FINANCIAL REPORT

FISCAL YEAR
2002

WEST VIRGINIA

HUNTINGTON,

CONTINUING STEWARDSHIP

The fiscal year ending June 30, 2002 was another challenging and good one for Marshall University. Our complete financial statements and the independent auditor reports are contained in this booklet.

As Marshall University continues its movement upward, we take our stewardship of the funds entrusted to us very seriously. With our report for the fiscal year ended June 30, 2002, we continue our commitment to the best possible use of the resources entrusted to us.

Sincerely,

Dan Angel
President

CONTENTS

Marshall University
Management Discussion and Analysis
Fiscal Year 2002

Overview of the Financial Statements and Financial Analysis

Marshall University (the "University"), is pleased to present its financial statements for fiscal year 2002. The emphasis of discussions about these statements will be on current year data. 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. This discussion and analysis of the University's financial statements provides an overview of its financial activities for the year and is required supplemental information.

The Governmental Accounting Standards Board (GASB) issued new directives for 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 University. This is the first fiscal year for this new reporting format and direct comparison with previously issued financial statements is not required and will not always be consistent.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The Statement of Net Assets is a point of time financial statement. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of Marshall University. The Statement of Net Assets presents end-of-year data concerning Assets (current and noncurrent), Liabilities (current and noncurrent), and Net Assets (Assets minus Liabilities). The difference between current and noncurrent assets and liabilities will be discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors and lending institutions.

Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution.

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the institution's equity in property, plant and equipment owned by the institution. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. Marshall University does not have nonexpendable restricted net assets at June 30, 2002. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. Included in restricted expendable net assets are balances that have been designated for specific purposes in West Virginia State Code. This category includes auxiliary enterprise balances as well as certain student fee funds that are designated within state code for specific general purposes such as housing operations or for libraries and library supplies as a component of the Higher Education Resource Fee.

The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the institution.

Net Assets

(In thousands of dollars)

	June 30, 2002
Assets	
Current assets	$ 64,947
Other noncurrent assets	42,788
Capital assets, net	203,308
Total Assets	311,043
Liabilities	
Current liabilities	22,209
Noncurrent liabilities	122,181
Total Liabilities	144,390
Net Assets	
Invested in capital assets, net of debt	131,700
Restricted – expendable	23,393
Unrestricted	11,560
Total Net Assets	$ 166,653

Statement of Revenues, Expenses and Changes in Net Assets

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

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the institution. 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 institution. Revenues received for which goods and services are not provided are reported as nonoperating revenues. For example, state appropriations are nonoperating because they are provided by the Legislature to the institution without the Legislature directly receiving commensurate goods and services for those revenues.

Revenues, Expenses and Changes in Net Assets

(In thousands of dollars)

	FY 2002
Operating revenues	$ 98,927
Operating expenses	(161,142)
Operating gain (loss)	(62,215)
Nonoperating revenues	74,440
Nonoperating expenses	(8,172)
Income (loss) before other revenues, expenses, gains or losses	4,053
Other revenues, expenses, gains or losses	4,810
Increase (decrease) in Net Assets before Transfers	8,863
Transfer of liability from Policy Commission	(48,642)
Increase (Decrease) in Net Assets	$ (39,779)

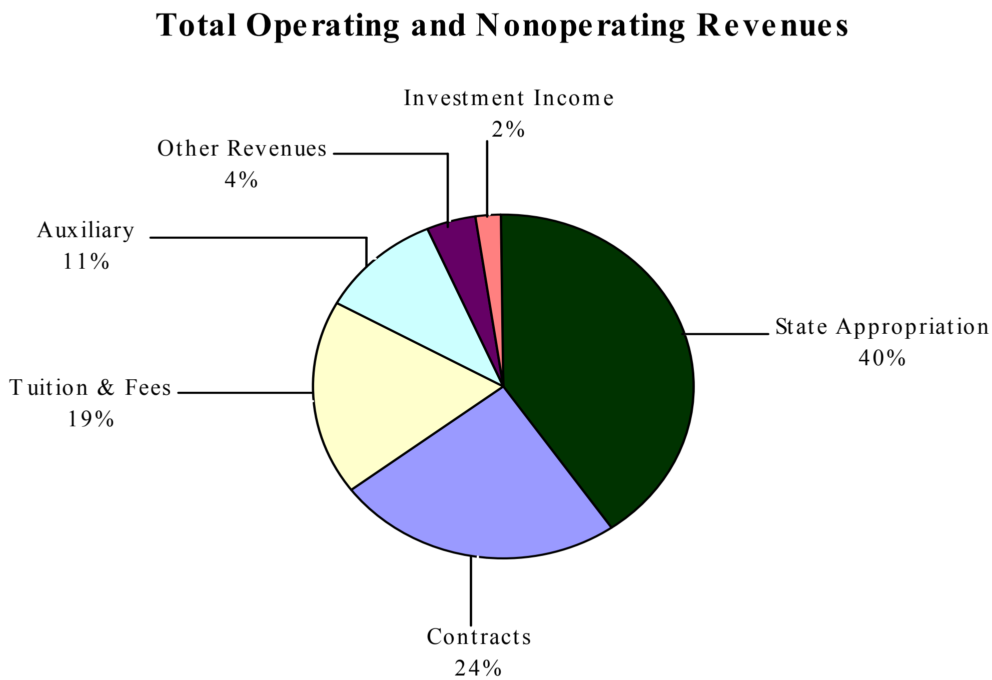
Total operating and non-operating revenues of the University amount to $173 million. The most significant sources of revenue to the University, including the research corporation, are state appropriations accounting for 40% of the budget. Tuition and fees account for 19% of the revenue. Grants and Contracts account for 24% of the revenue including $28 million of Federal, $7 million of State and $5 million of Private grants and contracts. Gifts are not included in this revenue source.

The increase in net assets before transfers of $8.9 million reflects improvement in the University's general financial condition. To fully understand this increase during the 2002 fiscal year, however, changes to the individual net asset groups have been estimated. GASB did not require restatement of FY 2001 financial statements and because of the significant changes to the underlying principles used under the fund accounting standards, these comparisons are provided as a means of understanding management's view of this increase.

- We have estimated that the net asset category "Invested in capital assets, net of related debt" increased by approximately $4.6 million prior to the transfer of liability from the West Virginia Higher Education Policy Commission (the "Policy Commission"). Although contributing to the growth of the University, these non-current assets are not typically available for operating purposes.
- The increase in the net asset category "Restricted - expendable" is estimated at $4.2 million. These funds have been restricted for use by entities outside of the University and include grants and restrictions placed by State Code.
- The estimated increase in the net asset category "Unrestricted" for which the funds can be expended for any legal purpose increased approximately $100,000.

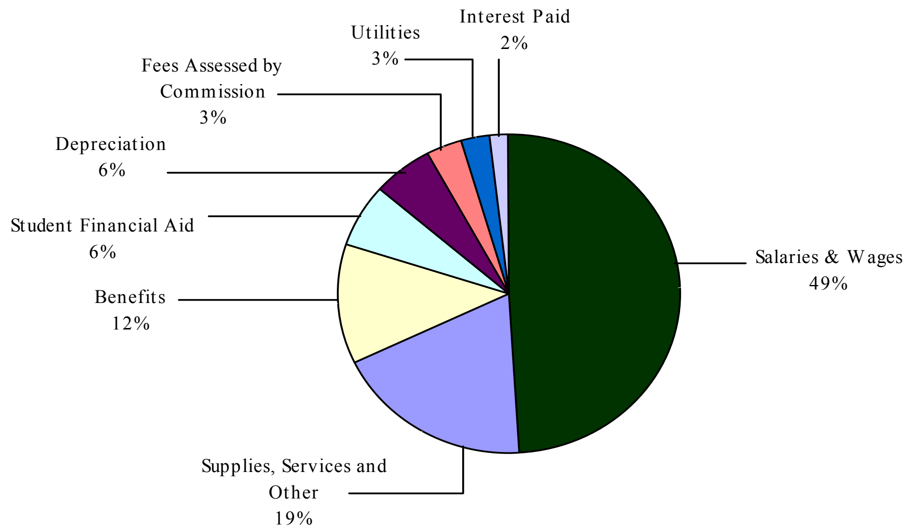
Included in the above is an increase of $2.2 million in total net assets of the research corporation.

The $48.6 million transfer of liability from the Policy Commission represents a "one time" transfer of accumulated debt that had not been included in the University's financial statements in prior years. This is a nonrecurring item and is further explained in Note 10 to the financial statements.

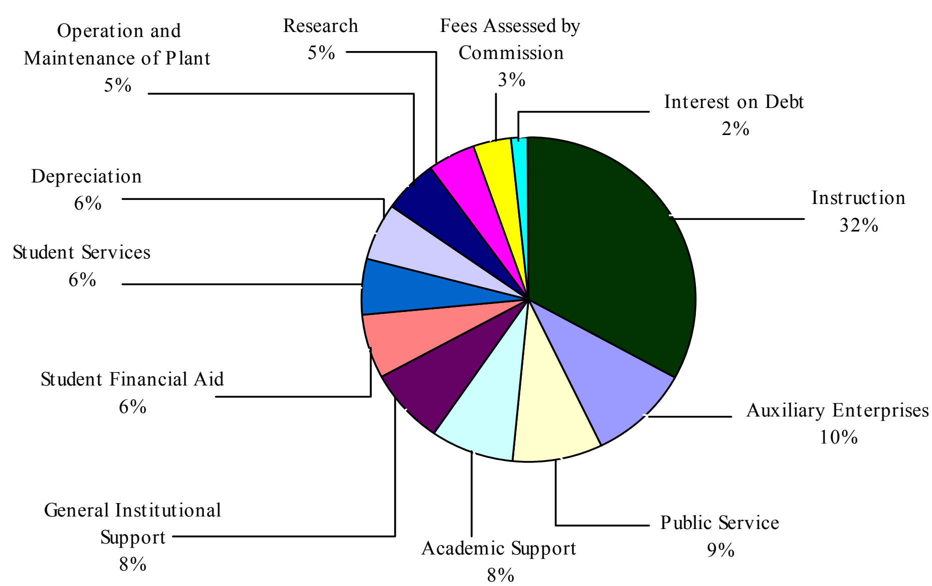


Total operating and nonoperating expenditures of the University, including the research corporation, amounted to $169 million. Expenditures are shown by primary object of expenditure and by functional classifications. Salaries and benefits account for more than 60% of the total budgeted expenditures of the University and 32% of the total expenditures are used for instruction. Debt service payments of $5.1 million are included in the fees assessed by Commission.

Operating and Nonoperating Expenses
by Object



by Function



Statement of Cash Flows

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

Cash Flows
(In thousands of dollars)

	FY 2002
Cash provided (used) by:	
Operating activities	$ (49,289)
Noncapital financing activities	70,269
Investing activities	3,704
Capital and related financing activities	(21,740)
Net increase in current cash	2,944
Current cash, beginning of year	47,260
Current cash, end of year	$ 50,204

Capital Asset and Debt Administration

The University continues to expand its facilities. In the fall of 2002, a new 1,000-space parking building opened on Third Avenue and in the fall of 2003, a new housing complex for 500 students is scheduled to open. In addition to ongoing maintenance of existing facilities, the addition of new facilities reflects the continued growth of the University. Planning is underway for a Biotechnology Science Center on the north side of Third Avenue using $35 million of federal grant funds, and fundraising is underway for an additional $5 million for construction of this facility.

The University has utilized two separate bond mechanisms in the past for financing major campus improvements. The first method is direct issue of bonds by the University and the second is use of bonds issued by the West Virginia Higher Education System.

Two bond issues have been issued directly by the University. The first was for construction of Memorial Student Center (1969) and the second was for construction of housing and parking facilities (2001). Both of these bond issues, including payment schedules, are more fully described in Note 7 to the financial statements.

In addition to these specific bond issues, the University has participated in other bond issues of the West Virginia Higher Education System currently managed by the Policy Commission. Tuition and registration fees of the entire system are pledged to repayment of these system wide bond issues and the obligation for repayment of these bonds rests with the Commission. Since 1992, all colleges and universities within the system are expected to have a separate payment schedule for any projects of that campus even if consolidated with other projects on a bond issue. Of the fees assessed by the Policy Commission, $5.1 million has been assessed the University for payment of the bonds as follows:

- In 1992, the University System of West Virginia refinanced outstanding bonds. Through prior agreement under the University System of West Virginia, the University's portion of these bonds approximated 24%. The annual amount paid for this bond issue is approximately $2.2 million. These bonds will be retired through 2012.

- The University arranged for issuance of system bonds in 1996 for construction of the Drinko Library. These bonds will be retired through 2016 and the annual payment is $1.2 million.

- In 1997, the University participated in system bonds for various projects including construction of the Jomie Jazz Center, improvements to Henderson Center, and Old Main renovations. These bonds are being retired through 2027 for annual payments of approximately $800,000.

- In 2000, the University issued bonds through the system for purchase of facilities located at Cabell Huntington Hospital and associated with the University's School of Medicine. Payment on these bonds is approximately $700,000 per year through 2025. Payment on these bonds is made from rental income from University Physicians and Surgeons, Inc.

Economic Outlook

Although the number of high school graduates in the state continues to decline, the University is well positioned in a major metropolitan region of the state to attract and maintain non-traditional students to replace losses of traditional college-age students. Increases in non-resident students, improved physical plant and favorable comparison of fee structures with peer institutions indicate that the University will be able to remain competitive for new and returning students.

With less than promising economic forecasts for the state and approximately 40% of operations funded by state appropriation, the University may be vulnerable to significant downturns in the state's economy. Following a trend that seems to be impacting many other states, Marshall University has been asked to plan for potential budget reductions for FY 2003-04. In line with this possibility, the University is considering several revenue enhancements and cost reduction options for next fiscal year.

A significant portion of University resources is expended on salaries and fringe benefits associated with a labor-intensive organization. The increased costs of health insurance and post employment benefits place economic pressure on the University to continue to keep up with these expenses. The increase in medical malpractice insurance premiums is another area of concern.

The University has implemented a fund raising program, "The Campaign for National Prominence," to raise $100 million by December 2005. Management is optimistic that the University will succeed in this effort.

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

INDEPENDENT AUDITORS' REPORT

To the Marshall University Governing Board

We have audited the accompanying combined financial statements of Marshall University (the "University") as of June 30, 2002, and for the year then ended, listed in the foregoing Table of Contents. These financial statements are the responsibility of the management of the University. Our responsibility is to express an opinion on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such combined financial statements present fairly, in all material respects, the combined financial position of the University at June 30, 2002, and the combined changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the University changed its financial statement presentation to adopt the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2001.

The Management's Discussion and Analysis on pages 1 to 8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the University's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2002, on our consideration of the University's internal control over financial reporting and its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

October 11, 2002

MARSHALL UNIVERSITY

COMBINED STATEMENT OF NET ASSETS
JUNE 30, 2002

ASSETS:		
Current assets:		
Cash and cash equivalents	$	50,204,293
Accounts receivable, net		12,489,285
Loans receivable, net of allowance of $109,991		1,311,905
Prepaid expenses		202,023
Inventories		739,378
Total current assets		64,946,884
Noncurrent assets:		
Cash and cash equivalents		34,439,539
Accounts receivable		874,227
Loans receivable, net of allowance of $1,075,468		6,049,141
Other assets		1,424,264
Capital assets, net		203,308,416
Total noncurrent assets		246,095,587
TOTAL ASSETS	$	311,042,471

(Continued)

MARSHALL UNIVERSITY
COMBINED STATEMENT OF NET ASSETS
JUNE 30, 2002

LIABILITIES:	
Current Liabilities:	
Accounts payable	$ 6,344,779
Accrued liabilities	3,436,784
Deferred revenue	5,645,728
Deposits	371,780
Compensated absences	3,298,053
Debt obligation to Commission	2,277,350
Capital lease obligations	679,905
Bonds payable	155,000
Total current liabilities	22,209,379
Noncurrent Liabilities:	
Notes Payable	26,742
Advances from federal sponsors	6,602,443
Compensated absences	10,578,165
Debt obligation to Commission	46,365,200
Capital lease obligations	10,857,974
Bonds payable	47,750,000
Total noncurrent liabilities	122,180,524
Total liabilities	144,389,903
NET ASSETS:	
Invested in capital assets, net of related debt	131,700,473
Restricted for:	
Expendable:	
Specific purposes by State Code	16,717,607
Scholarships	50,608
Sponsored Projects	3,880,877
Loans	1,729,893
Capital projects	554,845
Debt service	458,797
Total restricted expendable	23,392,627
Unrestricted	11,559,468
Total net assets	166,652,568
TOTAL LIABILITIES AND NET ASSETS	$ 311,042,471

See notes to combined financial statements (Concluded)

MARSHALL UNIVERSITY

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2002

OPERATING REVENUES:	
Student tuition and fees (net of scholarship allowance of $ 14,309,369)	$ 32,586,624
Contracts and grants:	
Federal	27,585,639
State	7,145,107
Local	1,303,266
Private	5,207,280
Interest on student loans receivable	140,234
Sales and services of educational activities	224,372
Auxiliary enterprise revenue (net of scholarship allowance of $ 1,137,917)	18,383,642
Other operating revenues	6,350,761
Total operating revenues	98,926,925
OPERATING EXPENSES:	
Salaries and wages	83,124,367
Benefits	20,629,203
Supplies and other services	31,266,998
Utilities	4,473,281
Student financial aid - scholarships and fellowships	10,859,510
Depreciation	9,685,672
Other operating expenses	442,623
Fees assessed by the Commission for operations	660,600
Total operating expenses	161,142,254
OPERATING LOSS	(62,215,329)

(Continued)

MARSHALL UNIVERSITY

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2002

NONOPERATING REVENUES (EXPENSES):	
State appropriations	$ 70,154,419
Gifts	177,290
Investment income	3,988,032
Interest on indebtedness	(2,996,008)
Fees assessed by the Commission for debt service	(5,175,951)
Other nonoperating revenues - net	120,808
Net nonoperating revenues	66,268,590
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	4,053,261
Capital grants and gifts	4,297,886
Capital projects bond proceeds from the Commission	511,977
INCREASE IN NET ASSETS BEFORE TRANSFERS	8,863,124
TRANSFER OF LIABILITY FROM POLICY COMMISSION	(48,642,550)
DECREASE IN NET ASSETS	(39,779,426)
NET ASSETS - BEGINNING OF YEAR (AS RESTATED)	206,431,994
NET ASSETS - END OF YEAR	$ 166,652,568

See notes to combined financial statements (Concluded)

MARSHALL UNIVERSITY

COMBINED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES	
Student tuition and fees	$ 32,512,390
Contracts and grants	43,677,656
Payments to and on behalf of employees	(101,986,276)
Payments to suppliers	(32,645,483)
Payments to utilities	(4,543,281)
Payments for scholarships and fellowships	(10,859,510)
Loans issued to students	(1,566,545)
Collection of loans to students	1,059,129
Sales and service of educational activities	224,372
Auxiliary enterprise charges	18,487,408
Fees assessed by Commission	(660,600)
Other receipts - net	7,012,079
Net cash used in operating activities	(49,288,661)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	69,869,863
Proceeds from notes issued	1,553
Gift receipts	298,098
Advance from federal sponsor (nonoperating)	99,000
William D. Ford direct lending receipts	35,273,953
William D. Ford direct lending payments	(35,273,898)
Net cash provided by noncapital financing activities	70,268,569
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Payment for bond issuance costs	(35,250)
Capital grants and gifts received	4,297,885
Capital projects bond proceeds from Commission	337,088
Purchases of capital assets	(24,781,882)
Principal paid on bonds and leases	(980,786)
Interest paid on bonds and leases	(2,851,155)
Proceeds from sale of capital assets	140,552
Fees assessed by Commission	(5,175,951)
Decrease in noncurrent cash and cash equivalents	7,309,535
Net cash used in capital financing activities	(21,739,964)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on invesments	3,629,765
Lease receipts	74,266
Net cash provided by investing activities	3,704,031
INCREASE IN CURRENT CASH AND CASH EQUIVALENTS	2,943,975
CURRENT CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	47,260,318
CURRENT CASH AND CASH EQUIVALENTS - END OF YEAR	$ 50,204,293

(Continued)

MARSHALL UNIVERSITY

COMBINED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2002

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES

Operating loss	$ (62,215,329)
Adjustments to reconcile net operating loss to net cash used in operating activities:	
Depreciation expense	9,685,672
Loss on disposal of assets	179,680
Changes in assets and liabilities:	
Accounts receivables, net	(1,599,692)
Loans to students, net	(406,418)
Prepaid expenses	(173,294)
Inventories	58,222
Accounts payable	2,465,886
Accrued liabilities	63,795
Compensated absences	1,863,775
Deferred revenue	627,942
Deposits held in custody for others	39,750
Advances from federal sponsors	121,350
NET CASH USED IN OPERATING ACTIVITIES	$ (49,288,661)
NONCASH TRANSACTIONS	
Capital gifts of equipment and buildings	$ 1,283,974
Transfer of liability from Policy Commission	$ 48,642,550

See notes to combined financial statements. (Concluded)

MARSHALL UNIVERSITY

NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2002

1. ORGANIZATION

Marshall University (the "University") is governed by the Marshall University Board of Governors (the "Board"). The Board was established by Senate Bill 653 ("S.B. 653"). S.B. 653 was enacted by the West Virginia Legislature on March 19, 2000 and restructured public higher education in West Virginia. S.B. 653 abolished the Board of Trustees of the University System of West Virginia effective June 30, 2000, and replaced it with a transition year board, the West Virginia Higher Education Interim Governing Board (the "Interim Governing Board"). The Interim Governing Board was granted all powers, duties, and authorities of the Board of Trustees and has transferred each valid agreement and obligation previously transferred to or vested in the Board of Trustees.

Effective July 1, 2001, certain powers were transferred to the newly created Governing Boards of each of the institutions of higher education. These powers and duties include, but are not limited to, the power to determine, control, supervise and manage the financial, business and educational policies and affairs of the institution(s) under its jurisdiction, the duty to develop a master plan for the institution, the power to prescribe the specific functions and institution's budget request, the duty to review at least every five years all academic programs offered at the institution, and the power to fix tuition and other fees for the different classes or categories of students enrolled at its institution.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of the University have been prepared in accordance with generally accepted accounting principles as prescribed by the 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 of Public Colleges and Universities (an Amendment of GASB Statement No. 34).* The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows, and replaces the fund-group perspective previously required.

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

Reporting Entity - The University is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State that are not included in the State's general fund. The University is a separate entity which, along with all State institutions of higher education, the Commission and the West Virginia Network for Educational Telecomputing ("WVNET"), 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 Marshall University, including Marshall University Research Corporation ("MURC"). The basic criteria for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the

University's ability to significantly influence operations and accountability for fiscal matters of related entities. Related foundations and other affiliates of the University (see Notes 12 and 13) are not part of the University reporting entity and are not included in the accompanying combined financial statements as the University has no ability to designate management, cannot significantly influence operations of these entities and is not accountable for the fiscal matters of these entities.

Financial Statement Presentation - During fiscal 2002, the University adopted GASB Statement No. 35, as amended by GASB Statements No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a basis to focus on the University as a whole. Previously, financial statements focused on the accountability of individual fund groups rather than on the University as a whole. GASB Statement No. 35 reports equity as "net assets" rather than "fund balance". Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of University obligations. The University's net assets are classified as follows:

- *Invested in capital assets, net of related debt* – This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.
- *Restricted net assets, expendable* - This includes resources for which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

  The West Virginia Legislature, as a regulatory body outside the reporting entity, has restricted the use of certain funds by "Article 10, Fees and Other Money Collected at State Institutions of Higher Education" of the West Virginia Code. These restrictions are primarily for the following: debt service; off campus instruction; student unions; libraries, library supplies, and improvement in student services; faculty improvement; health education student loan fund; health sciences education; athletic programs; student activities; auxiliary operations; and special programs. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the West Virginia Legislature.
- *Restricted net assets, nonexpendable* – This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The University does not have any restricted nonexpendable net assets at June 30, 2002.
- *Unrestricted net assets* - Unrestricted net assets represent resources derived from student tuition and fees, state appropriations and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the Board of Governors to meet current expenses for any purpose.

GASB Statement No. 35 requires the statements of net assets, revenues, expenses, and changes in net assets, and cash flows to be reported on a combined basis. The provisions of Statement No. 35 have been applied to the year presented. Following is a reconciliation of total June 30, 2001 fund balances, as previously reported, to the restated net asset balances for the same date:

	June 30, 2001
Combined fund balances, as previously reported	$ 309,151,914
Accumulated depreciation	(95,981,974)
Additional infrastructure capitalization	2,095,005
Reclassification of grant and contract revenue	(2,450,639)
Reclassification of federal loan programs	(6,382,312)
Combined fund balances, restated as net assets	$ 206,431,994

Basis of Accounting – For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's 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 statement of net assets, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

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

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

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

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

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

Capital Assets – Capital assets include property, plant and equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and infrastructure, 15 years for land improvements, 7 years for library books, and 3 to 10 years for furniture and equipment.

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

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

The University's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1-1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired July 1, 2001 or later will no longer receive sick leave credit toward insurance premiums when they retire.

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

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

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

Risk Management - The State's Board of Risk and Insurance Management ("BRIM") provides general, property and casualty, and medical malpractice liability coverage to the University and its employees, including those physicians employed by the University and related to the University's school of medicine. Such coverage may be provided to the University by BRIM through self-insurance programs maintained by BRIM or policies underwritten by BRIM that may involve experience-related premiums or adjustments to BRIM.

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

Classification of Revenues – The University has classified its revenues as either operating or non-operating revenues according to the following criteria:

- *Operating Revenues* – Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees (excluding portion for capital improvements), net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most Federal, state, local, and nongovernmental grants and contracts, and (4) sales and services of educational activities.

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

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

Federal Financial Assistance Programs - The University makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through institutions like the University. Direct student loan receivables are not included in the University's statement of net assets as the loans are repayable directly to the U.S. Department of Education. In 2002, the University received and disbursed approximately $ 35,274,000 under the Federal Direct Student Loan Program on behalf of the U.S. Department of Education, which is not included as revenue and expense on the statement of revenues, expenses and changes in net assets.

The University also distributes other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant and College Work Study programs. The activity of these programs is recorded in the accompanying combined financial statements. In 2002, the University received and disbursed approximately $10,025,000 under these federal student aid programs.

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

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

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

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

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

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

Recent Statements Issued by the Government Accounting Standards Board - The GASB issued Statement No. 39, *Determining Whether Certain Organizations are Component Units, an amendment of GASB Statement No. 14*. This statement is effective for periods beginning after June 15, 2003. The University has not completed the process of evaluating the impact, if any, that will result from adopting GASB Statement No. 39. This statement, when adopted, could result in additional entries being included in the University financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was as follows at June 30, 2002:

	Current	Noncurrent	Total
Cash on deposit with the State Treasurer:			
University	$ 44,142,881	$ -	$ 44,142,881
Municipal Bond Commission	369,466	373,197	742,663
Cash on deposit with Trustee	2,052,481	34,066,342	36,118,823
Cash in bank	3,593,103	-	3,593,103
Cash on hand	46,362	-	46,362
	-	-	-
	$ 50,204,293	$ 34,439,539	$ 84,643,832

Cash designated as held by the Municipal Bond Commission for the University represents various repair and replacement and debt service accounts trusteed with the State's Municipal Bond Commission related to various University specific bond issues (see Note 7). Other cash held by the State Treasurer includes $ 19,804,614 of restricted cash for specific purposes by State Code, sponsored projects and loans. Cash on deposit with Trustee represents funds reserved for acquisition and construction of housing and parking facilities as well as various repair and replacement and debt service accounts and relates to the 2001 Housing and Parking Series A Bonds (see Note 7).

The combined carrying amount of cash in bank at June 30, 2002 was $ 3,593,103, as compared with the combined bank balance of $ 5,119,410. The difference is primarily caused by outstanding checks and items in transit. The bank balances at June 30, 2002 were covered by federal depository insurance or were collateralized by securities held by the State's agent.

Cash on deposit with the State Treasurer and with Trustee is a noncategorized deposit (with respect to risk and collateral disclosure) in accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.*

4. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30, 2002:

	Current	Noncurrent	Total
Student tuition and fees, net of allowance for doubtful accounts of $ 109,238	$ 463,066	-	$ 463,066
Grants and contracts receivable, net of allowance for doubtful accounts of $ 464,466	9,274,397		9,274,397
Due from the Commission	521,645		521,645
Due from other State agencies	1,067,268		1,067,268
Other accounts receivable	1,162,909	874,227	2,037,136
	$ 12,489,285	$ 874,227	$ 13,363,512

5. CAPITAL ASSETS

The following is a summary of capital asset transactions for the University for the year ended June 30, 2002:

	Beginning Balance	Additions	Reductions	Other	Ending Balance
Capital assets not being depreciated:					
Land	$ 17,750,957	$ 910,532	$ -	$ -	$ 18,661,489
Antiques and artwork (inexhaustible)	132,107				132,107
Construction in progress	3,296,929	16,246,539		(2,803,182)	16,740,286
Total capital assets not being depreciated	21,179,993	17,157,071	-	(2,803,182)	35,533,882
Other capital assets:					
Land Improvements	1,522,704	-	-	-	1,522,704
Infrastructure	11,393,976	32,503			11,426,479
Buildings	199,803,966		(1,028,414)	2,803,182	201,578,734
Equipment	43,747,988	7,321,185	(2,187,478)		48,881,695
Library Books	6,865,785	357,372	(73,900)		7,149,257
Total other capital assets	263,334,419	7,711,060	(3,289,792)	2,803,182	270,558,869
Less accumulated depreciation for:					
Land Improvements	410,359	101,514			511,873
Infrastructure	7,197,402	508,051			7,705,453
Buildings	58,122,163	3,761,925	(1,028,414)		60,855,674
Equipment	24,491,163	4,960,773	(1,780,996)		27,670,940
Library Books	5,760,886	353,409	(73,900)		6,040,395
Total accumulated depreciation	95,981,973	9,685,672	(2,883,310)	-	102,784,335
Other capital assets, net	$ 188,532,439	$ 15,182,459	$ (406,482)	$ -	$ 203,308,416
Capital asset summary:					
Capital assets not being depreciated	$ 21,179,993	$ 17,157,071	$ -	$ (2,803,182)	$ 35,533,882
Other capital assets	263,334,419	7,711,060	(3,289,792)	2,803,182	270,558,869
Total cost of capital assets	284,514,412	24,868,131	(3,289,792)	-	306,092,751
Less accumulated depreciation	(95,981,973)	(9,685,672)	2,883,310	-	(102,784,335)
Capital assets, net	$ 188,532,439	$ 15,182,459	$ (406,482)	$ -	$ 203,308,416

Interest cost incurred by the University are not capitalized as interest payments are offset by interest income generated from investment of debt proceeds.

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

Title for certain real property is with the Commission.

6. CHANGES IN LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2002:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and capital leases:					
Revenue bonds payable, including					
unexpended funds of $ 36,118,823					
at June 30, 2002	$ 48,055,000	$	$ (150,000)	$ 47,905,000	$ 155,000
Capital leases payable	12,368,665		(830,786)	11,537,879	679,905
Total bonds and capital leases	60,423,665		(980,786)	59,442,879	834,905
Other long-term liabilities:					
Notes Payable	25,189	1,553		26,742	
Accrued compensated absences	12,012,443	5,130,600	(3,266,825)	13,876,218	3,298,053
Advances from Federal Sponsors	6,382,093	232,046	(11,696)	6,602,443	
Debt Obligation to Commission		48,642,550		48,642,550	2,277,350
Total long-term liabilities	$ 78,843,390	$ 54,006,749	$ (4,259,307)	$ 128,590,832	$ 6,410,308

Additional information regarding bonds payable is included in Note 7. Additional information regarding leases payable is included in Note 8.

7. BONDS

Bonds payable consisted of the following at June 30, 2002:

	Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding
University Center Revenue Bonds due through 2009	4%-6%	$ 155,000 to $ 215,000	$ 1,295,000
University Facilities Revenue Bonds due through 2031	3.6%-5.3%	$ 895,000 to $ 3,035,000	46,610,000
			$ 47,905,000

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

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

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

A summary of the annual aggregate principal payments for years subsequent to June 30, 2002 is as follows:

Year Ending June 30,	**University Center**		**Housing and Parking Facilities**			
	Principal	**Interest**	**Principal**	**Interest**	**Total Principal**	**Total Interest**
2003	$ 155,000	$ 73,400	$	$ 2,293,845	$ 155,000	$ 2,367,245
2004	165,000	64,100		2,293,845	165,000	2,357,945
2005	175,000	54,200	895,000	2,293,845	1,070,000	2,348,045
2006	185,000	43,700	930,000	2,261,401	1,115,000	2,305,101
2007	195,000	32,600	965,000	2,226,526	1,160,000	2,259,126
2008 - 2012	420,000	29,500	5,450,000	10,498,144	5,870,000	10,527,644
2013 - 2017			6,865,000	9,078,169	6,865,000	9,078,169
2018 - 2022			8,860,000	7,089,056	8,860,000	7,089,056
2023 - 2027			11,335,000	4,609,725	11,335,000	4,609,725
2028 - 2031			11,310,000	1,448,000	11,310,000	1,448,000
Total	$ 1,295,000	$ 297,500	$ 46,610,000	$ 44,092,556	$ 47,905,000	$ 44,390,056

8. LEASES

Operating - Future annual minimum lease payments on operating leases for years subsequent to June 30, 2002 are as follows:

Year Ending June 30,	
2003	$ 556,999
2004	426,741
2005	285,404
2006	224,009
2007	213,454
2008 - 2012	343,282
Total	$ 2,049,889

Total rent expense for the year ended June 30, 2002 was approximately $ 564,680.

Capital - The University leases various equipment and buildings through capital leases. At June 30, 2002, leased equipment with a net book value of $ 240,029 and leased buildings with a net book value of $ 13,517,469 are included in equipment and buildings.

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

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

Future annual minimum lease payments for years subsequent to June 30, 2002 are as follows:

June 30,	Principal	Interest	Total
2003	$ 679,905	$ 628,877	$ 1,308,782
2004	567,342	586,786	1,154,128
2005	552,878	552,387	1,105,265
2006	527,929	521,087	1,049,016
2007	546,861	492,645	1,039,506
2008 - 2012	3,216,998	1,980,498	5,197,496
2013 - 2017	3,751,956	1,010,198	4,762,154
2018 - 2022	1,255,263	258,668	1,513,931
2023 - 2027	438,747	26,693	465,440
			17,595,718
Less interest			6,057,839
			$ 11,537,879

Direct Financing - The University has a direct financing lease arrangement for a portion of an educational facility being leased under a capital lease, with title delivered to the University at completion of lease. The facility sub-lease expires in 25 years. At the end of the sub-lease the sub-lessee shall have the option to purchase its leased premises for the sum of one dollar. The following lists the components of the net investment in direct financing lease as of June 30, 2002.

Total minimum lease payments to be received	$ 1,720,923
Less: unearned income	691,976
Net investment in direct financing and sales-type leases	$ 1,028,947

9. COMPENSATED ABSENCES

The composition of the compensated absence liability was as follows at June 30, 2002:

Health or life insurance benefits	$ 8,474,611
Accrued vacation leave	5,401,607
	$ 13,876,218

The cost of health and life insurance benefits paid by the University is based on a combination of years of service and age. For the year ended June 30, 2002, the amount paid by the University for extended health or life insurance coverage retirement benefits totaled approximately $ 288,620. As of June 30, 2002, there were 158 retirees currently eligible for these benefits.

10. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

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

The Commission has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The tuition and registration fees of the members of the former State University System are generally pledged as collateral for the Commission's bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. Although the bonds remain as capital obligation of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission, effective as of June 30, 2002. The total liability transferred to the University was $48,642,550.

11. RETIREMENT PLANS

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

The STRS is a cost-sharing, defined benefit public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The University's contributions to the STRS were at the rate of 15% of each enrolled employee's total annual salaries for the year ended June 30, 2002. Required employee contributions were at the rate of 6% of total annual salaries for the year ended June 30, 2002. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service or any age with 35 years of service. Lump sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest 5 years of salary out of the last 15 years) multiplied by the number of years of service.

The TIAA-CREF is a defined contribution plan in which benefits are based solely upon amounts contributed plus investment earnings. Each employee who elects to participate in this plan is required to make a contribution equal to 6% of total annual compensation. The University matches the employees' 6% contributions. Contributions are immediately and fully vested. In addition, employees may elect to make additional contributions to TIAA-CREF which are not matched by the University.

Total contributions to the STRS for the years ended June 30, 2002, 2001 and 2000 were approximately $1,418,000, $1,439,000, and $1,439,000, respectively, which consisted of approximately $1,013,000, $1,028,000, and $1,028,000, respectively, from the University and approximately $405,000, $411,000, and $411,000, respectively, from covered employees.

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

Total contributions to TIAA-CREF for the years ended June 30, 2002, 2001 and 2000 were approximately \$8,109,000, \$7,657,000, and \$7,165,000, respectively, which consisted of approximately \$4,014,000, \$3,794,000, and \$3,550,000, respectively, from the University and approximately \$4,095,000, \$3,863,000, and \$3,615,000, respectively, from covered employees.

The University's total payroll for the year ended June 30, 2002 was approximately \$83,124,000; total covered employees salaries in the STRS and TIAA-CREF were approximately \$6,754,000 and \$74,353,000, respectively.

12. FOUNDATIONS (UNAUDITED)

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

The Foundations' restricted and unrestricted fund balances totaled approximately \$ 70,172,000, at June 30, 2002. The restricted fund balance includes amounts, which are restricted by donors to use for specific projects or departments of the University and its affiliated organizations. The restricted and unrestricted fund balances related to endowments totaled approximately \$ 39,837,000 at June 30, 2002. Contributions to the Foundations, which are not reflected in the accompanying combined financial statements, totaled approximately \$ 8,646,000 for the year ended June 30, 2002.

13. AFFILIATED ORGANIZATIONS

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

14. CONTINGENCIES AND COMMITMENTS

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

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

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

15. SEGMENT INFORMATION

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

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

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

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

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

Condensed financial information for each of the University's segments is as follows:

	State of West Virginia West Virginia Board of Education University Center Revenue Bonds 1969	State of West Virginia Higher Education Interim Governing Board, University Facilities Revenue Bonds, 2001 Series A
Condensed Statement of Net Assets as of June 30, 2002		
Assets:		
Current assets	$ 1,988,893	$ 42,489,118
Noncurrent assets	3,882,247	22,244,515
Total assets	$ 5,871,140	$ 64,733,633
Liabilities:		
Current liabilities	$ 228,160	$ 2,822,196
Noncurrent liabilities	1,227,170	47,199,551
Total liabilities	1,455,330	50,021,747
Net Assets:		
Invested in capital assets, net of related debt	2,587,247	9,739,243
Restricted:		
Specific purposes by State Code	1,068,198	4,620,150
Debt service	405,625	45,635
Capital projects	300,339	254,507
Unrestricted	54,401	52,351
Total net assets and liabilities	$ 5,871,140	$ 64,733,633

	State of West Virginia West Virginia Board of Education University Center Revenue Bonds 1969	State of West Virginia Higher Education Interim Governing Board, University Facilities Revenue Bonds, 2001 Series A
Condensed Statement of Revenues, Expenses and Changes in Net Assets as of June 30, 2002		
Operating:		
Operating revenues	$ 1,244,335	$ 8,671,756
Operating expenses	(1,018,858)	(5,561,047)
Net operating income	225,477	3,110,709
Nonoperating:		
Transfers to the University	(5,226)	
Nonoperating revenues	21,753	2,160,948
Nonoperating expenses	(77,900)	(2,293,845)
Changes in net assets	164,104	2,977,812
Net assets - beginning of year (as restated)	4,251,706	11,734,074
Net assets - end of year	$ 4,415,810	$ 14,711,886
Condensed Statement of Cash Flows		
Net cash provided by operating activities	$ 364,500	$ 2,283,051
Net cash used by capital and related financing	(241,642)	(10,551,846)
Net increase (decrease) in cash and cash equivalents	122,858	(8,268,795)
Cash and cash equivalents - beginning of year	1,843,213	50,336,850
Cash and cash equivalents - end of year	$ 1,966,071	$ 42,068,055

16. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the year ended June 30, 2002, the following table represents operating expenses within both natural and functional

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Other Operating Expense	Fees Assessed by Commission	Total
Instruction	$ 41,020,364	$ 9,711,815	$ 3,869,564	$ 559	$ 32,774	$ -	$ -	$ -	$ 54,635,076
Research	4,703,459	905,728	3,145,909	256,068	3,965		22,841		9,037,970
Public service	7,235,315	1,665,026	5,373,890	252,384	76,081		95,175		14,697,871
Academic support	7,900,927	1,980,408	3,466,814	7,039					13,355,188
Student services	5,277,988	1,228,369	3,126,738						9,633,095
General institutional support	7,827,229	2,231,595	2,777,711	3,170	8,900		2,025		12,850,630
Operations and maintenance of plant	3,363,816	1,354,761	1,671,444	2,815,550					9,205,571
Student financial aid	2,554	279	5,438		10,669,660				10,677,931
Auxiliary enterprises	5,792,715	1,551,222	7,717,492	1,138,511	68,130				16,268,070
Depreciation						9,685,672			9,685,672
Other			111,998				322,582	660,600	1,095,180
Total	$ 83,124,367	$ 20,629,203	$ 31,266,998	$ 4,473,281	$ 10,859,510	$ 9,685,672	$ 442,623	$ 660,600	$ 161,142,254

******

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

To the Marshall University Governing Board:

We have audited the combined financial statements of Marshall University (the "University") as of and for the year ended June 30, 2002, and have issued our report thereon dated October 11, 2002, which contains a consistency exception for the adoption of Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities.* We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

This report is intended solely for the information and use of the Marshall University Governing Board, managements of the University and the West Virginia Higher Education Policy Commission, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

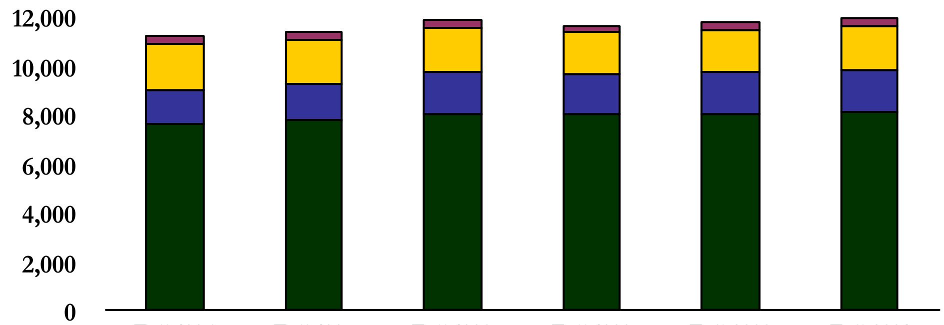
October 11, 2002

STUDENT PROFILE

For the five-year period, the headcount (FTE) has increased significantly going from 15,685 (11,153 FTE) in the Fall of 1996 to 16,038 (11,899 FTE) in the Fall of 2001. This is a five year increase of 353 (2%) in headcount and 746 (7%) FTEs.

Total Headcount			Age Distribution		
Undergraduate Headcount		11,864	Less than 24	9,050	56%
Graduate Headcount		3,975	24 to 29	2,661	17%
1st Professional Headcount		199	30 to 39	2,123	13%
Full-time headcount		*10,482*	40 to 49	1,533	10%
Part-time headcount		*5,556*	50 and older	671	4%
Residence Status			**Living Arrangements**		
In-State	13,469	84%	Residence Halls	1,726	11%
Out-of-State	2,569	16%	Commuters	14,312	89%

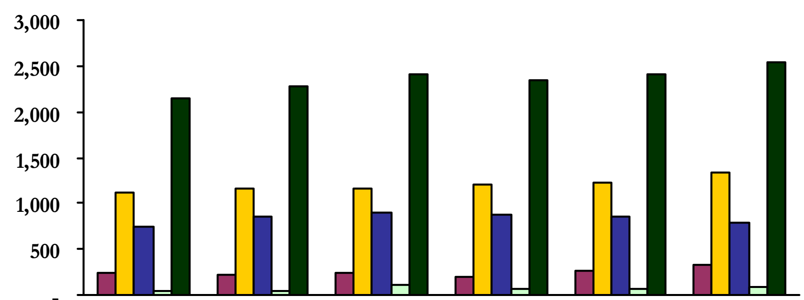
Marshall University FTE ENROLLMENT



	Fall 1996	Fall 1997	Fall 1998	Fall 1999	Fall 2000	Fall 2001
Graduate and First Professional Non-Resident	314	310	312	316	317	335
Graduate and First Professional Resident	1,867	1,761	1,797	1,674	1,688	1,732
Undergraduate Non-Resident	1,391	1,507	1,687	1,626	1,716	1,774
Undergraduate Resident	7,581	7,733	8,011	8,007	8,028	8,058
Total	11,153	11,311	11,807	11,623	11,749	11,899

DEGREES GRANTED

By Marshall University ▪ 1997-2002



	1996	1997	1998	1999	2000	2001
Associate Degree	233	227	237	206	264	333
Bachelor's Degree	1,115	1,154	1,168	1,205	1,226	1,336
Master's Degree	754	846	895	870	861	793
1st Professional, Graduate Certificate and Doctoral	49	52	100	70	64	82
Total	2,151	2,279	2,400	2,351	2,415	2,544

Higher Education Policy Commission
2001-2002

John R. Hoblitzell, Esq., chairman
Shawn R. Williams, vice chairman
J. Thomas Jones, secretary
Edith C. Altmeyer
Kay Huffman Goodman
Elliot G. Hicks, Esq.
Richard Shearer
David L. Stewart
Dr. Ron D. Stollings, M.D.

Higher Education Governing Board
2001-2002

Cathy Armstrong, chairwoman
Mike Farrell, vice chairman
William Wilmoth, vice chairman
Elaine Chiles
Terry Jones
Lewis McMarus
Robert McMillan
Jane Peters
Joseph Powell

Marshall University Board of Advisors
2001-2002

Gary G. White, chair
Mike J. Farrell, vice chair
Joseph J. Williams, secretary
Dr. Stephen E. Haid
Carol Hartley
Virginia King
Dan R. Moore
A. Michael Perry
Dr. Thomas F. Scott
Dr. Sam Sentelle
David G. Todd
Thomas Wilkerson
Dr. Marshall Onofrio, faculty representative
Sherri Noble, staff representative

ACKNOWLEDGEMENTS

The 2002 Financial Report and the included financial statements are prepared by the staff in Marshall University's Accounting Office:

Carol S. Stinson,
Senior Accountant
stinson@marshall.edu

Flo Watts,
Accountant
wattsfm@marshall.edu

Larry E. Barnhill,
Director of Accounting
barnhill@marshall.edu

Ted W. Massey,
Associate Vice President
for Finance
massey@marshall.edu

Herbert J. Karlet,
Senior Vice President
for Finance
karlet@marshall.edu
304/696-2385