Marshall University Research Corporation

Combined Financial Statements as of and for the Years Ended June 30, 2009 and 2008, Supplemental Schedule for the Year Ended June 30, 2009, Independent Auditors' Report, and Reports Required by OMB Circular A-133 for the Year Ended June 30, 2009

MARSHALL UNIVERSITY RESEARCH CORPORATION

TABLE OF CONTENTS

Deloitte.

Deloitte & Touche LLP
2500 One PPG Place
Pittsburgh, PA 15222-5401
USA

Tel: +1 412 338 7200
Fax: +1 412 338 7380
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Marshall University Research Corporation:

We have audited the accompanying combined statements of net assets of Marshall University Research Corporation (the "Corporation") as of June 30, 2009 and 2008, and the related combined statements of revenues, expenses, and changes in net assets, and of cash flows for the years then ended. These combined financial statements are the responsibility of the management of the Corporation. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

In our opinion, such combined financial statements present fairly, in all material respects, the financial position of the Corporation, at June 30, 2009 and 2008, and its revenues, expenses, and changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audits were performed for the purpose of forming an opinion on the basic combined financial statements of the Corporation taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2009, is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is not a required part of the basic combined financial statements. This schedule is the responsibility of the management of the Corporation. Such information has been subjected to the auditing procedures applied in our audit of the 2009 basic combined financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the 2009 basic combined financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2009, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

October 5, 2009

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

Introduction

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

Overview 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 2009 data explaining significant changes from the financial statements presented for the year ended June 30, 2008. This discussion and analysis of the Corporation's financial statements provides an overview of its financial activities and is required supplementary information.

Combined Statement of Net Assets

The Combined Statement of Net Assets presents the assets, liabilities, and net assets of the Corporation as of the end of the fiscal year. The statement is a point in time financial statement. The purpose of the statement is to present to the readers of the financial statements a fiscal snapshot of MURC. The statement 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 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 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. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. 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 net 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, 2009 or 2008, certain amounts are reserved for specific programs.

Net Assets (In thousands of dollars)	June 30, 2009	June 30, 2008	June 30, 2007	Percent Change 2009-2008	2008-2007
Assets:					
Current assets	$ 30,868	$ 28,303	$ 21,242	9.1%	33.2%
Other noncurrent assets	3,052	5,688	3,530	-46.3%	61.1%
Capital assets, net	15,400	11,427	10,723	34.8%	6.6%
Total Assets	$ 49,320	$ 45,418	$ 35,495	8.6%	28.0%
Liabilities:					
Current liabilities	$ 5,955	$ 5,301	$ 5,144	12.3%	3.1%
Noncurrent liabilities	3,506	3,199	333	9.6%	860.7%
Total Liabilities	$ 9,461	$ 8,500	$ 5,477	11.3%	55.2%
Net Assets:					
Invested in capital assets - net of of related debt	$ 11,871	$ 11,379	$ 10,717	4.3%	6.2%
Restricted-Nonexpendable	465	0	0	100.0%	0.0%
Restricted-expendable	16,927	15,976	10,321	6.0%	54.8%
Unrestricted	10,596	9,563	8,980	10.8%	6.5%
Total Net Assets	$ 39,859	$ 36,918	$ 30,018	8.0%	23.0%

Changes to Net Assets

The increase in net assets of $2,940,849 for FY2009 was the result of an increase of $1,798,561 in grants and contracts receivables which resulted in an increase in restricted expendable funding of $1,415,700. The increase in net assets of $6,899,740 for FY2008 was the result of the receipt of the Eminent Scholars Recruitment and Enhancement Program award of $5,000,000, and increased cash accounts, offset by an increase in accounts payable.

The first component of net assets is the Corporation's equity in capital assets, which increased $492,472 during FY2009 and increased $661,321 during FY2008. During FY2008, the Corporation began construction of an addition to the Forensic Science Center and recorded an additional $3,861,276 in FY2009 and $556,141 in FY2008 as Construction in Progress. The corporation received $576,374 in deferred rent revenue from Huntington Area Development Council (HADCO) during FY2009 toward their total commitment of $994,100 toward the construction of a discreet portion of the building as a business start-up incubator. The total $994,100 of deferred rent to be received from HADCO will be recognized evenly over a twenty year period when they take tenancy in the building upon completion of the project.

During 2009, restricted nonexpendable assets were received in connection with the "Bucks for Brains" West Virginia Research Trust Fund. $465,000 of private donations have been received by the Marshall Foundation and matched by $465,000 drawn from the State on the project. These funds are held in two nonexpendable funds — one at the Foundation and the other at MURC.

Additionally, restricted expendable net assets increased by $950,700 during FY2009 and $5,655,394 during FY2008. These monies have been restricted for use by entities outside the Corporation, mainly by granting agencies. During FY2009, the receipt of an $800,000 WVMUL Digital conversion grant provided the majority of the increase to this category. During FY2008, the increase resulted from the receipt of $5,000,000 for the Eminent Scholars Recruitment Enhancement Program (ESRE) award and increases in program income funds.

Finally, unrestricted net assets increased by $1,032,677 for FY2009 and $583,025 during FY2008 over the prior year total. Surplus activity in Cost Recovery and Operating Funds account for the growth in this component. These monies can be expended for any legal purpose.

Combined Statement of Revenues, Expenses and Changes in Net Assets

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

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

Revenues, Expenses and Changes in Net Assets (In thousands of dollars)	June 30, 2009	June 30, 2008	June 30, 2007	Percent Change 2009-2008	2008-2007
Operating revenues	$ 40,662	$ 44,833	$ 51,365	-9.3%	-12.7%
Operating expenses	(37,620)	(38,470)	(49,803)	-2.2%	-22.8%
Operating income	3,042	6,363	1,562	-52.2%	307.4%
Nonoperating revenues	(101)	537	358	-118.8%	50.0%
Building Transfer	0	0	(3,266)	n/a	n/a
Increase (Decrease) in Net Assets	$ 2,941	$ 6,900	$ (1,346)		

Changes to Operating Revenues and Expenses

For FY2009, Operating Revenues were $40,662,426 which compared with $44,832,737 for FY2008, a decrease of $4,170,311 or 9.3%. This decrease was primarily due to a reduction of $5,000,000 in state grants as compared to FY2008, which relates to the Eminent Scholars Recruitment and Enhancement Program (ESRE).

Operating Expenses were $37,620,484 for FY2009 compared to $38,469,961, a decrease of $849,477 or 2.2%, compared to a 22.8% decrease during FY2008. For 2009, supplies and other services expenditures decreased by $1,518,312 attributable to a decrease in activity resulting from the completion of the Clinical Outreach Center.

Excluding construction related grant revenue, Operating Revenues for FY2009 decreased $3,274,606 or 7.5% over FY2008 which increased $5,730,478 (excluding construction) or 15.1% over FY2007.

Combined Statement of Cash Flows

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

Cash Flows (In thousands of dollars)	June 30, 2009	June 30, 2008	June 30, 2007	Percent Change 2009-2008	2008-2007
Cash provided (used) by:					
Operating activities	$ 3,742	$ 7,947	$ 5,478	-52.9%	45.1%
Noncapital financing activities	(107)	16	94	-768.8%	-83.0%
Capital and related financing activities	(2,891)	(2,828)	(2,636)	2.2%	7.3%
Investing activities	564	1,330	1,356	-57.6%	-1.9%
Net increase in cash and cash equivalents	1,308	6,465	4,292		
Cash and cash equivalents, beginning of year	19,558	13,093	8,801		
Cash and cash equivalents, end of year	$ 20,866	$ 19,558	$ 13,093		

The increase in cash balance in 2009 is related primarily to an increase of $459,998 in program income and a decrease of $1,396,541 in payments to suppliers due primarily to the completion of the Clinical Outreach Center. The increase in cash balance in 2008 was primarily related to the receipt of $5,000,000 for the Eminent Scholars Recruitment and Enhancement (ESRE) Program by the State of West Virginia.

Capital Asset and Debt Administration

Construction began in 2008 for an addition to the Forensic Science Center which will be owned by the Corporation. The capital assets owned by the Corporation are primarily comprised of equipment purchased with funds provided directly within grant agreements or using indirect costs recovery funds. Funding for the Forensic Science Center addition has resulted in the Corporation incurring a note payable in the amount of $3,000,000. The only other debt incurred by the Corporation is in conjunction with the Revolving Loan Fund, which was transferred after year-end on July 9, 2009 to Natural Capital Investment Fund. For further information on debt of the Corporation, see Note 5 to the financial statements.

Economic Outlook

State grants and contracts account for 15.0 % of operating revenues. The Corporation is well positioned in the areas of federal and private research, which make up 68.2 % and 5.7 % of current year revenues, respectively. The Corporation remains competitive for new and continuing research project dollars.

On March 8, 2008, the West Virginia Legislature passed Senate Bill 287 to create “Bucks for Brains” West Virginia Research Trust Fund in the amount of $50,000,000, of which $15,000,000 is earmarked for Marshall University Research Corporation. The State promised to match private donations with the intent of strengthening the research efforts of both Marshall University and West Virginia University. At June 30, 2009, there is $14,535,000 remaining in the Trust Fund, which are available to be matched through March 8, 2013.

MARSHALL UNIVERSITY RESEARCH CORPORATION

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2009 AND 2008

ASSETS	2009	2008
CURRENT ASSETS:		
Cash and cash equivalents	$ 20,866,029	$ 19,558,081
Grants and contracts receivable — net of allowance of $410,734 and $347,129 in 2009 and 2008, respectively	10,108,224	8,309,663
Other accounts receivable	59,275	14,769
Loans receivable — net of allowance of $88,487 and $79,556 in 2009 and 2008, respectively	11,682	12,802
Prepaid expenses	353,432	407,219
Total current assets	31,398,642	28,302,534
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	364,279	2,952,500
Other accounts receivable	106,685	191,487
Deferred charges — debt issuance costs	45,125	47,500
Loans receivable — net of allowance of $93,103 and $105,109 in 2009 and 2008, respectively	51,524	61,335
Investments	1,953,209	2,435,834
Capital assets — net	15,400,169	11,426,751
Total noncurrent assets	17,920,991	17,115,407
TOTAL	$ 49,319,633	$ 45,417,941

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2009 AND 2008

LIABILITIES AND NET ASSETS	2009	2008
CURRENT LIABILITIES:		
Accounts payable	$ 1,734,452	$ 1,391,634
Accrued liabilities	728,709	681,085
Notes payable — current portion	163,215	
Compensated absences	768,684	712,609
Deferred revenue	2,559,641	2,515,708
Total current liabilities	5,954,701	5,301,036
NONCURRENT LIABILITIES:		
Notes payable	2,777,711	3,047,957
Advances from federal sponsors	152,401	151,351
Deferred rent revenue	576,374	
Total noncurrent liabilities	3,506,486	3,199,308
Total liabilities	9,461,187	8,500,344
NET ASSETS:		
Invested in capital assets — net of related debt	11,871,190	11,378,718
Restricted for:		
Nonexpendable	465,000	
Expendable — sponsored projects	16,926,849	15,976,149
Unrestricted	10,595,407	9,562,730
Total net assets	39,858,446	36,917,597
TOTAL	$ 49,319,633	$ 45,417,941

See notes to combined financial statements. (Concluded)

MARSHALL UNIVERSITY RESEARCH CORPORATION

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
OPERATING REVENUES:		
Contracts and grants:		
Federal	$27,746,476	$28,738,498
State	6,090,752	10,502,563
Private and local	2,335,451	1,974,553
Interest on loans receivable	1,059	1,485
Program income	1,373,033	913,035
Miscellaneous — net	3,115,655	2,702,603
Total operating revenues	40,662,426	44,832,737
OPERATING EXPENSES:		
Salaries and wages	17,720,236	17,166,126
Benefits	3,901,456	3,785,562
Supplies and other services	13,099,810	14,618,122
Utilities	507,266	523,922
Student financial aid — scholarships and fellowships	185,081	125,052
Depreciation	2,206,635	2,251,177
Total operating expenses	37,620,484	38,469,961
OPERATING INCOME	3,041,942	6,362,776
NONOPERATING REVENUES (EXPENSES):		
Investment income — net of unrealized (loss) gain of $(220,153) and $(3,864) in 2009 and 2008, respectively	81,719	550,804
Interest on indebtedness	(37,249)	(1,061)
Loss on disposal of equipment	(145,563)	(22,779)
Net nonoperating (expenses) revenues	(101,093)	526,964
CAPITAL GIFTS		10,000
INCREASE IN NET ASSETS	2,940,849	6,899,740
NET ASSETS — Beginning of year	36,917,597	30,017,857
NET ASSETS — End of year	$39,858,446	$36,917,597

See notes to combined financial statements.

MARSHALL UNIVERSITY RESEARCH CORPORATION

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Contracts and grants	$ 34,354,446	$ 40,076,770
Payments to and on behalf of employees	(21,516,818)	(20,898,564)
Payments to suppliers	(12,968,674)	(14,330,340)
Payments for utilities	(507,266)	(523,922)
Payments for scholarships and fellowships	(185,081)	(125,052)
Collection of loans	14,006	13,697
Transfer of loans	(2,025)	(46,063)
Program income	1,373,033	913,035
Other receipts — net	3,180,317	2,861,858
Net cash provided by operating activities	3,741,938	7,941,419
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Payments on notes payable		(3,112)
Proceeds from notes payable		9,436
Capital gifts		10,000
Net cash provided by noncapital financing activities	-	16,324
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Proceeds from note payable		3,000,000
Payments on note payable	(107,031)	
Purchases of capital assets	(6,203,334)	(2,896,829)
Deferred rent revenue collected	576,374	
Proceeds from disposal of equipment	147,436	73,696
Payment of debt issuance costs		(47,500)
Withdrawal from (deposits to) noncurrent cash and cash equivalents	2,588,221	(2,952,500)
Net cash used in financing activities	(2,998,334)	(2,823,133)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(136,080)	(9,524)
Sale/maturity of investments	398,552	799,140
Investment income	301,872	540,788
Net cash provided by investing activities	564,344	1,330,404
INCREASE IN CASH AND CASH EQUIVALENTS	1,307,948	6,465,014
CASH AND CASH EQUIVALENTS — Beginning of year	19,558,081	13,093,067
CASH AND CASH EQUIVALENTS — End of year	$ 20,866,029	$ 19,558,081

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 3,041,942	$ 6,362,776
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation expense	2,206,635	2,251,177
Changes in assets and liabilities:		
Accounts receivable — net	(1,758,265)	(679,219)
Prepaid expenses	53,787	37,663
Loans — net	10,931	107,702
Accounts payable	73,100	379,007
Accrued liabilities	12,750	(88,361)
Deferred revenue	43,933	(295,561)
Compensated absences	56,075	6,302
Advances from federal sponsors	1,050	(140,067)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 3,741,938	$ 7,941,419
NONCASH TRANSACTIONS:		
Loss on disposal of equipment	$ (145,562)	$ (22,779)
Construction in progress additions in accounts payable	$ 269,717	$ 150,876

See notes to combined financial statements. (Concluded)

1. ORGANIZATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Financial Statement Presentation — GASB Statements No. 35 and No. 38 establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a combined basis to focus on the Corporation as a whole. Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of Corporation obligations. The Corporation's net assets are classified as follows:

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

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

Restricted Net Assets, Nonexpendable — This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

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 equivalents.

Investments — Investments, other than alternative investments, are presented at fair value based on quoted market prices. The alternative investments are carried at estimated fair value. These valuations include assumptions and methods that were reviewed by University management and are primarily based on quoted market prices for the underlying investments or other observable market data. The University believes that the carrying amount of its alternative investments is a reasonable estimate of fair value. Because the portion of alternative investments that are not readily marketable, and the estimated value is subject to uncertainty, the reported value may differ from the value that would have been used had a ready market existed.

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

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

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

Deferred Rent Revenue — Deferred rent revenue represents the monies received from Huntington Area Development Council (HADCO). Recognition of this revenue will be deferred during the construction of a business start-up incubator. The total $994,100 of deferred rent to be received from HADCO will be recognized evenly over a 20-year period when they take tenancy in the building upon completion of the project.

Compensated Absences — The Corporation accounts for compensated absences in accordance with the provisions of GASB 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.

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

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

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

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

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

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

Newly Adopted Statements Issued by the GASB — During 2009, the Corporation adopted GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* as required. The adoption of this statement had no impact on the financial statements.

During 2009, the GASB issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement identifies the sources of accounting principles and provides the framework for selecting the principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with generally accepted accounting principles. The Corporation adopted GASB Statement No. 55 upon issuance.

During 2009, the GASB also issued GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. This statement establishes accounting and financial reporting standards for related-party transactions, subsequent events, and going concern considerations. The Corporation adopted GASB Statement No. 56 upon issuance.

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

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

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of June 30, 2009 and 2008, is as follows:

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

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

The carrying amount of cash in bank at June 30, 2009 and 2008, was $5,847,128 and $5,367,794, respectively, as compared with a bank balance of $5,847,100 and $5,367,794, respectively. The difference is primarily caused by outstanding checks and items in transit.

On October 3, 2008, Fifth Third Bank implemented the revised FDIC deposit insurance coverage rules to the collateral management process, in accordance to State level requirements. As a result of these changes, the FY2009 balance of $3,380,641 is fully insured through the FDIC through the Temporary Liquidity Guaranty Program (TLGP). In FY2008, $3,284,092 was collateralized by securities held by the State's agent and $200,000 was insured by the FDIC. Additionally, at June 30, 2009 and 2008, $2,316,631 and $1,883,702, respectively, was held in cash accounts with brokerage firms and was insured by the Security Investor Protection Corporation (SIPC).

Cash equivalents totaling $14,487,753 and $13,597,062 are held in repurchase agreements and a business savings account which are collateralized at 125%. The collateral is held in the name of the Corporation at June 30, 2009 and 2008, respectively.

Cash on deposit with Trustee consists of the proceeds from a notes payable that is restricted for the construction of a new Forensic Science Center (see Note 7). The Trustee is holding the funds in Federated Government Obligations managed by Federated Investors. The fund is a portfolio of short-term U.S. Treasury and government agency securities, including repurchase agreements collateralized fully by U.S. Treasury and government agency securities. The annual rate of return is 0.87% and 3.46% as of June 30, 2009 and 2008, respectively, and has a Moody's rating of AAA. This is a daily value fund, highly liquid, and available for immediate draw at any time.

4. INVESTMENTS

Investments at June 30, 2009 and 2008, consist of the following:

	2009	2008
U.S. government agency securities	$ -	$ 402,376
Commonfund — Intermediate Fund and Short Term Fund	1,953,209	2,033,458
Total investments	$ 1,953,209	$ 2,435,834

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

	2009			
Investment Type	**Level 1**	**Level 2**	**Level 3**	**Fair Value**
Other alternative investments — Commonfund:				
Short Term Fund	$ -	$ 61,185	$ 4,542	$ 65,727
Intermediate Fund		1,849,239	38,243	1,887,482
	$ -	$ 1,910,424	$ 42,785	$ 1,953,209

Credit Risk — The Corporation's investment policy limits individual investments to U.S. government agency securities and nationally recognized bond funds holding those securities. The U.S. government agency securities matured October 15, 2008, and had an average maturity of 0.3 years in 2008. The Intermediate Term Fund had an average maturity of 1.3 and 1.9 years, respectively, for fiscal 2009 and 2008. At June 30, 2008, the Corporation's investments in U.S. government agency securities were rated AAA by both Moody's Investors Service and Standard & Poor's and the average rating of the Intermediate Term Fund was AA and AA+, respectively.

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

5. REVOLVING LOAN FUND

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

Under the provisions of the RLF, the Corporation received $500,000 from the US EDA, and obtained $167,000 in required matching funds consisting of loans to the Corporation from the US EDA and local banks and grants from local sources. Matching funds received in the form of loans have a 30-year maturity and do not bear interest. Related loans payable are recorded by the Corporation at their net present value. At June 30, 2009 and 2008, the recorded balance of the related loans payable was $40,660 and $38,297, 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 was recognized on this transaction.

On July 9, 2009, the Corporation transferred the remaining portion of RLF to Natural Capital Investment Fund, Inc. as approved by the USDA. This transaction resulted in the disbursement of available cash and all loan balances as of that date which totaled $375,697. This transfer will be shown as a FY2010 transaction and therefore all balances are reflected in the statement of net assets at their June 30, 2009 balances.

6. CAPITAL ASSETS

The summary of capital asset transactions for the Corporation for the years ended June 30, 2009 and 2008, is as follows:

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

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

The Corporation's capitalization threshold was $5,000 for both the years ended June 30, 2009 and 2008.

7. LONG-TERM LIABILITIES

The summary of long-term obligation transactions for the Corporation for the years ended June 30, 2009 and 2008, is as follows:

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

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

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).

8. NOTES PAYABLE

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

At June 30, 2009, the scheduled maturities on notes payable are as follows:

Years Ending June 30	Principal	Interest
2010	$ 163,215	$ 92,499
2011	116,507	88,887
2012	120,236	85,159
2013	124,083	81,311
2014	128,054	77,340
2015-2019	704,421	322,549
2020-2024	824,577	202,394
2025-2028	759,833	61,744
	$2,940,926	$1,011,883

9. LEASES

Future annual minimum lease payments on operating leases for years subsequent to June 30, 2009, are as follows:

Years Ending June 30	
2010	$286,330
2011	173,415
2012	104,400
2013	60,900
Total	$625,045

Total rent expense for the years ended June 30, 2009 and 2008, was $371,954 and $348,988 respectively.

10. RELATED-PARTY TRANSACTIONS

A summary of balances and transactions with the University as of and for the year ended June 30, 2009 and 2008, is as follows:

	2009	2008
Grants and contracts receivable	$1,730,502	$1,698,724
Advances payable	250,000	250,000
Other sources of revenue	637,380	242,398
Payroll and benefits expense	5,576,632	5,487,718
Other expenses	470,666	699,389

11. UNRESTRICTED NET ASSETS

At June 30, 2009 and 2008, the Corporation has no designated net assets.

12. RETIREMENT PLAN

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

Total contributions to the TIAA-CREF for the years ended June 30, 2009, 2008, and 2007, were $1,837,006, $1,803,408, and $1,693,099, respectively, which consisted of $843,521, $831,364, and $782,085, respectively, from the Corporation and $993,485, $972,044, and $911,014, respectively, from employees.

The Corporation's total payroll for the years ended June 30, 2009 and 2008, was $18,114,791 and $16,892,576, respectively. Total covered employees' salaries in TIAA-CREF were $14,058,675 and $13,856,072, 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, 2009 and 2008, the following table represents operating expenses within both natural and functional classifications:

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

	2008						
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 297,977	$ 26,390	$ 415,468	$ 159	$ -	$ -	$ 739,994
Research	6,895,430	1,399,522	8,017,943	181,656	55,969		16,550,520
Public service	6,970,460	1,611,315	4,641,453	158,282	63,185		13,444,695
Academic support	68,714	3,870	112,898	84	698		186,264
Student services	150,651	28,334	215,186	2,318	500		396,989
General institutional support	2,782,894	716,131	1,195,597	6,921	4,700		4,706,243
Operations and maintenance of plant			19,577	174,502			194,079
Depreciation						2,251,177	2,251,177
Total	$17,166,126	$3,785,562	$14,618,122	$523,922	$125,052	$2,251,177	$38,469,961

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SUPPLEMENTAL SCHEDULES

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency		Federal Expenditures
RESEARCH AND DEVELOPMENT:					
Cooperative State Research, Education and Extension Service	D	10.200		$ 229,731	
Cooperative State Research, Education and Extension Service	I	10.200	West Virginia State University	956	
		10.200 Subtotal			$ 230,687
Cooperative State Research, Education and Extension Service	D	10.206			1,088
Forest Service	D	10.652			32,777
Department of Agriculture Total					264,552
Office of The Chief of Engineers	D	12.110			228,664
Office of The Chief of Engineers	D	12.114			10,704
Office of Naval Research	D	12.300			30,521
Army Research and Material Command	D	12.431			
Army Research and Material Command	D	12.431		73,894	
Army Research and Material Command	I	12.431	University of South Carolina	33,721	
Army Research and Material Command	I	12.431	University of Virginia	18,338	
		12.431 Subtotal			125,953
Defense Advanced Research Projects Agency	D	12.910			3,683,057
U.S. Army Research Office	D	12.W911NF-05-1-0309			185,532
U.S. Army Corps of Engineers	D	12.W91237-04-P-0147			8,161
U.S. Army Corps of Engineers	D	12.W91237-06-R-0016			1,063
Department of Defense Total					4,273,655
Department of the Interior	D	15.H4780-020-004			(4,098)
Department of the Interior Total					(4,098)
Office of Juvenile Justice and Delinquency Prevention	I	16.523	WV Division of Criminal Justice Services		12,288
Office of Justice Programs	D	16.560			2,282,038
Office of Justice Programs	D	16.580			161,499
Department of Justice Total					2,455,825
Federal Railroad Administration	D	20.313			196,958
Federal Railroad Administration	D	20.314			37,802
Department of Transportation	I	20.999	WV Department of Transportation		(3)
Department of Transportation Total					234,757
National Aeronautics and Space Administration	D	43.001		1,748,546	
National Aeronautics and Space Administration	I	43.001	West Virginia University	254,625	
National Aeronautics and Space Administration	I	43.001	WVU (99-390A-MURC)	8,970	
		43.001 Subtotal			2,012,141
National Aeronautics and Space Administration	D	43.002		83	
National Aeronautics and Space Administration	I	43.002	WV Governor's Office of Technology	1,558	
		43.002 Subtotal			1,641
National Aeronautics and Space Administration Total					2,013,782

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency		Federal Expenditures
RESEARCH AND DEVELOPMENT (Continued):					
National Science Foundation	D	47.041			$ 86,884
National Science Foundation	D	47.049			10,051
National Science Foundation	D	47.050			60,786
National Science Foundation	I	47.070	University of South Carolina		4,518
National Science Foundation	D	47.074			177,752
National Science Foundation	D	47.075			322,644
National Science Foundation	I	47.076	University of Kentucky	22,925	
National Science Foundation	I	47.076	WV EPSCoR	768,126	
		47.076 Subtotal			791,051
National Science Foundation Total					1,453,686
Health Resources and Services Administration	D	93.110			62,863
National Institutes of Health	I	93.121	John Hopkins University		22,844
National Institutes of Health	I	93.273	Ohio University (UT 12061)		12,271
National Institutes of Health	D	93.389			4,264,007
National Institutes of Health	D	93.393			417,679
National Institutes of Health	D	93.394			37,055
National Institutes of Health	D	93.395			13,829
National Institutes of Health	D	93.837			298,911
National Institutes of Health	D	93.839			115,017
National Institutes of Health	D	93.847			161,751
National Institutes of Health	I	93.853	Wake Forest University		5,334
National Institutes of Health	I	93.865	The Children's Hospital of Philadelphia		61,891
National Institutes of Health	D	93.866			86,137
Health Resources and Services Administration	D	93.888			518,229
Department of Health and Human Services Total					6,077,818
Subtotal Research and Development					16,769,977
OTHER PROGRAMS:					
Dept of Agriculture — Food & Nutrition Service	I	10561	West Virginia University		96,570
Department of Agriculture Total					96,570
Economic Development Administration	D	11.307			964,816
Department of Commerce Total					964,816
U.S. Army Corps of Engineers	D	12.000			13,978
Defense Logistics Agency	D	12.002			65,894
Department of the Army, Office of the Chief	D	12.110			166,973
Department of Defense, Advanced Research Project	D	12.910			39,360
U.S. Army Corps of Engineers	D	12.W91237-05-C-0005			3,349
Department of Defense Total					289,554
Office of Surface Mining Reclamation & Enforce.	D	15.000			601
Department of the Interior Total					601
Office of Justice Programs	I	16.000	WV Division of Criminal Justice Services		35,149
Office of Justice Programs	D	16.560			771,497
Office of Juvenile Justice and Delinquency Prevention	I	16.727	WV Division of Criminal Justice Services		52,409
Department of Justice Total					859,055

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency		Federal Expenditures
OTHER PROGRAMS (Continued):					
Federal Railroad Administration	D	20.313			$ 267,854
Research and Innovative Technology Administration	D	20.701		2,831,497	
Research and Special Programs Administration	I	20.701	Portland State University	6,214	
		20.701 Subtotal			2,837,711
Department of Transportation Total					3,105,565
Appalachian Regional Commission	D	23.001			54,483
Appalachian Regional Commission	D	23.002			260,519
Appalachian Regional Commission	D	23.003			20
Appalachian Regional Commission	D	23.011			10,000
Appalachian Regional Commission Total					325,022
Library of Congress	I	42.001	Waynesburg University		9,342
Library of Congress Total					9,342
National Endowment for the Humanities	I	45.129	WV Humanities Council		19,668
National Foundation on the Arts and the Humanities Total					19,668
National Science Foundation	I	47.049	University of Kentucky		308,766
National Science Foundation	D	47.076		241,147	
National Science Foundation	I	47.076	WV EPSCoR	419	
		47.076 Subtotal			241,566
National Science Foundation Total					550,332
Office of Solid Waste and Emergency Response	I	66.815	West Virginia University		9,005
Environmental Protection Agency Total					9,005
Office of Energy Efficiency and Renewable Energy	I	81.041	WV Development Office		10
Department of Energy Total					10

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency		Federal Expenditures
OTHER PROGRAMS (Continued):					
Office of Special Education and Rehabilitation	I	84.027	WV Department of Education		$ 114,163
Office of Assistant Secretary for Postsecondary Education	D	84.044			413,630
Office of Assistant Secretary for Postsecondary Education	D	84.047A			41,282
Office of Assistant Secretary for Postsecondary Education	D	84.066			210,646
Office of Assistant Secretary for Postsecondary Education	D	84.116			119,910
Office of Special Education and Rehabilitation	I	84.173	WV Department of Education		47,634
Office of Safe and Drug-Free Schools	I	84.184	WV Department of Education		15,324
Office of Elementary and Secondary Education	I	84.186	WV Division of Criminal Justice Services		6,829
Office of Elementary and Secondary Education	I	84.298	Higher Education Center		35,427
Office of Elementary and Secondary Education	I	84.357	WV Department of Education		3,117
Office of Elementary and Secondary Education	I	84.365	WV Department of Education		8,085
Office of Elementary and Secondary Education	I	84.367	WV Department of Education	309,958	
Office of Elementary and Secondary Education	I	84.367	WV Higher Education Policy Commission	35,727	
		84.367 Subtotal			345,685
Office of Elementary and Secondary Education	I	84.367B	WV Higher Education Policy Commission		45,878
Department of Education	I	84.928	National Writing Project (92-WV02)		97,421
Department of Education	I	84.928A	National Writing Project		24,795
Department of Education Total					1,529,826
Substance Abuse and Mental Health Services Administration	I	93.104	WV Department of Health and Human Resources		(306)
Health Resources and Services Administration	I	93.130	WV Primary Care Association		22,955
Health Resources and Services Administration	D	93.191			122,476
Agency for Health Care Policy and Research	I	93.226	West Virginia Medical Institute		7,904
Substance Abuse and Mental Health Services Administration	I	93.243	Prestera Center for Mental Health Services	61,366	
Substance Abuse and Mental Health Services Administration	I	93.243	WV Division of Criminal Justice Services	663,191	
		93.243 Subtotal			724,557
Centers for Disease Control and Prevention	I	93.283	West Virginia University	12,104	
Centers for Disease Control and Prevention	I	93.283	WV Department of Health and Human Resources	148,980	
		93.283 Subtotal			161,084
Department of Health and Human Services Total					1,308,670

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Federal Expenditures
Administration for Children and Families	I	93.658	WV Department of Health and Human Resources	$ 70,513
Health Resources and Services Administration	I	93.824	West Virginia University	45,529
Health Resources and Services Administration	D	93.887		137,550
Health Resources and Services Administration	D	93.888		126,897
Substance Abuse and Mental Health Services Administration	I	93.958	WV Department of Health and Human Resources	203,548
Substance Abuse and Mental Health Services Administration	I	93.959	WV Department of Health and Human Resources	1,447,613
Centers for Disease Control and Prevention	I	93.988	WV Department of Health and Human Resources	125,894
Centers for Disease Control and Prevention	I	93.994	WV Department of Health and Human Resources	20,919
Department of Health and Human Services Total				2,178,463
Subtotal Other Programs				10,976,499
Total Federal Expenditures				$ 27,746,476

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

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, 2009, which have been financed by the federal government. For purposes of the Schedule, federal awards have been classified into two types: direct federal funds (D), and indirect federal funds (I) received from nonfederal organizations made under federally sponsored programs conducted by those organizations.

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

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

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

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

   On January 6, 2003, DHHS approved F&A cost recovery rates effective from July 1, 2002 through June 30, 2004. On May 11, 2004, DHHS approved an extension of the recovery rate through June 30, 2008. Negotiation of a new F&A rate was completed in September 2008, resulting in a negotiated rate of 41% beginning July 1, 2008. The F&A cost rate structure is as follows:

Rate Type	Rate as Submitted Within Certificate	Negotiated Rate
Organized research — off-campus	26 %	26 %
Instruction — on-campus	41	41
Organized research — on-campus	41	41

Subrecipient expenditures in the Schedule of Expenditures of Federal Awards at June 30, 2009, include:

Federal Agency	**Subrecipient**	**CFDA**	**Subrecipient Expenditures**
Research and development:			
Department of Defense	University of Tennessee	12.110	$ 173,078
Department of Health and Human Services	Alderson Broaddus College	93.389	14,309
Department of Health and Human Services	Bluefield State College	93.389	9,174
Department of Health and Human Services	CAMC Health Education and Research	93.389	76,523
Department of Health and Human Services	Fairmont State University	93.389	231,001
Department of Health and Human Services	Valley Health Systems Inc	93.389	37,075
Department of Health and Human Services	West Liberty State College	93.389	219,996
Department of Health and Human Services	Wheeling Jesuit University	93.389	13,427
Department of Health and Human Services	WV State Univ Research and Development	93.389	225,619
Department of Health and Human Services	WV Wesleyan College	93.389	13,732
Department of Health and Human Services	WVU Research Corp	93.389	1,436,325
			$ 2,450,259

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Deloitte & Touche LLP
2500 One PPG Place
Pittsburgh, PA 15222-5401
USA
Tel: +1 412 338 7200
Fax: +1 412 338 7380
www.deloitte.com

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

To the Board of Directors of
Marshall University Research Corporation:

We have audited the combined financial statements of the Marshall University Research Corporation (the "Corporation") as of and for the year ended June 30, 2009, and have issued our report thereon dated October 5, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Deloitte & Touche LLP

October 5, 2009

Deloitte & Touche LLP
2500 One PPG Place
Pittsburgh, PA 15222-5401
USA

Tel: +1 412 338 7200
Fax: +1 412 338 7380
www.deloitte.com

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

To the Board of Directors of
Marshall University Research Corporation:

Compliance

We have audited the compliance of Marshall University Research Corporation (the "Corporation") with the types of compliance requirements described in the *U.S. Office of Management and Budget* (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009. The Corporation's major federal programs are identified in the summaries of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs are the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit.

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

In our opinion, the Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

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

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

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

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

Deloitte & Touche LLP

October 5, 2009

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

PART I. — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	______Yes	X No
Significant deficiency(ies) identified not considered to be material weakness(es)?	______Yes	X N/A
Noncompliance material to financial statements noted?	______Yes	X No

Federal Awards

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

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
Various	Research and Development Cluster
11.307	Economic Development Administration
20.701	Research and Innovative Technology Administration

Dollar threshold used to distinguish between Type A and Type B Programs $ 832,394

Auditee qualified as low-risk auditee? X Yes ______No

PART II. — FINANCIAL STATEMENT FINDINGS SECTION

No matters are reportable

PART III. — FEDERAL AWARD FINDING AND QUESTIONED COSTS SECTION

No matters are reportable.