Marshall University Research Corporation

Combined Financial Statements as of and for the Years Ended June 30, 2013 and 2012, Supplemental Schedule for the Year Ended June 30, 2013, Independent Auditors' Report, and Reports Required by OMB Circular A-133 for the Year Ended June 30, 2013

MARSHALL UNIVERSITY RESEARCH CORPORATION

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1–3
MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)	4–11
COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2013 AND 2012:	
Statements of Net Position	12–13
Statements of Revenues, Expenses, and Changes in Net Position	14
Statements of Cash Flows	15–16
Notes to Combined Financial Statements	17–27
SUPPLEMENTAL SCHEDULE FOR THE YEAR ENDED JUNE 30, 2013:	
Schedule of Expenditures of Federal Awards	29–35
Notes to Schedule of Expenditures of Federal Awards	36–39
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*	40–41
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133	42–43
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	44–45
STATUS OF PRIOR AUDIT FINDINGS	NONE

Hayflich Grigoraci
Certified Public Accountants | Business Advisors

Hayflich Grigoraci PLLC
#8 Stonecrest Drive
Huntington, WV 25701
T: 304.697.5700
F: 304.697.5704
www.hayflich.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Marshall University Research Corporation:

Report on the Financial Statements

We have audited the accompanying combined financial statements of Marshall University Research Corporation (the "Corporation"), which comprise the combined statements of net position as of June 30, 2013 and 2012, and the related combined statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Corporation, as of June 30, 2013 and 2012, and the changes in financial position, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, in 2013, the Corporation adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4–11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2013 on our consideration of the Corporation's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Hayflich Grigoraci PLLC

Huntington, West Virginia
October 16, 2013

Marshall University Research Corporation
Management Discussion and Analysis
Fiscal Year 2013

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 ("Marshall") and is included as an integral part of Marshall's annual combined financial statements.

Overview

The Management's Discussion and Analysis is required supplementary information and has been prepared in accordance with the requirements of Governmental Accounting Standard Board (GASB). This section of MURC's annual financial report provides an overview of MURC's financial performance during the year ended June 30, 2013 as compared to the previous fiscal year. Comparative analysis is also presented for fiscal year 2013 compared to fiscal year 2012.

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

Net position

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

Net position is displayed in three major categories:

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

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

Unrestricted Net position. This category includes resources that are not subject to externally imposed stipulations. Such resources are derived primarily from facilities and administrative earnings and revenues from investments. Unrestricted net position are used for transactions related to the educational and general operations 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 Position balances at June 30, 2013, certain amounts are reserved for specific programs.

Condensed Combined Statements of Net Position (in thousands)

	As of June 30		
	2013	**2012**	**2011**
Assets:			
Current assets	$ 25,411	$ 26,514	$ 29,537
Other noncurrent assets	24,357	18,230	15,628
Capital assets, net	17,264	17,717	19,009
Total Assets	$ 67,032	$ 62,461	$ 64,174
Liabilities:			
Current liabilities	$ 7,317	$ 6,198	$ 7,542
Noncurrent liabilities	3,000	3,211	3,384
Total Liabilities	$ 10,317	$ 9,409	$ 10,926
Net Assets:			
Net Investment in Capital Assets	$ 13,908	$ 14,177	$ 15,299
Restricted:			
Non expendable	15,000	8,938	7,193
Expendable	15,645	17,299	18,769
Unrestricted	12,162	12,638	11,989
Total Net Position	$ 56,715	$ 53,052	$ 53,250

Changes to Net position

The increase in net position of $3,663,272 for FY2013 was primarily the result of the receipt of monies earned in connection with the West Virginia Research Trust fund totaling $7,437,884, and a decrease in expendable-sponsored projects of $1,654,053 and a decrease in unrestricted of $475,900. The decrease in net position of $198,036 for FY2012 was the result of a decrease in total assets of $1,715,229 and a decrease in total liabilities of $1,517,193. This was primarily attributable to a decrease in accounts receivables of $5,531,263 which is reflected in an increase of $2,251,170 in cash, an increase in investments of $2,158,393 and offset by a decrease in accounts payable of $ 1,172,009.

The first component is the Corporation's equity in capital assets, which decreased $453,125 during FY2013 and decreased $1,291,963 during FY2012.

Restricted nonexpendable net assets were earned in connection with the "Bucks for Brains" West Virginia Research Trust fund in the amount of $7,437,884 during FY2013 and $1,745,379 during FY2012. Private donations were received by the Marshall University Foundation (the "Foundation") and were matched by a corresponding draw from the State on the project for each year. These funds are held in two nonexpendable funds – one at the Foundation and the other at MURC.

Additionally, restricted expendable assets decreased by $1,654,053 during FY2013 and decreased $1,469,531 during FY2012. These monies have been restricted for use by entities outside the Corporation, mainly by granting agencies. Restricted expendable assets are generally produced through program income which totaled $ 1,420,272 and $1,326,057 for FY2012 and FY2011 respectively. The reduction in restricted expendable assets is the result of the use of these monies.

Finally, unrestricted net assets decreased by $475,900 for FY2013 and increased $647,977 for FY2012 over the prior year total. Surplus activity in Cost Recovery and Operating Funds accounts for the growth in this component. These monies can be expended for any legal purpose.

Statement of Revenues, Expenses and Changes in Net position

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

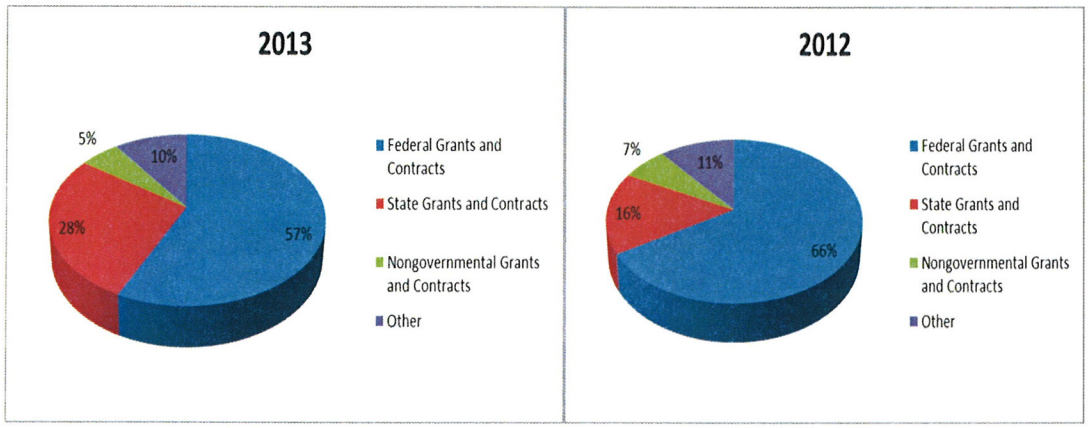
Operating revenues are received for providing goods and services to the various customers and constituencies of the Corporation. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the Corporation.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

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

	Years Ended June 30		
	2013	2012	2011
Operating revenues	$ 42,612	$ 38,845	$ 59,746
Operating expenses	(38,907)	(39,711)	(47,934)
Operating income	3,705	(866)	11,812
Nonoperating revenues(expenses)	(57)	668	56
Income before capital gifts and grants	3,648	(198)	11,868
Capital grants and gifts	15	0	267
Increase in Net Assets	3,663	(198)	12,135
Net Position at Beginning of Year	53,052	53,250	41,115
Net Position at End of Year	$ 56,715	$ 53,052	$ 53,250

Revenues:

The following charts illustrate the composition of revenues by source for 2013 and 2012:



Changes to Operating Revenues and Expenses

For FY2013, Operating Revenues were $42,611,661, an increase of $3,766,660 compared to FY2012. This is the result of a decrease in federal funding of $1,420,605 which was offset by an increase in state awards of $5,441,216.

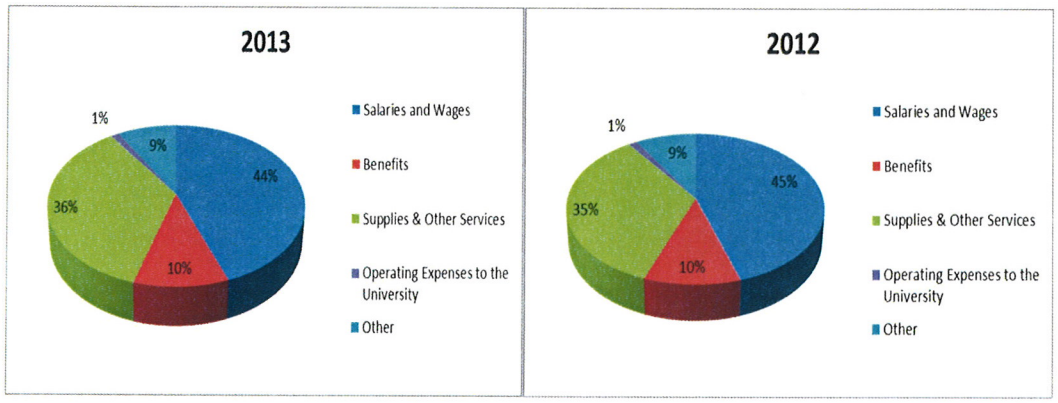
For FY2012, Operating Revenues were $38,845,001, a decrease of $20,900,816 compared to FY2011. This decrease was primarily the result of a decrease in federal awards of $14,440,687 and state awards of $7,104,132. The decrease in federal funding was primarily due to the end of the COBRE award that accounted for over $3.5 million in FY2011 and the INBRE II and HRSA awards received in FY2011.

The fluctuations in state awards are in connection with the research trust monies received. The amounts received in connection with the research trust fund were

Excluding construction related grant revenue, Operating Revenues for FY2013 increased $3,844,832 over FY2012 and decreased $16,224,484 over FY2011.

Expenses:

The following is a graphic comparison of total expenses by category between 2013 and 2012:



Operating Expenses were $38,906,937 for FY2013 as compared to $39,711,894, a decrease of $804,957. For FY2013, This was primarily the result of a decrease in salaries and benefits of $632,302 which was the result of a decline in federal grant activity.

Operating Expenses were $39,711,894 for FY2012 as compared to $47,933,966 for FY2011, a decrease of $8,222,072. For FY2012, salaries and benefits decreased by $1,103,515 and expenditures for supplies and other services decreased by $7,680,387 both attributable to decreased grant activity.

Statement of Cash Flows

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

The statement of cash flows is divided into five sections:

Cash flows from operating activities show the net cash provided or used by the operating activities of the Corporation.

Cash flows from noncapital financing activities reflect the cash received and paid for non-operating, non-investing, and noncapital financing purposes.

Cash flows from capital and related financing activities include cash used for the acquisition and construction of capital and related items.

Cash flows from investing activities show the purchases, proceeds, and interest received from investing activities.

Reconciliation of operating income to net cash provided by operating activities provides a schedule that reconciles the accrual-based operating income (loss) and net cash provided by operating activities.

Condensed Combined Statements of Cash Flows (in thousands)

	Years ended June 30		
	2013	2012	2011
Cash provided (used) by:			
Operating activities	$ 7,335	$ 5,160	$ 14,354
Noncapital financing activiites	15	0	0
Capital and related financing activities	(2,442)	(1,472)	(5,179)
Investing activities	(6,214)	(1,437)	(10,279)
Net (decrease) increase in cash and cash equivalents	(1,306)	2,251	(1,104)
Cash and cash equivalents, beginning of year	17,687	15,436	16,540
Cash and cash equivalents, end of year	$ 16,381	$ 17,687	$ 15,436

The decrease in cash balance in 2013 is primarily due to the purchase of capital assets totaling $2,268,470 which was offset by the collection of receivables totaling $178,329 and the receipt of program income totaling $1,420,272.

The increase in cash balance in 2012 is primarily due to the collection of cash receipts in the amount of $5,231,263. This increase was offset by the purchase of capital assets totaling $1,346,443 and the payment of accounts payable in the amount of $1,172,009.

Capital Asset and Debt Administration

The Corporation completed construction for an addition to the Forensic Science Center in September, 2009. Funding for the Forensic Science Center addition resulted in the Corporation incurring a note payable in the amount of $3,000,000, which had a principal balance of $2,415,271 at June 30, 2013. Other capital assets owned by the Corporation are primarily comprised of equipment purchased with funds provided directly within grant agreements or using indirect costs recovery funds. During FY2013, $2,268,470 in capital assets was purchased which was research equipment. The Corporation has no other debt obligations.

Economic Outlook

Despite the challenges of reduced funding, MURC continues to thrive and expand its research enterprise. We remain committed to our work to advance research and economic development, and ensure that our students receive a rewarding education. It's our pleasure to share a few of this year's exciting achievements:

- In January, the University secured the final private donation needed to reach its $15 million West Virginia Research Trust Fund fundraising goal. The $15 million in private gifts from 170 donors has been combined with proceeds from the trust fund to create 16 research endowments for a total benefit to the University of $30 million. The proceeds from these endowments will provide sustainability for research that will advance new discoveries and promote economic development for many years to come.

- Our Robert C. Byrd Institute for Advanced Flexible Manufacturing (RCBI) has launched a $1.3 million effort to create new jobs in southern West Virginia. Partnering with TechConnect West Virginia the Concord University Research and Development Corporation and the National Capital Investment Fund, RCBI will act as a key player in the promotion of economic growth and job creation within our region.

- Construction has begun on the Arthur Weisberg Family Applied Engineering Complex. This state of the art facility will provide an exceptional learning environment for Science, Technology, Engineering and Mathematics majors. In addition, the convenience and access to colleagues in the various disciplines will foster collaboration and enhance research. The MURC administrative offices will be relocated to the complex as well which will be much more convenient to the campus community.

- Uma Sundaram, MD, a physician researcher with decades of experience in translational medicine, has been named Director of the Edwards Comprehensive Cancer Center (ECCC) at **Cabell Huntington Hospital** and Vice Dean for Clinical and Translational Sciences at the **Marshall University Joan C. Edwards School of Medicine** (JCESOM). Dr. Sundaram is a fellowship-trained gastroenterologist and a leading translational investigator who has received significant grant funding over the years for research related to gastroenterology and cancers specific to gastroenterology. Most recently, Dr. Sundaram served as director of the West Virginia Clinical and Translational Science Institute (WVCTSI) and assistant vice president of the West Virginia University Health Sciences Center. At the WVCTSI, he was the principal investigator and program director for the $19.6 million NIH grant, the largest NIH grant to West Virginia to date. He also was a professor of medicine, microbiology, immunology and cell biology at West Virginia University School of Medicine.

- Nader G. Abraham, Ph.D., Dr. H.C., FAHA, an internationally-recognized researcher in the field of obesity and vascular disease, has been named the inaugural vice dean for research at the Marshall University Joan C. Edwards School of Medicine. Widely recognized for his research on vascular disease, which is a prelude to cardiovascular and metabolic diseases including hypertension, stroke, diabetes and obesity, Abraham and his team of researchers specifically study heme oxygenase, the most potent anti-oxidant gene in the human body. The team's research also includes ways to speed up the implementation of laboratory findings into clinical therapeutic strategies for patients, i.e., translational medicine.

MARSHALL UNIVERSITY RESEARCH CORPORATION

COMBINED STATEMENTS OF NET POSITION
AS OF JUNE 30, 2013 AND 2012

ASSETS	2013	2012 As Amended See Note 2
CURRENT ASSETS:		
Cash and cash equivalents	$16,380,877	$17,686,827
Grants and contracts receivable — net of allowance of $339,686 and $349,554 in 2013 and 2012, respectively	8,334,655	8,447,942
Other accounts receivable	347,570	55,954
Prepaid expenses	347,861	323,008
Total current assets	25,410,963	26,513,731
NONCURRENT ASSETS:		
Deposits	267,357	461,485
Investments	24,089,644	17,768,595
Capital assets — net	17,263,730	17,716,855
Total noncurrent assets	41,620,731	35,946,935
Total Assets	67,031,694	62,460,666
TOTAL DEFERRED OUTFLOWS OF RESOURCES		
TOTAL	$67,031,694	$62,460,666

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

COMBINED STATEMENTS OF NET POSITION
AS OF JUNE 30, 2013 AND 2012

LIABILITIES AND NET POSITION	2013	2012 As Amended See Note 2
CURRENT LIABILITIES:		
Accounts payable	$ 1,439,052	$ 1,225,063
Accrued liabilities	1,352,674	728,746
Notes payable — current portion	161,018	124,101
Compensated absences	861,098	856,518
Unearned revenue	3,502,925	3,263,835
Total current liabilities	7,316,767	6,198,263
NONCURRENT LIABILITIES:		
Notes payable	2,254,253	2,415,296
Unearned rent revenue	745,576	795,281
Total noncurrent liabilities	2,999,829	3,210,577
Total liabilities	10,316,596	9,408,840
TOTAL DEFERRED INFLOWS OR RESOURCES		
TOTAL	10,316,596	9,408,840
NET POSITION:		
Net investment in capital assets	13,907,912	14,176,803
Restricted for:		
Nonexpendable	15,000,000	8,937,884
Expendable — sponsored projects	15,645,445	17,299,498
Unrestricted	12,161,741	12,637,641
Total net position	56,715,098	53,051,826
TOTAL	$67,031,694	$62,460,666

See notes to combined financial statements. (Concluded)

MARSHALL UNIVERSITY RESEARCH CORPORATION

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012 As Amended See Note 2
OPERATING REVENUES:		
Contracts and grants:		
Federal	$24,349,027	$25,769,632
State	11,734,390	6,293,174
Private and local	2,281,162	2,537,800
Program income	1,420,272	1,326,057
Miscellaneous — net	2,826,810	2,918,338
Total operating revenues	42,611,661	38,845,001
OPERATING EXPENSES:		
Salaries and wages	17,195,810	17,885,531
Benefits	4,014,962	4,187,543
Supplies and other services	13,908,341	13,723,830
Utilities	679,355	779,220
Student financial aid — scholarships and fellowships	479,547	509,689
Depreciation	2,628,922	2,626,081
Total operating expenses	38,906,937	39,711,894
OPERATING INCOME (LOSS)	3,704,724	(866,893)
NONOPERATING REVENUES (EXPENSES):		
Investment income — including unrealized gain of $341,373 and $228,168 in 2013 and 2012, respectively	107,074	721,372
Interest on indebtedness	(70,852)	(124,689)
Loss on disposal of equipment	(92,674)	34,174
Net nonoperating revenues (expenses)	(56,452)	630,857
INCOME (LOSS) BEFORE CAPITAL GIFTS AND GRANTS	3,648,272	(236,036)
CAPITAL GRANTS AND GIFTS	15,000	
INCREASE (DECREASE) IN NET POSITION	3,663,272	(236,036)
NET POSITION — Beginning of year (As Amended)	53,051,826	53,287,862
NET POSITION — End of year	$56,715,098	$53,051,826

See notes to combined financial statements.

MARSHALL UNIVERSITY RESEARCH CORPORATION

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Contracts and grants	$ 38,726,823	$ 39,826,928
Payments to and on behalf of employees	(20,442,982)	(22,535,990)
Payments to suppliers	(14,036,720)	(15,086,632)
Payments for utilities	(679,355)	(779,220)
Payments for scholarships and fellowships	(479,547)	(509,689)
Program income	1,420,272	1,326,057
Other receipts — net	2,826,810	2,918,339
Net cash provided by operating activities	7,335,301	5,159,793
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Gifts	15,000	
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Payments on notes payable	(124,101)	(121,952)
Purchases of capital assets	(2,268,470)	(1,346,443)
Unearned rent revenue collected	(49,705)	(49,705)
Proceeds from disposal of equipment		46,500
Net cash used in financing activities	(2,442,276)	(1,471,600)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(18,276,051)	(10,357,049)
Sale/maturity of investments	11,955,002	8,198,654
Investment income	107,074	721,372
Net cash used in investing activities	(6,213,975)	(1,437,023)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,305,950)	2,251,170
CASH AND CASH EQUIVALENTS — Beginning of year	17,686,827	15,435,657
CASH AND CASH EQUIVALENTS — End of year	$ 16,380,877	$ 17,686,827

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	$ 3,704,724	$ (866,893)
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:		
Depreciation expense	2,628,922	2,626,081
Gain on disposal of equipment		(34,175)
Changes in assets and liabilities:		
Accounts receivable — net	(178,329)	5,259,620
Prepaid expenses	169,275	(429,599)
Accounts payable	213,989	(1,172,009)
Accrued liabilities	553,051	(110,410)
Unearned revenue	239,089	(97,198)
Compensated absences	4,580	(15,624)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 7,335,301	$ 5,159,793
NONCASH TRANSACTIONS:		
Loss (Gain) on disposal of equipment	$ 92,674	$ (34,175)

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, designated by the University, fulfills 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 a component unit of the University.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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 a component unit of the State, and its financial statements are discretely presented in the State's comprehensive annual financial report.

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

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

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

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

Restricted, Nonexpendable — This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift or grant 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 — This represents resources derived from student tuition and fees, state appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the Corporation, and may be used at the discretion of the Board of Directors to meet current expenses for any purpose.

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

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

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

Investments — Investments, other than alternative investments, are presented at fair value based on quoted market prices. The alternative investments are carried at estimated fair value. These valuations include assumptions and methods that were reviewed by Corporation management and are primarily based on quoted market prices for the underlying investments or other observable market data. The Corporation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value. Because a portion of alternative investments is 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 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, buildings, and construction in progress. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 5 to 12 years for furniture and equipment and 50 years for buildings.

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

Unearned Rent Revenue — Unearned rent revenue represents the monies received from Huntington Area Development Council (HADCO). Recognition of this revenue was deferred during the construction of a business start-up incubator. The beginning total $994,101 of unearned rent to be received from HADCO is being recognized evenly over a 20-year period commencing July 2010.

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

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

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

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

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

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

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

Use of Restricted Components of Net Position — 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 resources are available. Generally, the Corporation attempts to utilize restricted funds first when practicable.

Government Grants and Contracts — Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The Corporation recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is generally recorded at fixed rates negotiated for a period of one to five years. As of June 30, 2013, the Corporation recorded accounts receivable of $2,383,980 associated with the State and other affiliates.

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

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

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

Newly Adopted Statements Issued by the Governmental Accounting Standards Board — The Corporation has adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* The objective of this statement is to provide guidance for reporting unearned outflows of resources, unearned inflows of resources, and net position in the statement of financial position and related disclosures. The adoption of this statement did not have a material impact on the financial statements.

The Corporation has early adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The adoption of this statement did not have a material impact on the combined financial statements. See "Early Adoption of GASB No 65" section below for further description of the amendments.

The Corporation has early adopted Statement No. 66, *Technical Corrections — 2012: An Amendment of GASB Statements No. 10 and No. 64.* This statement improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November, 1989 FASB and AICPA Pronouncements.* The adoption of this statement did not have a material impact on the financial statements.

Recent Statements Issued by the Governmental Accounting Standards Board — The GASB has issued Statement No. 69 *Government Combinations and Disposals of Government Operations,* effective for fiscal years beginning after December 31, 2013. This statement provides guidance on measurement and reporting of combinations and disposals of government operations. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 69 may have on its financial statements.

The GASB also issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for fiscal years beginning after June 15, 2013. Early application is encouraged. This statement requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. In addition, the Statement requires: (1) A government guarantor to consider qualitative factors when determining if a payment on its guarantee is more likely than not to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization; (2) An issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government is released, the government would

recognize revenue as a result of being relieved of the obligation; (3) A government guarantor or issuer to disclose information about the amounts and nature of non-exchange financial guarantees. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 70 may have on its financial statements.

Early Adoption of GASB No 65 – As required with the adoption of GASB Statement No. 65 as discussed above, the University's financial statements have been amended from the amounts previously reported as described below. Such changes relate to reclassifying bond issuance costs previously recorded as other assets to other nonoperating expenses in the amount of $38,000. The cumulative effect on the net position as of the earliest period presented was $38,000.

	As Previously Reported	Statement of Net Position Effect	Statement of Revenues, Expenses and Changes in Net Postion Effect	As Amended
Deferred charges - debt issuance costs	$ 38,000	$ (38,000)	$ -	$ -
Net investment in capital assets	14,214,803	(38,000)		14,176,803
Net nonoperating revenues	668,857		(38,000)	630,857
Income (loss) before capital gifts and grants	(198,036)		(38,000)	(236,036)
Decrease in net position	(198,036)		(38,000)	(236,036)
Net position - beginning of year	53,287,862			53,287,862
Net position - end of year	53,089,826		(38,000)	53,051,826

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of June 30, 2013 and 2012, is as follows:

	2013	2012
Money market and cash equivalents	$ 16,369,527	$ 17,669,690
In bank	11,350	17,137
	$ 16,380,877	$ 17,686,827

The carrying amount of cash in bank at June 30, 2013 and 2012 was $11,350 and $17,137 respectively, as compared with a bank balance of $15,330 and $17,147, respectively. Any differences are primarily the result of outstanding checks and items in transit. The bank balances were secured by federal depository insurance, as noted below or collateralized by securities held by the State's agent. Interest bearing accounts are insured by the Federal Deposit Insurance Corporation (FDIC) for $250,000.

In January 2011, monies held at Fifth Third Bank were invested though Smith Barney. At June 30, 2013 and 2012, $199,773 and $364,717, respectively was held in a cash account insured by the Security Investor Protection Corporation (SIPC).

Cash equivalents totaling $16,169,757 and $17,304,976 at June 30, 2013 and 2012, respectively, are held in repurchase agreements, and a business savings account collateralized at 110% and 110%, respectively. The collateral was held in the name of the Corporation.

4. INVESTMENTS

Investments at June 30, 2013 and 2012, consist of the following:

	2013	2012
U.S. Government national mortgage association securities	$ 21,032,850	$ 15,053,174
Jeffries & Company, Inc. - Alternative Investments	3,056,794	2,715,421
Total investments	$ 24,089,644	$ 17,768,595

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.

	2013			
Investment Type	**Level 1**	**Level 2**	**Level 3**	**Fair Value**
Jeffries & Company, Inc. Alternative Investments	$ -	$ -	$3,056,794	$ 3,056,794
U.S. Government National Mortgage Association Securities		21,032,850		21,032,850
	$	$21,032,850	$3,056,794	$24,089,644

	2012			
Investment Type	**Level 1**	**Level 2**	**Level 3**	**Fair Value**
Jeffries & Company, Inc. Alternative Investments	$ -	$ -	$2,715,421	$ 2,715,421
U.S. Government National Mortgage Association Securities		15,053,174		15,053,174
	$ -	$15,053,174	$2,715,421	$17,768,595

The following table displays the changes in the fair value of the Corporation's Level 3 assets for the year ended June 30, 2013:

Balance, beginning of year	$ 2,715,421
Unrealized gains (losses)	341,373
Balance, end of year	$ 3,056,794

Credit Risk — The Corporation's investment policy limits individual investments to U.S. Government agency securities and nationally recognized bond funds holding those securities. The U.S. Government National Mortgage Association Securities held by the corporation have an average maturity of 3 years and 2 years, respectively, for fiscal year 2013 and 2012. At both June 30, 2013 and 2012, the Corporation's investment in U.S. Government National Mortgage Association Securities, were AAA rated government-backed securities. The alternative investments held by Jeffries & Company do not have an assigned rating.

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. CAPITAL ASSETS

The summary of capital asset transactions for the Corporation for the years ended June 30, 2013 and 2012 is as follows:

	2013			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets:				
Construction in progress	$ -	$ -	$ -	$ -
Building	4,932,619			4,932,619
Equipment	32,519,981	2,268,470	(1,851,776)	32,936,675
Total capital assets	37,452,600	2,268,470	(1,851,776)	37,869,294
Less accumulated depreciation — building	(271,293)	(98,652)		(369,945)
Less accumulated depreciation — equipment	(19,464,451)	(2,530,270)	1,759,102	(20,235,619)
Total accumulated depreciation	(19,735,744)	(2,628,922)	1,759,102	(20,605,564)
Capital assets — net	$ 17,716,856	$ (360,452)	$ (92,674)	$ 17,263,730

	2012			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets:				
Construction in progress	$ -	$ -	$ -	$ -
Building	4,932,618			4,932,618
Equipment	31,648,274	1,346,443	(474,737)	32,519,981
Total capital assets	36,580,892	1,346,443	(474,737)	37,452,599
Less accumulated depreciation — building	(172,641)	(98,652)		(271,293)
Less accumulated depreciation — equipment	(17,399,434)	(2,527,429)	462,412	(19,464,451)
Total accumulated depreciation	(17,572,075)	(2,626,081)	462,412	(19,735,744)
Capital assets — net	$ 19,008,817	$ (1,279,638)	$ (12,325)	$ 17,716,855

The Corporation's capitalization threshold was $5,000 for the years ended June 30, 2013 and 2012.

6. LONG-TERM LIABILITIES

The summary of long-term obligation transactions for the Corporation for the years ended June 30, 2013 and 2012, is as follows:

	2013				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes payable	$ 2,539,397	$	$ (124,126)	$ 2,415,271	$ 161,018
Unearned rent	844,986		(49,705)	795,281	49,705
Total long-term liabilities	$ 3,384,383	$	$ (173,831)	$ 3,210,552	

	2012				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes payable	$ 2,661,349	$ -	$ (121,952)	$ 2,539,397	$ 124,101
Unearned rent	894,691		(49,705)	844,986	49,705
Total long-term liabilities	$ 3,556,040	$ -	$ (171,657)	$ 3,384,383	

7. NOTES PAYABLE

In 2008, the Corporation borrowed the proceeds of a bond issuance by the Cabell County Commission for the construction of an addition to the Marshall University Forensic Science Center. The Corporation's repayment terms are the same as the bond repayment term. The Corporation made the first interest payments on October 10, 2008, for the interest due on the loans semi-annually and first annual principal payment on April 1, 2009, based on a hypothetical amortization of the then-remaining principal balance at the then-applicable interest rate for the then-remaining years of the original 20-year amortization period ending April 10, 2028. Any remaining principal balance shall be payable in full on April 10, 2028.

However, any unspent mortgage proceeds would go to pay the first amounts due for interest and principal. The interest rate on the bonds was 3.2% at April 10, 2008 – April 10, 2013. The rate is subject to change 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 rate for the period of April 10, 2013 – April 10, 2018 is 1.6415%.

At June 30, 2013, the scheduled maturities on notes payable are as follows:

Years Ending June 30	Principal	Interest
2014	$ 161,018	$ 39,647
2015	161,018	37,004
2016	161,018	34,360
2017	161,018	31,717
2018	161,018	29,074
2019–2023	805,090	105,724
2024-2028	805,091	39,647
	$2,415,271	$317,173

8. LEASES

Future annual minimum lease payments on operating leases for years subsequent to June 30, 2013, are as follows:

Years Ending June 30	
2014	$ 36,000
2015	22,500
Total	$ 58,500

Total rent expense for the years ended June 30, 2013 and 2012, was $314,330 and $370,728, respectively. The Corporation does not have any non-cancelable leases.

9. RELATED-PARTY TRANSACTIONS

A summary of balances and transactions with the University as of and for the years ended June 30, 2013 and 2012 is as follows:

	2013	2012
Grants and contracts receivable	$2,383,980	$2,763,821
Advances receivable	250,000	250,000
Other sources of revenue	503,399	400,645
Payroll and benefits expense	5,038,066	5,430,321
Other expenses	973,075	890,287

10. UNRESTRICTED COMPONENTS OF NET POSITION

At June 30, 2013 and 2012, the Corporation has no designated components of net position.

11. 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 participating in this plan is required to contribute 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, not matched by the Corporation.

Total contributions to the TIAA-CREF for the years ended June 30, 2013, 2012 and 2011, were $1,728,199, $1,814,090, and $1,907,209, respectively, which consisted of $814,662, $846,434, and $886,766, respectively, from the Corporation and $913,537, $967,655, and $1,020,443, respectively, from employees.

The Corporation's total payroll for the years ended June 30, 2013, 2012 and 2011 was $16,837,337, $17,620,254 and $18,670,328 respectively. Total covered employees' salaries in TIAA-CREF were $13,577,701, $14,107,240 and $14,779,431 for the years ended June 30, 2013, 2012 and 2011, respectively.

12. 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.

13. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2013 and 2012, the following table represents operating expenses within both natural and functional classifications:

	2013						
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 562,149	$ 129,559	$ 697,391	$ 340	$ 36,235	$	$ 1,425,674
Research	4,283,831	922,401	4,884,097	3,340	174,864		10,268,533
Public service	7,989,240	1,858,519	5,608,020	217,793	115,528		15,789,100
Academic support	497		21,455	356			22,308
Student services	292,042	67,839	211,150	5,154	96,466		672,651
General institutional support	4,068,051	1,036,644	2,281,502	452,372	56,454		7,895,023
Operations and maintenance of plant			204,726				204,726
Depreciation						2,628,922	2,628,922
Total	$ 17,195,810	$ 4,014,962	$ 13,908,341	$ 679,355	$ 479,547	$ 2,628,922	$ 38,906,937

	2012						
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 612,296	$ 144,178	$ 754,089	$	$ 48,691	$ -	$ 1,559,254
Research	4,502,686	916,251	5,679,177	27,546	190,453		11,316,113
Public service	8,530,259	2,014,728	4,576,209	158,690	118,955		15,398,841
Academic support	232	17	15,325		34,730		50,304
Student services	288,755	70,854	204,546	3,528	72,900		640,583
General institutional support	3,951,303	1,041,515	2,312,009	589,456	43,960		7,938,243
Operations and maintenance of plant			182,475				182,475
Depreciation						2,626,081	2,626,081
Total	$ 17,885,531	$ 4,187,543	$ 13,723,830	$ 779,220	$ 509,689	$ 2,626,081	$ 39,711,894

* * * * * *

SUPPLEMENTAL SCHEDULE

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number		Federal Expenditures
RESEARCH AND DEVELOPMENT:						
National Institute of Food and Agriculture	D	10.200				$ 19,139
Cooperative State Research, Education and Extension Service	D	10.206				(1,166)
Forest Service	D	10.652				3,048
Total Department of Agriculture						21,021
U.S. Army RDECOM	I	12.000	Parabon Nanolabs	A11A-021-0220		50,518
U.S. Army Corps of Engineers	D	12.107				59,886
Office of The Chief of Engineers	D	12.110				11,675
Office of The Chief of Engineers	D	12.114				1,048
Office of Naval Research	D	12.300				10,823
U.S. Army Medical Command	D	12.420				256,254
U.S. Army Material Command	D	12.431			100,153	
U.S. Army Material Command	I	12.431	Regents of the University of California	2010-2508	124,990	
		12.431 Subtotal				225,143
Department of the Air Force	I	12.800	L.C. Pegasus Corporation	N/A	(2,075)	
Department of the Air Force	D	12.800			199,489	
		12.800 Subtotal				197,414
Defense Advanced Research Projects Agency	D	12.910			3,178,884	
Defense Advanced Research Projects Agency	I	12.910	Parabon Nanolabs, Inc.	W911NF-11-C-0076	17,699	
		12.910 Subtotal				3,196,583
Total Department of Defense						4,009,344
Office of Surface Mining	I	15.255	West Virginia University	S12AC20020		4,890
National Park Service	D	15.916				96
Total Department of the Interior						4,986
National Institute of Justice	D	16.560				210,750
Office of Justice Programs	I		WV Division of Criminal Justice Services	98-DN-VX-K001		20,889
Total Department of Justice						231,639

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number		Federal Expenditures
RESEARCH AND DEVELOPMENT (Continued):						
Mine Safety and Health Administration	D	17.603				61,179
Total Department of Labor						61,179
Federal Highway Administration	I	20.200	WV Department of Transporation	WVDOH RP#260		21,870
Federal Highway Administration	I	20.205	WV Department of Transporation	SPR-12; SPRL-FL-001(0046)		218,935
Federal Transit Administration	I	20.515	WV Department of Transporation	X241-121-0-7800		41,379
Research and Innovative Technology Administration	I	20.931	Virginia Center for Transporation Innovation and Research	102142		17,464
Total Department of Transporation						299,648
National Aeronautics and Space Administration	I	43.001	West Virginia University	Various		147,418
National Aeronautics and Space Administration	I	43.008	West Virginia University	11-542-MURC		118,217
National Aeronautics and Space Administration	I	43.011	West Virginia University	91-175B-MURC		4,132
Total National Aeronautics and Space Administration						269,767
National Science Foundation	D	47.049			33,175	
National Science Foundation	I	47.049	Appalachian State University	1-0125-A12-0036-S01	6,302	
		47.049 Subtotal				39,477
National Science Foundation	D	47.074				188,632
National Science Foundation	D	47.075				16,187
National Science Foundation	D	47.076			42,645	
National Science Foundation	I	47.076	University of Kentucky	3048032200-07-251	3,136	
National Science Foundation	I	47.076	University of South Carolina	DUE-1022661	44,568	
National Science Foundation	I	47.076	WV EPSCoR	9255224/89-3629B	(1,019)	
		47.076 Subtotal				89,330
National Science Foundation	D	47.079				10,990
National Science Foundation	D	47.080				75,214
National Science Foundation	I	47.081	WV Higher Education Policy Commission	HEPC.dsr.11.05		887,229
National Science Foundation	D	47.082ARRA			46,017	
National Science Foundation	I	47.082ARRA	WV Higher Education Policy Commission	HRD-0929997	77,731	
		47.076 Subtotal				123,748
Total National Science Foundation						1,430,807

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number		Federal Expenditures
RESEARCH AND DEVELOPMENT (Continued):						
Office of Research and Development	D	66.516				(481)
Total Environmental Protection Agency						(481)
Department of Energy	I	81.041	WV Division of Energy	229330/820		40,744
Department of Energy	D	81.049				1,223,206
Department of Energy	I	81.128ARRA	WV Division of Energy	11-081		4,027
Total Department of Energy						1,267,977
Office of Postsecondary Education	D	84.116				(567)
Total Department of Education						(567)
National Institutes of Health	I	93.121	Johns Hopkins University	5 P50DE019032-07 : 2000488485		(5)
National Institutes of Health	I	93.351	East Carolina University	A11-0180; 8R25D011105-02; 212083		10,832
National Institutes of Health	D	93.389			2,883,276	
National Institutes of Health	I	93.389	University of Kentucky	3048108253-11-406	240,216	
		93.389 Subtotal				3,123,492
National Institutes of Health	D	93.393				156,577
National Institutes of Health	D	93.394				7,889
National Institutes of Health	D	93.395				2,859
National Institutes of Health	D	93.837				16,833
National Institutes of Health	D	93.839				(22,277)
National Institutes of Health	D	93.847				278,881
National Institutes of Health	D	93.853				(66)
National Institutes of Health	D	93.859				233,055
National Institutes of Health	D	93.865			71,698	
National Institutes of Health	I	93.865	The Children's Hospital of Philadelphia	PO950563RSUB	10	
		93.865 Subtotal				71,708
Health Resources and Services Administration	D	93.701ARRA				268,102
Department of Health and Human Services Total						4,147,880
Subtotal Research and Development						11,743,200

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number		Federal Expenditures
OTHER PROGRAMS:						
Rural Housing Service	D	10.446				34,072
Food & Nutrition Service	I	10.561	West Virginia University	99-046A-MURC		632,318
Total Department of Agriculture						666,390
Economic Development Administration	D	11.303				121,013
Economic Development Administration	D	11.307				94,581
National Telecommunications and Information Administratin	I	11.558	West Virginia Geological & Economic Survey	G130015		15,962
Total Department of Commerce						231,556
U.S. Army Corps of Engineers	I	12.000	TMG Services Inc	W91237-13-C-0002; SC-2013019-9170		16,506
Department of the Army, Office of the Chief of Engineers	D	12.110				113,969
Total Department of Defense						130,475
Office of Community Planning and Development	D	14.251				226,092
Total Department of Housing and Urban Development						226,092
Deoartment of Justice	I	16.XXX	MPRI a Division of L-3 Services, Inc.	DJJ11-C-2180/TO20		6,958
Department of Justice	I	16.000	WV Division of Criminal Justice Services	Various		(108)
National Institute of Justice	D	16.560				2,124,966
Office of Juvenile Justice and Delinquency Prevention	D	16.727			(2)	
Office of Juvenile Justice and Delinquency Prevention	I	16.727	WV Division of Criminal Justice Services	11-400	(83)	
		16.727 Subtotal				(85)
Total Department of Justice						2,131,731
Mine Safety and Health Administration	D	17.603				49,914
Total Department of Labor						49,914

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number		Federal Expenditures
OTHER PROGRAMS (Continued):						
Department of Transportation	I	20.XXX	WV Department of Transportation	09-CRASH/SH4.00/ OCRO-2011(076)		134,927
Federal Highway Administration	I	20.205	WV Department of Transportation	ATI TRP99-24		112,987
Federal Motor Carrier Safety Administration	I	20.232	WV Department of Transportation	N/A		138,585
Federal Motor Carrier Safety Administration	I	20.237	WV Department of Transportation	IT095410000000		123,120
Research and Innovative Technology Administration	D	20.701				3,956,330
Maritime Administration	I	20.816	Missouri Highways and Transportation			
Total Department of Transportation						4,465,949
Appalachian Regional Commission	D	23.002			50,251	
Appalachian Regional Commission	I	23.002	WV Division of Energy	WV-16454-09	246,922	
		23.002 Subtotal				297,173
Appalachian Regional Commission	D	23.003				124,498
Appalachian Regional Commission	D	23.011				291,382
Total Appalachian Regional Commission						713,053
National Aeronautics and Space Administration	I	43.001	West Virginia University	91-175B-MURC		9,418
Total National Aeronautics and Space Administration						9,418
National Endowment for the Humanities	I	45.129	WV Humanities Council	11554		38,017
Total National Foundation on the Arts and the Humanities						38,017
National Science Foundation	I	47.049	University of Kentucky	3046635800-07-179		61,921
National Science Foundation	D	47.076				412,091
National Science Foundation	I	47.082ARRA	WV Higher Education Policy Commission	HEPC dsr.11.10		122,788
Total National Science Foundation						596,800
Office of Solid Waste and Emergency Response	I	66.814	West Virginia University	08-657-MURC		53,208
Office of Solid Waste and Emergency Response	I	66.818	WV Department of Environmental Protection	AGM-052		119,538
Total Environmental Protection Agency						172,746

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2013

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number		Federal Expenditures
OTHER PROGRAMS (Continued):						
Department of Energy	I	81.041	WV Division of Energy	229330/8201		137,182
Total Department of Energy						137,182
Office of Postsecondary Education	D	84.116			141,852	
Office of Special Education and Rehabilitation	I	84.027	WV Department of Education	Various	3,053	
Office of Special Education and Rehabilitation	I	84.027A	WV Department of Education	Various	195,749	
Office of Special Education and Rehabilitation	I	84.173	WV Department of Education	C 301211	(3,018)	
		Special Education (IDEA) Cluster Subtotal				337,636
Office of Postsecondary Education	D	84.042			41,581	
Office of Postsecondary Education	D	84.042A			235,826	
Office of Postsecondary Education	D	84.044			92,417	
Office of Postsecondary Education	D	84.044A			380,484	
Office of Postsecondary Education	D	84.047A			335,475	
Office of Postsecondary Education	D	84.066			50,280	
Office of Postsecondary Education	D	84.066A			178,586	
		TRIO Cluster Subtotal				1,314,649
Office of Safe and Drug-Free Schools	I	84.184	WV Department of Education	EDD258368		44,113
Office of Elementary and Secondary Education	I	84.367	WV Higher Education Policy Commission	Various	339,227	339,227
Department of Education	I	84.928A	National Writing Project	CONTRACT 92-WV02; #24; #25; #26; 27, 28, 29, 30	(3,883)	
Department of Education	I	84.928A	National Writing Project (92-WV02)	02-WV03 AMM NP. 1(	2,627	
Office of Elementary and Secondary Education	I	84.928A	National Writing Project		40,179	
		84.928A Subtotal				38,923
Department of Education Total						2,074,548

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number		Federal Expenditures
OTHER PROGRAMS (Continued):						
Substance Abuse and Mental Health Services Administration	I	93.104	Prestera Center for Mental Health Services	N/A		22,962
Health Resources and Services Administration	I	93.130	West Virginia Primary Care Association	N/A		40,801
Substance Abuse and Mental Health Services	I	93.243	Prestera Center for Mental Health Service	N/A	12,762	
Substance Abuse and Mental Health Services	D	93.243			9,914	
		93.243 Subtotal				22,676
Centers for Disease Control and Prevention	I	93.283	Center for Appalachian Philanthropy	N/A	5,129	
Centers for Disease Control and Prevention	I	93.283	WV Department of Health and Human Resources	Various	183,130	
Centers for Disease Control and Prevention	D	93.283			(3,985)	
		93.283 Subtotal				184,274
Health Resources and Services Administration	I	93.610	Duke University			12,194
Administration for Children and Families	I	93.658	WV Department of Health and Human Resources	Various		94,891
Administration for Children and Families	I	93.710ARRA	Southwestern Community Action Council	N/A		9,869
Administration on Aging	I	93.725	WV Department of Health and Human Resources	G110987		485
National Institutes of Health	I	93.859	Federation of American Societies for Experimental Biology	N/A		5,711
Substance abuse and Mental Health Services Administration	I	93.958	WV Department of Health and Human Resources	Various		231,888
Health Resources and Services Administration	I	93.969	West Virginia University			7,241
Health Resources and Services Administration	I	93.994	WV Department of Health and Human Resources			332,304
Total Department of Health and Human Services						965,296
Subtotal Other Programs						12,609,167
Total Federal Expenditures						$24,352,367

See notes to 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, 2013

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, 2013, 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 .XXX. Indirect agency award numbers are presented for those programs for which such numbers are available. If an indirect agency award number is not available, it is presented as N/A. See Note 6 for indirect agency award numbers noted as "Various."

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 September 24, 2008, DHHS approved F&A cost recovery rates effective from July 1, 2008 through June 30, 2012 of 42% for on-campus and 26% for off-campus research. Negotiation of a new F&A rate was complete in July 2012, resulting in a negotiated rate of 45.1% for on-campus and 26% for off-campus research for the period of July 1, 2012 – June 30, 2017.

   The F&A cost rate structure is as follows:

Rate Type	Within Certificate	Negotiated Rate
Organized research — off-campus	26 %	26 %
Instruction — on-campus	48.8%	48.8%
Organized research — on-campus	45.1%	45.1%

Subrecipient expenditures in the Schedule of Expenditures of Federal Awards at June 30, 2013, include:

Federal Agency	Subrecipient	CFDA	Subrecipient Expenditures
Research and development:			
Department of Defense	University of Toledo	12.107	$ 59,886
Department of Defense	Univesity of Tennessee	12.110	11,277
Department of Defense	University of Michigan	12.800	100,000
Department of Justice	Research Foundation	16.560	61,358
Department of Transportation	Montana State University	20.200	1,516
National Aeronautics and Space Administration	Bluefield State College	43.001	5,000
Department of Energy	Michigan Technologic University	81.049	177,400
Department of Health and Human Services	Alderson Broaddus College	93.389	24,981
Department of Health and Human Services	Bluefield State College	93.389	222,296
Department of Health and Human Services	Concord University Research and Development	93.389	14,774
Department of Health and Human Services	West Liberty University Research	93.389	28,784
Department of Health and Human Services	WV State University Research and Development	93.389	165,991
Department of Health and Human Services	WV Wesleyan College	93.389	50,586
Department of Health and Human Services	WVU Research Corporation	93.389	1,459,515
Department of Health and Human Services	WV Wesleyan College	93.701ARRA	7,725
	Subtotal Research and Development		2,391,089
Other Programs:			
Department of Commerce	Concord University Research & Development	11.307	$ 58,750
Department of Defense	Texas A & M Research Fundation	12.110	109,604
Department of Transportation	Perdue University	20.205	(4,135)
Department of Transportation	WVU Research Corporation	20.205	10,377
Department of Transportation	University of Kentucky Research Foundation	20.237	85,687
Department of Transportation	Hampton University	20.701	34,393
Department of Transportation	University of Kentucky Research Foundation	20.701	1,132,463
Department of Transportation	University of Louisville Research	20.701	36,970
Department of Transportation	WV University	20.701	7,638
Department of Transportation	Alpha Technologies, Inc	20.xxx	110,238
Appalachian Regional Commission	McDowell County Board of Education	23.002	40,000
Appalachian Regional Commission	Monongalia County Board of Education	23.002	40,000
Appalachian Regional Commission	Morris Creek Watershed	23.002	7,000
Appalachian Regional Commission	WVU Research Corporation	23.002	57,110
Appalachian Regional Commission	Lawrence County Health Department	23.011	24,000
Appalachian Regional Commission	Meigs County Board of Education	23.011	24,000
Appalachian Regional Commission	TechConnect WV	23.011	8,289
National Science Foundation	WV State University Research and Development	47.076	127,691
Department of Education	Morehead State University	84.116	44,607
	Subtotal Other Programs		1,954,682
	Total all Subrecipient		$ 4,345,771

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

6. The following table details all Indirect Award numbers denoted as "Various" in the Schedule:

CFDA/Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
43.001	West Virginia University	07-476-MURC	$ 41,942
43.001	West Virginia University	07-810-MURC	(4,301)
43.001	West Virginia University	91-175A-MURC	(4,058)
43.001	West Virginia University	91-975B-MURC	113,836
	Subtotal		147,418
16.000	WV Division of Criminal Justice Services	08P-DF-03; 09-11-011	(179)
16.000	WV Division of Criminal Justice Services	10P-EIP-01;1200-20	71
	Subtotal		(108)
84.027	WV Department of Education	C321494	(976)
84.027	WV Department of Education	C321495	(10,463)
84.027	WV Department of Education	C344099	949
84.027	WV Department of Education	C344100 & C344099	397
84.027	WV Department of Education	C364164	13,146
	Subtotal		3,053
84.027A	WV Department of Education	C374438	5,149
84.027A	WV Department of Education	C336131	(377)
84.027A	WV Department of Education	C359127	6,447
84.027A	WV Department of Education	C374431	38,023
84.027A	WV Department of Education	C376158	146,508
	Subtotal		195,751
84.367	WV Higher Education Policy Commission	ITQ-10-MUGC-02	(58)
84.367	WV Higher Education Policy Commission	ITQ-12-MU-01; WV HEPC ITQ 2011	87,861
84.367	WV Higher Education Policy Commission	ITQ-12-MU-02	22,592
84.367	WV Higher Education Policy Commission	ITQ-12-MU-03	19,613
84.367	WV Higher Education Policy Commission	ITQ-12-MU-04	34,828
84.367	WV Higher Education Policy Commission	ITQ-12-MUGC-01	26,549
84.367	WV Higher Education Policy Commission	ITQ-12-MUGC-02	27,116
84.367	WV Higher Education Policy Commission	ITQ-12-MURC-03	73,984
84.367	WV Higher Education Policy Commission	ITQ-13-MU-02	26,105
84.367	WV Higher Education Policy Commission	ITQ-13-MU-04	7,274
84.367	WV Higher Education Policy Commission	ITQ-13-MU-1	4,367
84.367	WV Higher Education Policy Commission	ITQ-13-MU-6	8,996
	Subtotal		339,227

Continued

CFDA/Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
92.283	WV Department of Health and Human Resources	G120337	3
92.283	WV Department of Health and Human Resources	G120782;C376123	67,188
92.283	WV Department of Health and Human Resources	G130220;C387810	54,114
92.283	WV Department of Health and Human Resources	G130390	37,787
92.283	WV Department of Health and Human Resources	G130727; C393980	24,037
	Subtotal		183,129
93.658	WV Department of Health and Human Resources	C368329;G120445	13,992
93.658	WV Department of Health and Human Resources	G130300	80,899
	Subtotal		94,891
93.958	WV Department of Health and Human Resources	G120121;C366690	59,370
93.958	WV Department of Health and Human Resources	G130544; C388239	172,518
	Subtotal		231,888
	TOTAL		$ 1,195,249

Hayflich Grigoraci
Certified Public Accountants | Business Advisors

Hayflich Grigoraci PLLC
#8 Stonecrest Drive
Huntington, WV 25701
T: 304.697.5700
F: 304.697.5704
www.hayflich.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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Marshall University Research Corporation ("the Corporation"), as of and for the year ended June 30, 2013, and the related notes to the financial statements and have issued our report thereon dated October 16, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Corporation's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hayflich Grigoraci PLLC

Huntington, West Virginia
October 16, 2013

Hayflich Grigoraci
Certified Public Accountants | Business Advisors

Hayflich Grigoraci PLLC
#8 Stonecrest Drive
Huntington, WV 25701
T: 304.697.5700
F: 304.697.5704
www.hayflich.com

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of
Marshall University Research Corporation:

Report on Compliance for Each Major Federal Program

We have audited Marshall University Research Corporation's (the Corporation) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended June 30, 2013. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, the Corporation, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Corporation, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Hayflich Grigoraci PLLC

Huntington, West Virginia
October 16, 2013

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

PART I. — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unmodified opinion	
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 No
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 No
Type of auditors' report issued on compliance for major programs:	Unmodified opinion	
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
16.560	National Institute of Justice - Research, Evaluation, and Development
20.701	Department of Transportation - Univeristy Transportation Center
84.XXX (Various)	Department of Education - TRIO Cluster

Dollar threshold used to distinguish between Type A and Type B Programs $ 730,571

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