the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit.

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

In our opinion, the Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the 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 material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

Deloitte & Touche LLP

August 30, 2007

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

Part I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified			
Internal control over financial reporting:				
Material weakness(es) identified?		Yes	✓	No
Reportable condition(s) identified not considered to be material weaknesses?		Yes	✓	N/A
Noncompliance material to financial statements noted?		Yes	✓	No

Federal Awards:

Internal control over major programs:				
Material weakness(es) identified?		Yes	✓	No
Reportable condition(s) identified not considered to be material weakness(es)?		Yes	✓	N/A
Type of auditors' report issued on compliance for major programs:	Unqualified			
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (section .510(a))?		Yes	✓	No

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
Various	Research and Development Cluster
93.887	Health Resources and Services Administration
93.959	Substance Abuse and Mental Health Services Administration

Dollar threshold used to distinguish between Type A and Type B Programs $ 1,028,226

Auditee qualified as low-risk auditee?	✓	Yes		No

Part II. FINANCIAL STATEMENT FINDINGS SECTION

Reference Number	Findings	Questioned Costs

No matters are reportable.

Part III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

Reference Number	Findings	Questioned Costs

No matters are reportable.