

Marshall University

FINANCIAL REPORT

HUNTINGTON, WEST VIRGINIA



FISCAL YEAR
2003

CONTINUING STEWARDSHIP

The fiscal year ending June 30, 2003 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, 2003, we continue our commitment to the best possible use of the resources entrusted to us.

Sincerely,



Dan Angel
President



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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, 2003 and 2002, and for the years 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 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 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 audits provide a reasonable basis for our opinion.

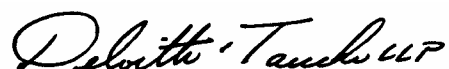
In our opinion, such combined financial statements present fairly, in all material respects, the combined financial position of the University at June 30, 2003 and 2002, and the combined changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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 3 to 10 is not a required part of the basic financial statements, but is supplementary information required by the GASB. This supplementary information is the responsibility of the University's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the University's management. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2003, 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.

A handwritten signature in cursive script that reads "Deloitte Touche LLP".

October 3, 2003

Marshall University

Management Discussion and Analysis

Fiscal Year 2003

About Marshall University

Marshall University (the “University” or the “Institution”) is one of West Virginia’s two State universities with more than 16,500 students, 700 faculty and 800 staff members. The University was founded in 1837 and achieved University status in 1961.

The University currently operates 11 colleges and schools, offering 26 associate degree programs, 43 baccalaureate degree programs, 45 master’s degree programs, 4 doctoral programs and a doctorate of medicine. Integral parts of the University, and included in the financial information presented, are the Marshall University Research Corporation (MURC), Joan C. Edwards School of Medicine and the Marshall University Community and Technical College.

Marshall University is governed by a 15-member Board of Governors that determines, controls, supervises and manages the financial, business and educational policies and affairs of the University. The Board of Governors also develops a master plan, approves the University’s budget request, reviews all academic programs offered at the Institution, and fixes tuition and other fees for the different classes or categories of students enrolled.

Overview of the Financial Statements and Financial Analysis

The emphasis of discussions about these Statements will be on FY 2003 data explaining significant changes from the financial statements presented for the year ended June 30, 2002. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and, the Statement of Cash Flows. The Governmental Accounting Standards Board (GASB) issued 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 current reporting format places emphasis on the overall economic resources of the University. FY 2003 is the second fiscal year for this reporting format and direct comparison with financial statements issued for periods prior to FY 2002 will not always be consistent. 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.

Statement of Net Assets

A Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. A Statement of Net Assets is a point in time financial statement and provides a fiscal snapshot of Marshall University. A Statement of Net Assets presents end-of-year data concerning assets (current and 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 notes to the financial statements. From the data presented, readers of a Statement of Net Assets are able to determine the assets available to continue the operations of the Institution. They are also able to determine how much the Institution owes vendors, employees, investors and others. Finally, a Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the Institution.

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the Institution’s equity in or ownership of property, plant and equipment. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. Nonexpendable restricted net assets include endowments. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for

expenditure by the Institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of these assets. 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 the Higher Education Resource Fees. The final category is unrestricted net assets. Unrestricted net assets are available to the Institution for any lawful purpose of the Institution.

Statement of Net Assets
(In thousands of dollars)

	FY 2003	FY 2002	Difference	% change
Assets:				
Current assets	\$ 70,682	\$ 64,947	\$ 5,735	8.83%
Other noncurrent assets	19,089	42,788	23,699	55.39%
Capital assets, net	<u>226,244</u>	<u>203,308</u>	22,936	11.28%
Total Assets	\$ 316,015	\$ 311,043	\$ 4,972	1.60%
Liabilities				
Current liabilities	\$ 22,966	\$ 22,209	\$ 757	3.41%
Noncurrent liabilities	<u>118,827</u>	<u>122,181</u>	3,354	2.75%
Total Liabilities	\$ 141,793	\$ 144,390	\$ 2,597	1.80%
Net Assets				
Invested in capital assets, net of debt	\$ 133,614	\$ 131,700	\$ 1,914	1.45%
Restricted - nonexpendable	176		176	
Restricted - expendable	26,618	23,393	3,225	13.79%
Unrestricted	<u>13,814</u>	<u>11,560</u>	2,254	19.50%
Total Net Assets	\$ 174,222	\$ 166,653	\$ 7,569	4.54%

Changes to Total Assets

The increase of \$5.0 million in total assets is primarily related to increased current cash balances, changes in capital assets, and activity of MURC.

Current cash and equivalents of the University increased by \$4 million and accounts receivable decreased by \$550,000. The increase in cash was related to conservative budgeting, anticipation of upcoming projects, and continued general growth of the University. The University budgets expenditures on the basis of fee increases and stable enrollment. Changes to the mix of resident and non-resident student enrollments are not predicted as part of the anticipated budget for the next fiscal year. Full time equivalent (FTE) enrollment growth of 4.8% and changes to the mix of resident and non-resident students resulted in an increase in available cash of approximately \$1 million that was not budgeted for expenditure in FY 2003. Additionally, the housing and dining operations reserved approximately \$1 million in anticipation of upcoming projects as part of the effort to improve student housing on campus. Approximately \$900,000 in cash was carried forward on June 30, 2003 for debt service payments to be paid in September 2003. Growth in University grant and contract activity accounts for approximately \$600,000 anticipated to be expended during FY 2004.

In the summer of 2001, the University sold bonds for construction of a new housing and dining complex on the Huntington campus. As cash was expended throughout the construction, the net investment in capital assets associated with this building increased. This had little impact on total assets but changed the nature of those assets. Noncurrent cash and equivalents reduced approximately \$24 million and net capital assets increased by a similar amount.

MURC total assets increased from \$21 million to \$24 million.

Changes to Total Liabilities

Total liabilities of the University reduced by \$2.6 million from FY 2002. This change is attributed to payments against outstanding debt, decreases in accounts payable, and partially offset by increases to estimated cost for compensated absences.

Principal payments of \$2.3 million were transferred to the Higher Education Policy Commission (HEPC), reducing the University's outstanding obligation associated with system-wide bond issues. Certain system-wide bonds as further described in Note 10 to the financial statements were refinanced. Capital leases outstanding were reduced by approximately \$700,000 and outstanding bond obligations were reduced by \$155,000. Additional information on bonds and capital leases can be found in Notes 7 and 8 to the financial statements.

The amount of outstanding accounts payable was reduced by approximately \$800,000. Although this number can fluctuate from one year to the next, given activity around June 30, the primary reason this liability reduced from FY 2002 to FY 2003 is the completion of a significant portion of the construction at the Marshall Commons Housing project prior to June 30, 2003.

The final significant change to the total liabilities relates to compensated absences that increased by \$850,000 from FY 2002. As described in Note 9 to the financial statements, the University records an estimated liability for annual leave and sick leave that will be paid to or on behalf of employees who separate from the University. The estimated annual leave liability is affected by factors such as use of leave during the year and salary increases. The compensated absence accrual associated with sick leave is impacted by use of leave during the year and changes to insurance premiums.

Changes to Net Assets

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

The net asset category "Invested in capital assets, net of debt" reflects overall changes to the buildings, equipment and other capital assets net of depreciation and net of the liabilities associated with those assets. During FY 2003, the investment in capital assets net of debt increased by \$1.9 million.

- Capital assets of the University increased by \$22.4 million that were offset by an increase in the net liability of \$21.0 million. Included in this increase of \$1.4 million is the portion of the housing project constructed in FY 2003.
- The net assets of MURC increased by \$500,000.

Restricted nonexpendable net assets increased by \$176,000 as the result of transfer of an endowment previously held by HEPC and transferred to the University in FY 2003.

Restricted expendable net assets increased by approximately \$3.2 million. This increase is comprised of the following significant changes:

- Net assets restricted by State code increased by approximately \$2 million. This amount reflects increased student fee revenues that were received but not budgeted for expenditure of approximately \$1 million and housing and dining reserves of approximately \$1 million.
- Sponsored projects of the University remained relatively constant but net assets of MURC within this net asset category increased by \$1.3 million.

Unrestricted net assets increased by \$2.2 million as the result of several changes including:

- Reclassification of approximately \$600,000 in funds previously believed to be restricted by State code.
- Approximately \$1.2 million related to activity of MURC.

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 this 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, appropriations from the State of West Virginia (the "State") are nonoperating because they are provided by the West Virginia Legislature to the Institution without the Legislature directly receiving commensurate goods and services for those revenues.

Operating revenues and expenses associated with the University will normally result in an operating loss for the University since a significant source of operating expenses are covered by State appropriations which are, by definition, classified as a non-operating revenue.

Statement of Revenues, Expenses and Changes in Net Assets (In thousands of dollars)

	FY 2003	FY 2002	Difference	% change
Operating revenues	\$ 113,017	\$ 101,179	\$ 11,838	11.70%
Operating expenses	<u>(173,721)</u>	<u>(163,394)</u>	10,327	6.32%
Operating gain (loss)	\$ (60,704)	\$ (62,215)	\$ 1,511	2.43%
Nonoperating revenues	\$ 70,357	\$ 74,440	\$ 4,083	5.48%
Nonoperating expenses	<u>(5,932)</u>	<u>(8,172)</u>	2,240	27.41%
Income (loss) before other revenues, expenses, gains or losses	\$ 3,721	\$ 4,053	\$ 332	8.19%
Other revenues, expenses, gains or losses	<u>\$ 3,672</u>	<u>\$ 4,810</u>	\$ 1,138	23.66%
Increase (decrease) in Net Assets before Transfers	\$ 7,393	\$ 8,863	\$ 1,470	16.59%
Transfer of asset (liability) from Policy Commission	\$ <u>176</u>	\$ <u>(48,643)</u>	\$ 48,819	100.36%
Increase (Decrease) in Net Assets	<u>\$ 7,569</u>	<u>\$ (39,780)</u>	\$ 47,349	119.03%

Operating Revenues

Tuition and fees accounted for 22.6% of the revenue received by the University in FY 2003 and 19.8% of the revenue for FY 2002. Total growth in operating revenue associated with tuition and fees amounted to \$6.6 million. Charges for tuition and fees increased approximately 9.5% and total FTE enrollment growth was approximately 4.8 % including a higher percentage increase of non-resident students.

Grants and contracts increased to \$45.3 million in FY 2003 from \$41.2 million in FY 2002. This area of revenue accounts for 25% of the revenue in FY 2003 compared to 23% in FY 2002. Fluctuations from one year to the next within the various grant sources are expected and do not significantly influence changes to the operating gain or loss since most revenue received will be expended in the current year. Of the \$4.1 million increase, \$1.3 million is associated with the University including student aid grants such as Pell. The remaining balance of \$2.8 million is associated with increased grant activity of MURC.

Operating Expenses

Expenditures for personal services including fringe benefits accounted for approximately \$6.4 million of the total increase in operating expenses. Of this increase, \$4.7 million is attributed to University expenses and the remaining \$1.7 million is related to MURC. University employees received an average raise of 3% with the balance of the increase associated with a combination of increased insurance premiums, estimated post retirement benefits and other changes to staffing during the year.

Supplies and other services increased \$1.2 million for an increase of 4%; utilities increased \$330,000 for an increase of 7%; student financial aid increased \$1.5 million for a 15% increase; and, depreciation increased \$800,000 or 8%.

Nonoperating Revenues and Expenses

The largest source of revenue to the University is an appropriation from the State that is reflected as nonoperating revenue under GASB requirements. This revenue source accounted for 37% of the budget in FY 2003 and 40% of the budget in FY 2002. Sluggish economic conditions at both the State and national level have been predicted. With slow revenue growth and rapidly increasing health care, pension costs, and other expenses at the State level, a reduction in State appropriation was ordered for all State agencies, including higher education, for FY 2003. This reduction amounted to a \$2.7 million decrease in State appropriations to the University during FY 2003. Support for the Institution from State sources continues to decline with more of the cost of education shifting to students through tuition fees that continue to rise faster than the rate of inflation.

Investment income decreased \$1.5 million from FY 2002. Of this amount, a little more than \$1 million was the result of reduced funds available for investment from the Housing and Parking Project Bonds as construction proceeded throughout the year.

Non-operating expenses decreased approximately \$2.2 million. At the end of FY 2002, the HEPC distributed \$48.6 million of system debt to the University representing the University's share of the West Virginia Higher Education System debt. In FY 2002, the principal was assessed and paid as a non-operating expense, but in FY 2003, the payment was a reduction of the recorded liability.

Income before other Revenues, Expenses and Other items

The gain or loss from the total of both operating and nonoperating revenues and expenses is reflected in the income before other revenues, expenses and other items.

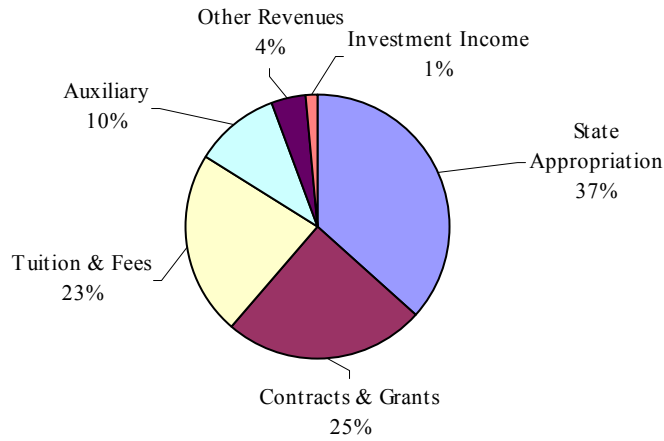
Changes to Net Assets

The increase in net assets of \$7.6 million reflects improvement in the University's general financial condition. Increased tuition and fees as well as revenue from contracts and grants helped to offset decreases in State appropriations and investment earnings. Specific net asset category changes from FY 2002 were discussed under the "Statement of Net Assets" section.

The \$48.6 million transfer of liability from the HEPC in FY 2002 represents a "one time" transfer of accumulated debt that had not been included in the University's financial Statements prior to FY 2002. This is a nonrecurring item and is further explained in Note 10 to the financial statements. The transfer of \$176,000 in FY 2003 is transfer of the Eminent Scholars program from HEPC to the University.

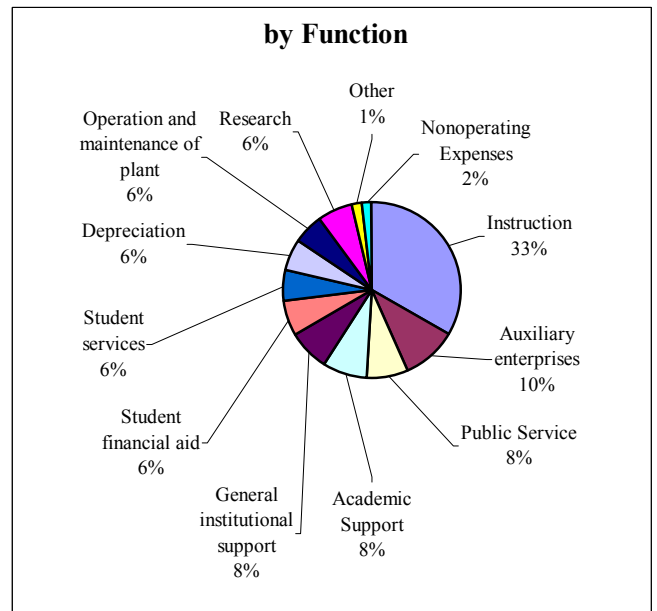
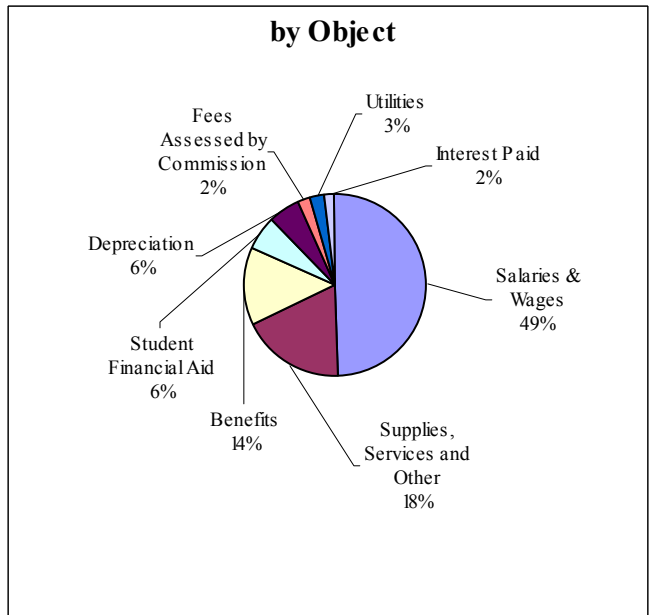
Total operating and nonoperating revenue for the University was \$183 million in FY 2003.

FY 2003 Total Operating and Nonoperating Revenues



Total operating and nonoperating expenditures of the University including MURC amounted to \$180 million in FY 2003. Expenditures are shown by primary object of expenditure and by functional classifications. Salaries, wages, and benefits account for more than 60% of the total budgeted expenditures of the University. Of the total expenditures, 33% are used for instruction. Bond payments of \$2.7 million are included in the fees assessed by HEPC.

FY 2003 Total Operating and NonOperating Expenses



Statement of Cash Flows

The final statement presented is the Statement of Cash Flows. This Statement presents detailed information about the cash activity of the Institution during the year. The Statement is divided into five parts. The first part reflects operating cash flows and shows the net cash used by the operating activities of the Institution. The second section identifies cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section describes the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fourth section provides information on cash flows from capital and related financing activities. This section identifies 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.

(In thousands of dollars)

	FY 2003	FY 2002	Difference	% change
Cash provided (used) by:				
Operating activities	\$ (47,218)	\$ (49,289)	2,071	4.20%
Noncapital financing activities	67,736	70,269	2,533	3.60%
Investing activities	2,663	3,704	1,041	28.10%
Capital and related financing activities	<u>(14,888)</u>	<u>(21,740)</u>	<u>6,852</u>	<u>31.52%</u>
Net Change in current cash	\$ 8,293	\$ 2,944	\$ 5,349	181.69%
Current cash, beginning of year	\$ 50,204	\$ 47,260	\$ 2,944	6.23%
Current cash, end of year	\$ 58,497	\$ 50,204	\$ 8,293	16.52%

The change in "Operating activities" reflects increases to tuition and fees offset by increased operating expenditures. Compared to FY 2002, the difference between the cash provided from operating activity compared to the cash used by operating activities has improved. Reflected in the "Noncapital financing activities" is the reduction of State appropriations. The category "Investing activities" was primarily impacted by reduced amounts available for investment as construction proceeded on the Housing and Parking Project Bonds. The final category of "Capital and related financing activities" reflects the change in cash available as the Housing and Parking Projects neared completion.

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 and a new housing complex for 500 students opened in the fall of 2003. In addition to ongoing maintenance of existing facilities, the addition of new facilities reflects the continued growth of the University. Planning continues for a Biotechnology Science Center 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 bonding mechanisms in the past for financing major campus improvements. The first method pledges specific revenue sources of the University to repayment of the bonds. The second method pledges specific revenue sources of the entire West Virginia Higher Education System toward repayment of the bond debt with a portion of that debt attributed to each institution within the West Virginia Higher Education System.

Two revenue bond issues have been issued for the University. The first was for construction of Memorial Student Center (1969) and the second was for construction of housing and parking facilities (2001). Both of these bonds including payment schedules are more fully described in Note 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 HEPC. 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 HEPC. Since 1992, all public colleges and universities within the West Virginia Higher Education System maintain a separate payment schedule for any projects of that campus even if consolidated with other projects for a consolidated bond issue. Payments to the HEPC of \$2.3 million for payment of principal in addition to the fees assessed by HEPC of \$2.9 million resulted in a total payment of \$5.2 million related to system-wide bonds. In addition to \$200,000 for debt service reserve requirements and other bond costs, the remaining \$5.0 million was distributed to the following bond issues:

- In 1992, West Virginia Higher Education System bonds in which the University participated were issued with a 5.99% interest rate. These bonds were refinanced in August 2003 with an all-in interest rate of 3.48%. Through prior agreement under the University System of West Virginia (predecessor to the HEPC), the University's portion of these bonds approximated 24%. The annual amount paid for this bond issue has been approximately \$2.2 million, but it is anticipated that this amount will change with the refinancing. These bonds will be retired through 2012.
- The University through the University System of West Virginia arranged for issuance of bonds in 1996 for construction of the Drinko Library. These system-wide bonds will be retired through 2016 and the annual payment is \$1.3 million.
- In 1997, the University participated in another system-wide bond issue through the University System of West Virginia for various projects, including construction of the Jomie Jazz Center, improvements to Henderson Center, and Old Main renovations. These bonds are being retired through 2027 for annual payments of approximately \$800,000.
- In 2000, the University issued system-wide bonds through the University System of West Virginia for purchase of facilities located at Cabell Huntington Hospital and associated with the University's School of Medicine. 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., the practice plan associated with the University's School of Medicine.

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 to attract and maintain non-traditional students to replace losses of traditional college-age students. Increases in non-resident students, improved facilities 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 a significant percentage of operations funded by State appropriation, the University may be vulnerable to significant downturns in the State's economy. Following a trend that has impacted many other states, Marshall University's State support budget for FY 2003-04 was 9.56% less than the original State support budget for FY 2002-03. Instructions for the initial budget document request for FY 2004-05 included a reduction of 9.6%. In line with the anticipated reductions in support from State appropriations, the University increased student fees by an average of 9.25% for FY 2003-04 and is considering other revenue enhancements and cost reduction options.

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.

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS JUNE 30, 2003 AND 2002

	2003	2002
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 58,497,230	\$ 50,204,293
Accounts receivable—net	9,953,049	12,489,285
Loans receivable (net of allowance of \$166,450 and \$109,991)	991,732	1,311,905
Inventories	844,033	739,378
Other current assets	<u>395,948</u>	<u>202,023</u>
Total current assets	<u>70,681,992</u>	<u>64,946,884</u>
Noncurrent assets:		
Cash and cash equivalents	10,593,654	34,439,539
Accounts receivable	903,931	874,227
Loans receivable (net of allowance of \$1,276,082 and \$1,075,468)	6,302,914	6,049,141
Other assets	1,288,712	1,424,264
Capital assets—net	<u>226,243,783</u>	<u>203,308,416</u>
Total noncurrent assets	<u>245,332,994</u>	<u>246,095,587</u>
TOTAL ASSETS	<u>\$316,014,986</u>	<u>\$311,042,471</u>

(Continued)

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS JUNE 30, 2003 AND 2002

	2003	2002
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 5,562,938	\$ 6,344,779
Accrued liabilities	3,664,526	3,436,784
Deferred revenue	5,807,428	5,645,728
Deposits	421,455	371,780
Compensated absences, current portion	4,359,073	3,298,053
Debt obligation to Commission, current portion	2,398,400	2,277,350
Capital lease obligations, current portion	587,351	679,905
Bonds payable, current portion	<u>165,000</u>	<u>155,000</u>
Total current liabilities	<u>22,966,171</u>	<u>22,209,379</u>
Noncurrent liabilities:		
Notes payable	40,433	26,742
Advances from federal sponsors	6,614,452	6,602,443
Compensated absences	10,372,828	10,578,165
Debt obligation to Commission	43,966,800	46,365,200
Capital lease obligations	10,247,659	10,857,974
Bonds payable	<u>47,585,000</u>	<u>47,750,000</u>
Total noncurrent liabilities	<u>118,827,172</u>	<u>122,180,524</u>
TOTAL LIABILITIES	<u>141,793,343</u>	<u>144,389,903</u>
NET ASSETS:		
Invested in capital assets, net of related debt	133,614,487	131,700,473
Restricted for:		
Nonexpendable	176,000	
Expendable:		
Specific purposes by State Code	18,661,090	16,717,607
Scholarships	49,292	50,608
Sponsored projects	5,215,086	3,880,877
Loans	1,729,336	1,729,893
Capital projects	877,181	554,845
Debt service	<u>85,559</u>	<u>458,797</u>
Total restricted expendable	<u>26,617,544</u>	<u>23,392,627</u>
Unrestricted	<u>13,813,612</u>	<u>11,559,468</u>
TOTAL NET ASSETS	<u>174,221,643</u>	<u>166,652,568</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 316,014,986</u>	<u>\$ 311,042,471</u>

See notes to combined financial statements

(Concluded)

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
OPERATING REVENUES:		
Student tuition and fees (net of scholarship allowance of \$12,232,333 and \$12,057,194)	\$ 41,408,452	\$ 34,838,799
Contracts and grants:		
Federal	31,605,141	27,585,639
State	7,064,215	7,145,107
Local	656,008	1,303,266
Private	6,000,941	5,207,280
Interest on student loans receivable	137,728	140,234
Sales and services of educational activities	272,505	224,372
Auxiliary enterprise revenue (net of scholarship allowance of \$1,221,446 and \$1,137,917)	19,035,787	18,383,642
Other operating revenues	<u>6,836,150</u>	<u>6,350,761</u>
 Total operating revenues	 <u>113,016,927</u>	 <u>101,179,100</u>
OPERATING EXPENSES:		
Salaries and wages	88,380,091	83,124,367
Benefits	24,843,690	23,664,795
Supplies and other services	32,509,756	31,266,998
Utilities	4,802,927	4,473,281
Student financial aid—scholarships and fellowships	11,607,133	10,076,093
Depreciation	10,481,983	9,685,672
Other operating expenses	434,540	442,623
Fees assessed by the Commission for operations	<u>660,600</u>	<u>660,600</u>
 Total operating expenses	 <u>173,720,720</u>	 <u>163,394,429</u>
 OPERATING LOSS	 <u>(60,703,793)</u>	 <u>(62,215,329)</u>

(Continued)

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
NONOPERATING REVENUES (EXPENSES):		
State appropriations	\$ 67,453,819	\$ 70,154,419
Gifts	329,396	177,290
Investment income	2,453,661	3,988,032
Interest on indebtedness	(3,039,795)	(2,996,008)
Fees assessed by the Commission for debt service	(2,892,051)	(5,175,951)
Other nonoperating revenues—net	<u>120,252</u>	<u>120,808</u>
Net nonoperating revenues	<u>64,425,282</u>	<u>66,268,590</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	3,721,489	4,053,261
CAPITAL GRANTS AND GIFTS	2,646,756	4,297,886
CAPITAL PROJECTS PROCEEDS FROM THE COMMISSION	<u>1,024,830</u>	<u>511,977</u>
INCREASE IN NET ASSETS BEFORE TRANSFERS	7,393,075	8,863,124
TRANSFER OF ASSET (LIABILITY) FROM THE COMMISSION	<u>176,000</u>	<u>(48,642,550)</u>
INCREASE (DECREASE) IN NET ASSETS	7,569,075	(39,779,426)
NET ASSETS—Beginning of year (as restated in 2002)	<u>166,652,568</u>	<u>206,431,994</u>
NET ASSETS—End of year	<u>\$174,221,643</u>	<u>\$166,652,568</u>
See notes to combined financial statements		(Concluded)

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 41,231,522	\$ 32,512,390
Contracts and grants	50,777,603	43,677,656
Payments to and on behalf of employees	(111,762,106)	(101,986,276)
Payments to suppliers	(36,543,683)	(32,645,483)
Payments to utilities	(4,872,927)	(4,543,281)
Payments for scholarships and fellowships	(11,733,023)	(10,859,510)
Loans issued to students	(1,478,734)	(1,566,545)
Collection of loans to students	1,102,402	1,059,129
Sales and service of educational activities	330,213	224,372
Auxiliary enterprise charges	19,017,840	18,487,408
Fees assessed by Commission	(660,600)	(660,600)
Other receipts—net	7,373,655	7,012,079
	<u>(47,217,838)</u>	<u>(49,288,661)</u>
Net cash used in operating activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	67,284,792	69,869,863
Proceeds from notes issued	1,650	1,553
Gift receipts	449,648	298,098
Advance from federal sponsor (nonoperating)		99,000
William D. Ford direct lending receipts	36,800,802	35,273,953
William D. Ford direct lending payments	(36,800,926)	(35,273,898)
	<u>67,735,966</u>	<u>70,268,569</u>
Net cash provided by noncapital financing activities		
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Payment for bond issuance costs		(35,250)
Capital grants and gifts received	2,369,683	4,297,885
Capital projects proceeds from Commission	1,207,478	337,088
Purchases of capital assets	(33,616,764)	(24,781,882)
Principal paid on bonds and leases	(828,593)	(980,786)
Interest paid on bonds and leases	(2,979,669)	(2,851,155)
Proceeds from sale of capital assets	107,517	140,552
Principal payment on debt obligation due Commission	(2,277,350)	
Fees assessed by Commission	(2,892,051)	(5,175,951)
Decrease in noncurrent cash and cash equivalents	24,021,885	7,309,535
	<u>(14,887,864)</u>	<u>(21,739,964)</u>
Net cash used in capital financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(308,478)	
Interest on investments	2,896,885	3,629,765
Lease receipts	74,266	74,266
	<u>2,662,673</u>	<u>3,704,031</u>
Net cash provided by investing activities		
INCREASE IN CURRENT CASH AND CASH EQUIVALENTS	8,292,937	2,943,975
CURRENT CASH AND CASH EQUIVALENTS—Beginning of year	<u>50,204,293</u>	<u>47,260,318</u>
CURRENT CASH AND CASH EQUIVALENTS—End of year	<u>\$ 58,497,230</u>	<u>\$ 50,204,293</u>

(Continued)

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$(60,703,793)	\$(62,215,329)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	10,481,983	9,685,672
Loss on disposal of assets	74,661	179,680
Changes in assets and liabilities:		
Accounts receivables, net	2,027,023	(1,599,692)
Loans to students—net	66,400	(406,418)
Prepaid expenses	114,553	(173,294)
Inventories	(104,656)	58,222
Accounts payable	(480,944)	2,465,886
Accrued liabilities	227,867	63,795
Compensated absences	855,684	1,863,775
Deferred revenue	161,700	627,942
Deposits held in custody for others	49,675	39,750
Advances from federal sponsors	12,009	121,350
	<u>\$(47,217,838)</u>	<u>\$(49,288,661)</u>
NET CASH USED IN OPERATING ACTIVITIES		
	<u>\$(47,217,838)</u>	<u>\$(49,288,661)</u>
NONCASH TRANSACTIONS:		
Capital lease obligation incurred for equipment	\$ 117,009	\$
	<u>117,009</u>	<u></u>
Capital gifts of equipment and buildings	\$ 199,128	\$ 1,283,974
	<u>199,128</u>	<u>1,283,974</u>
Transfer of liability from Policy Commission	\$	\$ 48,642,550
	<u></u>	<u>48,642,550</u>
See notes to combined financial statements.		(Concluded)

MARSHALL UNIVERSITY

NOTES TO COMBINED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2003 AND 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”).

Powers and duties of the Board include, but are not limited to, the power to determine, control, supervise and manage the financial, business and educational policies and affairs of the institution(s) under its jurisdiction, the duty to develop a master plan for the institution, the power to prescribe the specific functions and institution’s budget request, the duty to review at least every five years all academic programs offered at the institution, and the power to fix tuition and other fees for the different classes or categories of students enrolled at its institution.

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

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 of West Virginia (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 State 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.
- *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 an entity wide basis. The provisions of GASB Statement No. 35 have been applied to the years 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	<u>(6,382,312)</u>
Combined fund balances, restated as net assets beginning of year June 30, 2002	<u>\$ 206,431,994</u>

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.

Investments—MURC held \$308,478 in intermediate term funds comprised of high grade fixed income securities at June 30, 2003. Amount is included in other current assets.

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

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

Noncurrent Cash and Cash Equivalents—Cash, that is (1) externally restricted to make debt service payments, long-term loans to students or to maintain sinking or reserve funds, (2) to purchase capital or

other noncurrent assets and (3) permanently restricted net assets, is classified as a noncurrent asset in the 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, 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 2003 and 2002, the University received and disbursed approximately \$36,800,000 and \$35,274,000, respectively, under the Federal Direct Student Loan Program on behalf of the U.S. Department of Education, which is not included as revenue and expense on the statements of revenues, expenses and changes in net assets.

The University also distributes other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant and College Work Study programs. The activity of these programs is recorded in the accompanying combined financial statements. In 2003 and 2002, the University received and disbursed approximately \$11,008,000 and \$10,025,000, respectively, under these federal student aid programs.

Scholarship Allowances—Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the 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.

Interest Expense—The University accounts for interest on debt as an expense of the period in which it is incurred. The University does not capitalize interest on debt as part of the cost of the asset.

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 expenses 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 entities, such as those identified in Notes 12 and 13, being included in the University’s financial statements.

The GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement is effective for periods beginning after June 15, 2004. The University has not completed the process of evaluating the impact, if any, that will result from adopting GASB Statement No. 40. The statement, when adopted, could result in additional disclosure in the University’s financial statements regarding custodial credit risk, concentration of credit risk, and interest rate risk related to deposits and investments.

The GASB has also issued Statement No. 41, *Budgetary Comparison Schedule—Perspective Differences*, that clarifies existing guidance on budgetary comparisons in GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*. The University does not believe the adoption of GASB Statement No. 41 will have an effect on the financial statements.

Reclassifications—Certain amounts in the 2002 financial statements have been reclassified to conform with the 2003 presentation.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was as follows at June 30, 2003 and 2002:

	2003		
	Current	Noncurrent	Total
Cash on deposit with the State Treasurer:			
University	\$ 49,824,739	\$ 176,000	\$ 50,000,739
Municipal Bond Commission	373,905	378,827	752,732
Cash on deposit with Trustee	2,086	10,038,827	10,040,913
Cash equivalents	506,398		506,398
Cash in bank	7,753,138		7,753,138
Cash on hand	36,964		36,964
	<u>\$ 58,497,230</u>	<u>\$ 10,593,654</u>	<u>\$ 69,090,884</u>
	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
	<u>\$ 50,204,293</u>	<u>\$ 34,439,539</u>	<u>\$ 84,643,832</u>

Cash designated as held by the Municipal Bond Commission for the University represents various repair and replacement and debt service accounts trusted 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 \$23,926,630 in 2003 and \$19,804,614 in 2002 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).

MURC has \$506,398 of cash and cash equivalents held in highly liquid money market funds comprised of high grade fixed income securities at June 30, 2003.

The combined carrying amount of cash in bank at June 30, 2003 and 2002 was \$7,753,138 and \$3,593,103, respectively, as compared with the combined bank balance of \$9,430,072 and \$5,119,410, respectively. The difference is primarily caused by outstanding checks and items in transit. The bank balances are covered by federal depository insurance or are collateralized by securities held by the State's agent.

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, 2003 and 2002:

	2003		
	Current	Noncurrent	Total
Student tuition and fees, net of allowance for doubtful accounts of \$117,759	\$ 788,395	\$ -	\$ 788,395
Grants and contracts receivable, net of allowance for doubtful accounts of \$428,489	6,973,131		6,973,131
Due from the Commission	148,578		148,578
Due from other State agencies	1,232,238		1,232,238
Other accounts receivable	<u>810,707</u>	<u>903,931</u>	<u>1,714,638</u>
	<u>\$ 9,953,049</u>	<u>\$ 903,931</u>	<u>\$ 10,856,980</u>

	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	<u>1,162,909</u>	<u>874,227</u>	<u>2,037,136</u>
	<u>\$ 12,489,285</u>	<u>\$ 874,227</u>	<u>\$ 13,363,512</u>

5. CAPITAL ASSETS

The following is a summary of capital asset transactions for the University for the years ended June 30, 2003 and 2002:

	2003				Ending Balance
	Beginning Balance	Additions	Reductions	Other	
Capital assets not being depreciated:					
Land	\$ 18,661,489	\$ 273,061	\$ -	\$ -	\$ 18,934,550
Antiques and artwork (inexhaustible)	132,107				132,107
Construction in progress	<u>16,740,286</u>	<u>27,000,505</u>	<u> </u>	<u>(9,191,378)</u>	<u>34,549,413</u>
Total capital assets not being depreciated	<u>35,533,882</u>	<u>27,273,566</u>	<u> </u>	<u>(9,191,378)</u>	<u>53,616,070</u>
Other capital assets:					
Land improvements	1,522,704				1,522,704
Infrastructure	11,426,479	41,803	(65,716)		11,402,566
Buildings	201,578,734			9,191,378	210,770,112
Equipment	48,881,695	5,997,293	(2,806,112)		52,072,876
Library books	<u>7,149,257</u>	<u>433,153</u>	<u>(9,855)</u>	<u> </u>	<u>7,572,555</u>
Total other capital assets	<u>270,558,869</u>	<u>6,472,249</u>	<u>(2,881,683)</u>	<u>9,191,378</u>	<u>283,340,813</u>
Less accumulated depreciation for:					
Land improvements	511,873	101,514			613,387
Infrastructure	7,705,453	509,082	(65,716)		8,148,819
Buildings	60,855,674	3,940,026			64,795,700
Equipment	27,670,940	5,560,155	(2,477,647)		30,753,448
Library books	<u>6,040,395</u>	<u>371,206</u>	<u>(9,855)</u>	<u> </u>	<u>6,401,746</u>
Total accumulated depreciation	<u>102,784,335</u>	<u>10,481,983</u>	<u>(2,553,218)</u>	<u> </u>	<u>110,713,100</u>
Other capital assets—net	<u>\$ 203,308,416</u>	<u>\$ 23,263,832</u>	<u>\$ (328,465)</u>	<u>\$ -</u>	<u>\$ 226,243,783</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 35,533,882	\$ 27,273,566	\$ -	\$ (9,191,378)	\$ 53,616,070
Other capital assets	<u>270,558,869</u>	<u>6,472,249</u>	<u>(2,881,683)</u>	<u>9,191,378</u>	<u>283,340,813</u>
Total cost of capital assets	306,092,751	33,745,815	(2,881,683)		336,956,883
Less accumulated depreciation	<u>(102,784,335)</u>	<u>(10,481,983)</u>	<u>2,553,218</u>	<u> </u>	<u>(110,713,100)</u>
Capital assets—net	<u>\$ 203,308,416</u>	<u>\$ 23,263,832</u>	<u>\$ (328,465)</u>	<u>\$ -</u>	<u>\$ 226,243,783</u>

	2002				Ending Balance
	Beginning Balance	Additions	Reductions	Other	
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	<u>3,296,929</u>	<u>16,246,539</u>		<u>\$ (2,803,182)</u>	<u>16,740,286</u>
Total capital assets not being depreciated	<u>21,179,993</u>	<u>17,157,071</u>	<u>-</u>	<u>(2,803,182)</u>	<u>35,533,882</u>
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	<u>6,865,785</u>	<u>357,372</u>	<u>(73,900)</u>		<u>7,149,257</u>
Total other capital assets	<u>263,334,419</u>	<u>7,711,060</u>	<u>(3,289,792)</u>	<u>2,803,182</u>	<u>270,558,869</u>
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	<u>5,760,886</u>	<u>353,409</u>	<u>(73,900)</u>		<u>6,040,395</u>
Total accumulated depreciation	<u>95,981,973</u>	<u>9,685,672</u>	<u>(2,883,310)</u>	<u>-</u>	<u>102,784,335</u>
Other capital assets—net	<u>\$ 188,532,439</u>	<u>\$ 15,182,459</u>	<u>\$ (406,482)</u>	<u>\$ -</u>	<u>\$ 203,308,416</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 21,179,993	\$ 17,157,071	\$ -	\$ (2,803,182)	\$ 35,533,882
Other capital assets	<u>263,334,419</u>	<u>7,711,060</u>	<u>(3,289,792)</u>	<u>2,803,182</u>	<u>270,558,869</u>
Total cost of capital assets	284,514,412	24,868,131	(3,289,792)	-	306,092,751
Less accumulated depreciation	<u>(95,981,973)</u>	<u>(9,685,672)</u>	<u>2,883,310</u>		<u>(102,784,335)</u>
Capital assets—net	<u>\$ 188,532,439</u>	<u>\$ 15,182,459</u>	<u>\$ (406,482)</u>	<u>\$ -</u>	<u>\$ 203,308,416</u>

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

Title for certain real property is with the Commission.

6. CHANGES IN LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions for the University for the years ended June 30, 2003 and 2002:

	2003				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and capital leases:					
Revenue bonds payable, including unexpended funds of \$10,038,827 at June 30, 2003	\$ 47,905,000	\$ -	\$ (155,000)	\$ 47,750,000	\$ 165,000
Capital leases payable	<u>11,537,879</u>	<u>117,009</u>	<u>(819,878)</u>	<u>10,835,010</u>	<u>587,351</u>
Total bonds and capital leases	<u>59,442,879</u>	<u>117,009</u>	<u>(974,878)</u>	<u>58,585,010</u>	<u>752,351</u>
Other long-term liabilities:					
Notes payable	26,742	13,691		40,433	
Accrued compensated absences	13,876,218	4,978,511	(4,122,828)	14,731,901	4,359,073
Advances from Federal sponsors	6,602,443	91,375	(79,366)	6,614,452	
Debt obligation to Commission	<u>48,642,550</u>	<u> </u>	<u>(2,277,350)</u>	<u>46,365,200</u>	<u>2,398,400</u>
Total long-term liabilities	<u>\$ 128,590,832</u>	<u>\$ 5,200,586</u>	<u>\$ (7,454,422)</u>	<u>\$ 126,336,996</u>	<u>\$ 7,509,824</u>
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	<u>12,368,665</u>	<u> </u>	<u>(830,786)</u>	<u>11,537,879</u>	<u>679,905</u>
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	<u> </u>	<u>48,642,550</u>	<u> </u>	<u>48,642,550</u>	<u>2,277,350</u>
Total long-term liabilities	<u>\$ 78,843,390</u>	<u>\$ 54,006,749</u>	<u>\$ (4,259,307)</u>	<u>\$ 128,590,832</u>	<u>\$ 6,410,308</u>

Additional information regarding bonds payable is included in Note 7. Additional information regarding leases payable is included in Note 8. Additional information regarding the debt obligation to Commission is included in Note 10.

7. BONDS

Bonds payable consisted of the following at June 30, 2003 and 2002:

	Original Interest Rate	2003		2002	
		Annual Principal Installment Due	Principal Amount Outstanding	Annual Principal Installment Due	Principal Amount Outstanding
University Center Revenue Bonds due through 2009	4%-6%	\$ 165,000 to \$ 215,000	\$ - 1,140,000	\$ 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	 <u>46,610,000</u>	\$ 895,000 to \$ 3,035,000	 <u>46,610,000</u>
			<u>\$47,750,000</u>		<u>\$47,905,000</u>

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

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

The above bond issues are specific to the University, although the bonds were also issued in the name of the Board or the State itself. As debt service is required on these bond issues, the University remits the funds to either the State's Municipal Bond Commission or a commercial bank for payment to the trustee of the bond issue and the bondholders. Mandatory debt service transfers are recorded as the funds are so remitted. The Municipal Bond Commission or a commercial bank may hold certain cash and cash equivalents (see Note 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, 2003 is as follows:

Year Ending June 30	University Center		University Facilities		Total Principal	Total Interest
	Principal	Interest	Principal	Interest		
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	205,000	20,900	1,000,000	2,187,926	1,205,000	2,208,826
2009-2013	215,000	8,600	5,685,000	10,262,562	5,900,000	10,271,162
2014-2018			7,230,000	8,717,756	7,230,000	8,717,756
2019-2023			9,310,000	6,637,856	9,310,000	6,637,856
2024-2028			11,910,000	4,034,494	11,910,000	4,034,494
2029-2033			8,685,000	882,500	8,685,000	882,500
Total	<u>\$ 1,140,000</u>	<u>\$ 224,100</u>	<u>\$ 46,610,000</u>	<u>\$ 41,798,711</u>	<u>\$ 47,750,000</u>	<u>\$ 42,022,811</u>

8. LEASES

Operating—Future annual minimum lease payments on operating leases for years subsequent to June 30, 2003 are as follows:

Year Ending June 30	
2004	\$ 415,002
2005	278,892
2006	217,488
2007	213,454
2008	215,409
2009 - 2013	<u>127,873</u>
	<u>\$1,468,118</u>

Total rent expense for the years ended June 30, 2003 and 2002 was \$603,420 and \$564,680, respectively.

Capital—The University leases various equipment and buildings through capital leases. At June 30, 2003 and 2002, leased equipment with a net book value of \$139,882 and \$240,029, respectively, and leased buildings with a net book value of \$13,347,132 and \$13,517,469, respectively, are included in equipment and buildings.

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

In December 1996, the University entered into a lease agreement with the MUGC Foundation for an academic center to be used by the Marshall University Graduate College. The construction of the

academic center was financed by the MUGC Foundation through the issuance of governmental revenue bonds. Effective September 1, 1997, the MUGC Foundation leased the academic center to the University for 20 years. Upon expiration of the lease term, the University will have the right to purchase the academic center for a sum equal to the amount required to redeem or otherwise satisfy or defease the MUGC Foundation's bonds on the date of such purchase.

Future annual minimum lease payments for years subsequent to June 30, 2003 are as follows:

June 30	Principal	Interest	Total
2004	\$ 587,531	\$ 555,929	\$ 1,143,460
2005	562,878	521,835	1,084,713
2006	545,015	491,266	1,036,281
2007	566,059	463,316	1,029,375
2008	595,356	434,011	1,029,367
2009-2013	3,472,864	1,673,982	5,146,846
2014-2018	3,354,690	717,667	4,072,357
2019-2023	915,623	198,368	1,113,991
2024-2028	234,994	7,649	<u>242,643</u>
			15,899,033
Less interest			<u>5,064,023</u>
			<u>\$10,835,010</u>

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, 2003 and 2002.

	2003	2002
Total minimum lease payments to be received	\$ 1,646,657	\$ 1,720,923
Less: unearned income	<u>640,374</u>	<u>691,976</u>
Net investment in direct financing and sales-type leases	<u>\$ 1,006,283</u>	<u>\$ 1,028,947</u>

9. COMPENSATED ABSENCES

The composition of the compensated absence liability was as follows at June 30, 2003 and 2002:

	2003	2002
Health or life insurance benefits	\$ 9,309,652	\$ 8,474,611
Accrued vacation leave	<u>5,422,249</u>	<u>5,401,607</u>
	<u>\$ 14,731,901</u>	<u>\$ 13,876,218</u>

The cost of health and life insurance benefits paid by the University is based on a combination of years of service and age. For the years ended June 30, 2003 and 2002, the amount paid by the University for

extended health or life insurance coverage retirement benefits totaled approximately \$298,360 and \$288,620, respectively. As of June 30, 2003 and 2002, there were 147 and 158 retirees, respectively, receiving 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 during fiscal 2002 was \$48,642,550.

Payments to the Commission for the 2003 and 2002 years were \$5,169,401 and \$5,175,951, respectively, which consisted of \$2,277,350 and \$2,162,425 in principal, and \$2,892,051 and \$3,013,526 in interest and other related charges, respectively. Certain bonds issued by the Commission were refinanced in August 2003 at a lower interest rate.

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 years ended June 30, 2002 and 2003, respectively. Required employee contributions were at the rate of 6% of total annual salaries for the years ended June 30, 2003 and 2002, respectively. 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, 2003, 2002, and 2001 were approximately \$1,431,000, \$1,418,000, and \$1,439,000, respectively, which consisted of approximately \$1,022,000, \$1,013,000, and \$1,028,000 from the University and approximately \$409,000, \$405,000, and \$411,000 from covered employees, respectively.

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

Total contributions to TIAA-CREF for the years ended June 30, 2003, 2002, and 2001 were approximately \$8,638,000, \$8,109,000, and \$7,657,000, respectively, which consisted of approximately \$4,265,000, \$4,014,000, and \$3,794,000 from the University and approximately \$4,373,000, \$4,095,000, and \$3,863,000 from covered employees, respectively.

The University's total payroll for the years ended June 30, 2003 and 2002 was approximately \$88,380,000 and \$83,124,000, respectively; total covered employees salaries in the STRS and TIAA-CREF were approximately \$6,815,000 and \$6,754,000 and \$72,464,000 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 \$73,105,000 and \$70,172,000, respectively, at June 30, 2003 and 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 \$45,860,000 and \$39,837,000, respectively, at June 30, 2003 and 2002. Contributions to the Foundations, which are not reflected in the accompanying combined financial statements, totaled approximately \$8,074,000 and \$8,646,000, respectively, for the year ended June 30, 2003 and 2002. During the years ended June 30, 2003 and 2002, the Foundations contributed \$6,188,000 and \$6,488,000, respectively, to the University for scholarships, academic assistance and fundraising.

13. AFFILIATED ORGANIZATIONS

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

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 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.

At June 30, 2003, the University had outstanding contractual commitments of approximately \$6,336,000 for property, plant and equipment expenditures.

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	
	2003	2002	2003	2002
Condensed Statement of Net Assets as of June 30,				
ASSETS:				
Current assets	\$ 2,029,423	\$ 1,988,893	\$ 17,738,688	\$ 42,489,118
Noncurrent assets	<u>3,792,343</u>	<u>3,882,247</u>	<u>47,728,884</u>	<u>22,244,515</u>
Total assets	<u>\$5,821,766</u>	<u>\$5,871,140</u>	<u>\$65,467,572</u>	<u>\$64,733,633</u>
LIABILITIES:				
Current liabilities	\$ 263,420	\$ 228,160	\$ 2,574,727	\$ 2,822,196
Noncurrent liabilities	<u>1,064,608</u>	<u>1,227,170</u>	<u>47,158,550</u>	<u>47,199,551</u>
Total liabilities	<u>1,328,028</u>	<u>1,455,330</u>	<u>49,733,277</u>	<u>50,021,747</u>
NET ASSETS:				
Invested in capital assets, net of related debt				
Restricted:				
Specific purposes by State Code				
Debt service	1,120,714	1,068,198	4,910,658	4,620,150
Capital projects	415,812	405,625	(352,205)	45,635
Unrestricted	304,869	300,339		254,507
		<u>54,401</u>		<u>52,351</u>
Total net assets and liabilities	<u>\$5,821,766</u>	<u>\$5,871,140</u>	<u>\$65,467,572</u>	<u>\$64,733,633</u>

**Condensed Statement of Revenues, Expenses
and Changes in Net Assets as of June 30,**

	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	
	2003	2002	2003	2002
OPERATING:				
Operating revenues	\$ 1,337,389	\$ 1,244,335	\$ 10,213,792	\$ 8,671,756
Operating expenses	<u>(1,097,516)</u>	<u>(1,018,858)</u>	<u>(8,714,558)</u>	<u>(7,429,983)</u>
Net operating income	<u>239,873</u>	<u>225,477</u>	<u>1,499,234</u>	<u>1,241,773</u>
NONOPERATING:				
Transfers (to) from the University	(104,359)	(5,226)	831,182	1,868,936
Nonoperating revenues	11,164	21,753	1,060,263	2,160,948
Nonoperating expenses	<u>(68,750)</u>	<u>(77,900)</u>	<u>(2,368,270)</u>	<u>(2,293,845)</u>
CHANGES IN NET ASSETS	77,928	164,104	1,022,409	2,977,812
NET ASSETS—Beginning of year (as restated)	<u>4,415,810</u>	<u>4,251,706</u>	<u>14,711,886</u>	<u>11,734,074</u>
NET ASSETS—End of year	<u>\$ 4,493,738</u>	<u>\$ 4,415,810</u>	<u>\$ 15,734,295</u>	<u>\$ 14,711,886</u>
Condensed Statement of Cash Flows				
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 305,481	\$ 364,500	\$ 1,481,985	\$ 2,283,051
NET CASH USED BY CAPITAL AND RELATED FINANCING	<u>(274,671)</u>	<u>(241,642)</u>	<u>(26,076,316)</u>	<u>(10,551,846)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	30,810	122,858	(24,594,331)	(8,268,795)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>1,966,071</u>	<u>1,843,213</u>	<u>42,068,055</u>	<u>50,336,850</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 1,996,881</u>	<u>\$ 1,966,071</u>	<u>\$ 17,473,724</u>	<u>\$ 42,068,055</u>

16. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2003 and 2002, the following table represents operating expenses within both natural and functional classifications:

	2003							
	Salaries and Wages	Benefits	Supplies and Other Services	Scholarships and Fellowships	Depreciation	Other Operating Expense	Fees Assessed by Commission	Total
Instruction	\$43,681,265	\$11,590,761	\$ 4,331,024	\$ 495	\$ -	\$ -	\$ -	\$ 59,650,574
Research	5,464,094	1,735,646	3,746,379	226,579	(25,564)			11,154,431
Public service	7,314,795	1,879,530	4,133,817	279,987	89,785	14,167		13,712,081
Academic support	8,585,134	2,380,486	3,307,758	5,858				14,279,236
Student services	5,594,254	1,679,185	2,959,054	125				10,232,618
General institutional support	8,221,795	2,375,883	2,971,100	1,833				13,570,611
Operations and maintenance of plant	3,534,179	1,295,495	2,333,853	3,031,575				10,195,102
Student financial aid	4,747	201	305					11,469,721
Auxiliary enterprises	5,979,828	1,906,503	8,726,466	1,256,475				17,867,826
Depreciation				(1,446)	10,481,983			10,481,983
Other					445,937		660,600	1,106,537
Total	<u>\$88,380,091</u>	<u>\$24,843,690</u>	<u>\$32,509,756</u>	<u>\$11,607,133</u>	<u>\$10,481,983</u>	<u>\$434,540</u>	<u>\$660,600</u>	<u>\$173,720,720</u>
2002								
	Salaries and Wages	Benefits	Supplies and Other Services	Scholarships and Fellowships	Depreciation	Other Operating Expense	Fees Assessed by Commission	Total
Instruction	\$41,020,364	\$11,187,113	\$ 3,869,564	\$ 32,774	\$ -	\$ -	\$ -	\$ 56,110,374
Research	4,703,459	1,524,989	3,145,909	3,965		22,841		9,657,231
Public service	7,385,050	1,812,458	5,491,294	76,081		95,175		15,112,442
Academic support	7,900,927	2,208,077	3,466,814					13,582,857
Student services	5,272,157	1,550,142	3,132,569					9,954,868
General institutional support	7,914,652	2,245,049	2,535,148	8,900		2,025		12,708,944
Operations and maintenance of plant	3,132,489	1,354,761	1,902,771					9,205,571
Student financial aid	2,554	279	5,437					9,894,514
Auxiliary enterprises	5,792,715	1,781,927	7,717,492	9,886,243				16,498,775
Depreciation				68,130	9,685,672			9,685,672
Other					322,582		660,600	983,182
Total	<u>\$83,124,367</u>	<u>\$23,664,795</u>	<u>\$31,266,998</u>	<u>\$10,076,093</u>	<u>\$9,685,672</u>	<u>\$442,623</u>	<u>\$660,600</u>	<u>\$163,394,429</u>

* * * * *



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, 2003 and 2002, and have issued our report thereon dated October 3, 2003, 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.

A handwritten signature in cursive script that reads "Deloitte & Touche LLP".

October 3, 2003

MARSHALL UNIVERSITY
ADDITIONAL INFORMATION—COMPONENT FINANCIAL DATA
SCHEDULE OF CASH, RECEIVABLES, AND PAYABLES INFORMATION
JUNE 30, 2003

	Community and Technical College	Four-Year and Other Components	Combined Institution
SELECTED ASSET CATEGORIES			
Cash and cash equivalents—current	\$4,106,602	\$54,390,628	\$58,497,230
Cash and cash equivalents—non-current		10,593,654	10,593,654
Accounts receivable—current	584,816	9,368,233	9,953,049
Accounts receivable—non-current	<u> </u>	<u>903,931</u>	<u>903,931</u>
TOTAL	<u>\$4,691,418</u>	<u>\$75,256,446</u>	<u>\$79,947,864</u>
SELECTED LIABILITY CATEGORIES			
Accounts payable—current	\$ 229,232	\$ 5,333,706	\$ 5,562,938
Accrued liabilities—current	<u>34,570</u>	<u>3,629,956</u>	<u>3,664,526</u>
TOTAL	<u>\$ 263,802</u>	<u>\$ 8,963,662</u>	<u>\$ 9,227,464</u>

See note to additional information—component financial data.

MARSHALL UNIVERSITY**ADDITIONAL INFORMATION—COMPONENT FINANCIAL DATA****SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS INFORMATION****YEAR ENDED JUNE 30, 2003**

	Community and Technical College	Four-Year and Other Components	Combined Institution
OPERATING REVENUES:			
Student tuition and fees (net of scholarship allowance of \$1,646,965, \$10,585,368, and \$12,232,333)	\$ 2,302,993	\$ 39,105,459	\$ 41,408,452
Contracts and grants:			
Federal	1,949,785	29,655,356	31,605,141
State	948,724	6,115,491	7,064,215
Local		656,008	656,008
Private	187,971	5,812,970	6,000,941
Interest on student loans receivable	11,313	126,415	137,728
Sales and services of educational activities		272,505	272,505
Auxiliary enterprise revenue (net of scholarship allowance of \$-0-, \$1,221,446, and \$1,221,446)	215,370	18,820,417	19,035,787
Other operating revenues	<u>936,030</u>	<u>5,900,120</u>	<u>6,836,150</u>
Total operating revenues	<u>6,552,186</u>	<u>106,464,741</u>	<u>113,016,927</u>
OPERATING EXPENSES:			
Salaries and wages	4,857,409	83,522,682	88,380,091
Benefits	1,252,190	23,591,500	24,843,690
Supplies and other services	1,812,581	30,697,175	32,509,756
Utilities	247,266	4,555,661	4,802,927
Student financial aid—scholarships and fellowships	1,342,353	10,264,780	11,607,133
Depreciation/building and equipment use	586,000	9,895,983	10,481,983
Other operating expenses		434,540	434,540
Fees assessed by the Commission for operations	<u>65,539</u>	<u>595,061</u>	<u>660,600</u>
Total operating expenses	<u>10,163,338</u>	<u>163,557,382</u>	<u>173,720,720</u>
OPERATING LOSS	<u>(3,611,152)</u>	<u>(57,092,641)</u>	<u>(60,703,793)</u>

(Continued)

MARSHALL UNIVERSITY

ADDITIONAL INFORMATION—COMPONENT FINANCIAL DATA SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS INFORMATION YEAR ENDED JUNE 30, 2003

	Community and Technical College	Four-Year and Other Components	Combined Institution
NONOPERATING REVENUES (EXPENSES):			
State appropriations	\$ 5,695,154	\$ 61,758,665	\$ 67,453,819
Gifts		329,396	329,396
Investment income	175,538	2,278,123	2,453,661
Interest on indebtedness		(3,039,795)	(3,039,795)
Fees assessed by the Commission for debt servic		(2,892,051)	(2,892,051)
Other nonoperating revenues—net		<u>120,252</u>	<u>120,252</u>
Net nonoperating revenues	<u>5,870,692</u>	<u>58,554,590</u>	<u>64,425,282</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	2,259,540	1,461,949	3,721,489
CAPITAL GRANTS AND GIFTS		2,646,756	2,646,756
CAPITAL PROJECTS PROCEEDS FROM THE COMMISSION		<u>1,024,830</u>	<u>1,024,830</u>
INCREASE IN NET ASSETS BEFORE TRANSFERS	2,259,540	5,133,535	7,393,075
TRANSFERS-INCLUDING DEBT, AUXILIARY AND STUDENT ACTIVITY	(1,206,022)	1,206,022	
TRANSFER OF ASSET (LIABILITY) FROM POLICY COMMISSION		<u>176,000</u>	<u>176,000</u>
INCREASE (DECREASE) IN NET ASSETS	1,053,518	6,515,557	7,569,075
NET ASSETS—Beginning of year	<u>2,945,472</u>	<u>163,707,096</u>	<u>166,652,568</u>
NET ASSETS—End of year	<u>\$ 3,998,990</u>	<u>\$ 170,222,653</u>	<u>\$ 174,221,643</u>

See note to additional information—component financial data.

MARSHALL UNIVERSITY

ADDITIONAL INFORMATION - COMPONENT FINANCIAL DATA SCHEDULE OF NATURAL CLASSIFICATIONS WITHIN FUNCTIONAL CLASSIFICATIONS INFORMATION YEAR ENDED JUNE 30, 2003

	Community & Technical College								Total
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Other Operating Expenses	Fees Assessed by Commission	
Instruction	\$ 2,428,598	\$ 511,561	\$ 650,035	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,590,194
Research									
Public service	402,076	86,571	168,945	4,158					661,750
Academic support	787,143	244,313	416,046						1,447,502
Student services	302,402	90,771	161,827						555,000
General institutional support	646,695	212,490	239,815						1,099,000
Operations and maintenance of plant	290,495	106,484	175,913	243,108					816,000
Student financial aid					1,342,353				1,342,353
Auxiliary enterprises									
Depreciation						586,000			586,000
Other								65,539	65,539
Total	\$ 4,857,409	\$ 1,252,190	\$ 1,812,581	\$ 247,266	\$ 1,342,353	\$ 586,000	\$ -	\$ 65,539	\$ 10,163,338

	Four Year and Other Components								Total
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Other Operating Expenses	Fees Assessed by Commission	
Instruction	\$41,252,667	\$11,079,200	\$ 3,680,989	\$ 495	\$ 47,029	\$ -	\$ -	\$ -	\$ 56,060,380
Research	5,464,094	1,735,646	3,746,379	226,579	7,297		(25,564)		11,154,431
Public service	6,912,719	1,792,959	3,964,872	275,829	89,785		14,167		13,050,331
Academic support	7,797,991	2,136,173	2,891,712	5,858					12,831,734
Student services	5,291,852	1,588,414	2,797,227	125					9,677,618
General institutional support	7,575,100	2,163,393	2,731,285	1,833					12,471,611
Operations and maintenance of plant	3,243,684	1,189,011	2,157,940	2,788,467					9,379,102
Student financial aid	4,747	201	305		10,122,115				10,127,368
Auxiliary enterprises	5,979,828	1,906,503	8,726,466	1,256,475	(1,446)				17,867,826
Depreciation						9,895,983			9,895,983
Other							445,937	595,061	1,040,998
Total	\$83,522,682	\$23,591,500	\$30,697,175	\$4,555,661	\$ 10,264,780	\$ 9,895,983	\$434,540	\$ 595,061	\$ 163,557,382

	Combined Institution								Total
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Other Operating Expenses	Fees Assessed by Commission	
Instruction	\$43,681,265	\$11,590,761	\$ 4,331,024	\$ 495	\$ 47,029	\$ -	\$ -	\$ -	\$ 59,650,574
Research	5,464,094	1,735,646	3,746,379	226,579	7,297		(25,564)		11,154,431
Public service	7,314,795	1,879,530	4,133,817	279,987	89,785		14,167		13,712,081
Academic support	8,585,134	2,380,486	3,307,758	5,858					14,279,236
Student services	5,594,254	1,679,185	2,959,054	125					10,232,618
General institutional support	8,221,795	2,375,883	2,971,100	1,833					13,570,611
Operations and maintenance of plant	3,534,179	1,295,495	2,333,853	3,031,575					10,195,102
Student financial aid	4,747	201	305		11,464,468				11,469,721
Auxiliary enterprises	5,979,828	1,906,503	8,726,466	1,256,475	(1,446)				17,867,826
Depreciation						10,481,983			10,481,983
Other							445,937	660,600	1,106,537
Total	\$88,380,091	\$24,843,690	\$32,509,756	\$4,802,927	\$ 11,607,133	\$ 10,481,983	\$434,540	\$ 660,600	\$ 173,720,720

See note to additional information - component financial data

MARSHALL UNIVERSITY

NOTE TO ADDITIONAL INFORMATION - COMPONENT FINANCIAL DATA YEARS ENDED JUNE 30, 2003 AND 2002

1. COMMUNITY AND TECHNICAL COLLEGE

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

Tuition fees, registration fees, student activity fees, student center operations fees and similar fees are recorded as CTC revenue based on the student's classification. These fees are used for general institutional activities (including debt service on bonds, major capital projects, and student center operations) that are utilized by the entire institution and for which operational expenditures are not attributed to the CTC. All revenue from these sources is transferred to other areas of the University and recorded as part of the non-mandatory transfers to the University from CTC.

Higher education resource fees (H.E.R.F), library computing fees, institutional operation fees, specific course fees and similar fees are collected on the basis of student classification, specific course or specific activity directly associated with the CTC and are maintained by the CTC to meet operational and instructional costs. State appropriations are also maintained by the CTC to meet both direct and indirect operational and instructional costs.

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

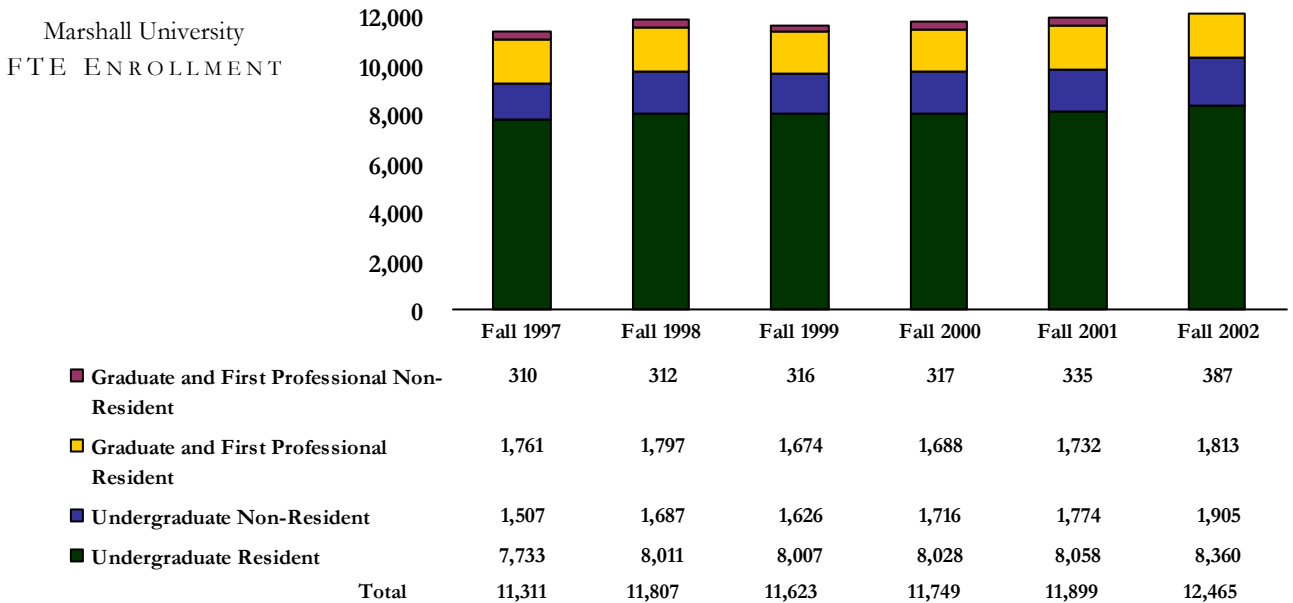
A percentage of the total institutional operating costs related to overall operations including building and ground maintenance, purchasing, registration, accounts payable, computing services and similar activities are recorded as a cost recovery from the CTC based on estimates and recorded in both functional and natural classifications. The CTC share of the general University operating expenses are calculated through the use of cost pools following generally accepted cost allocation methods. Examples of the estimates made for this cost recovery are as follows:

- Cost of operations of central offices associated with student registration, fee assessment or collection, and similar activities are based on a percentage of the number of students enrolled in the CTC compared to overall enrollment (14%).
- Cost of central operations associated with purchasing, accounting, budgeting and similar activities is based on the direct expenditures by CTC as a percentage of total expenditures (7%).
- Cost of offices associated with personnel services and similar activities is based on staff of the CTC as a percentage of total staff (4%).
- Cost of other activities associated with indirect support of CTC activities is based on number of full time equivalent students enrolled in CTC compared to overall enrollment (11%).

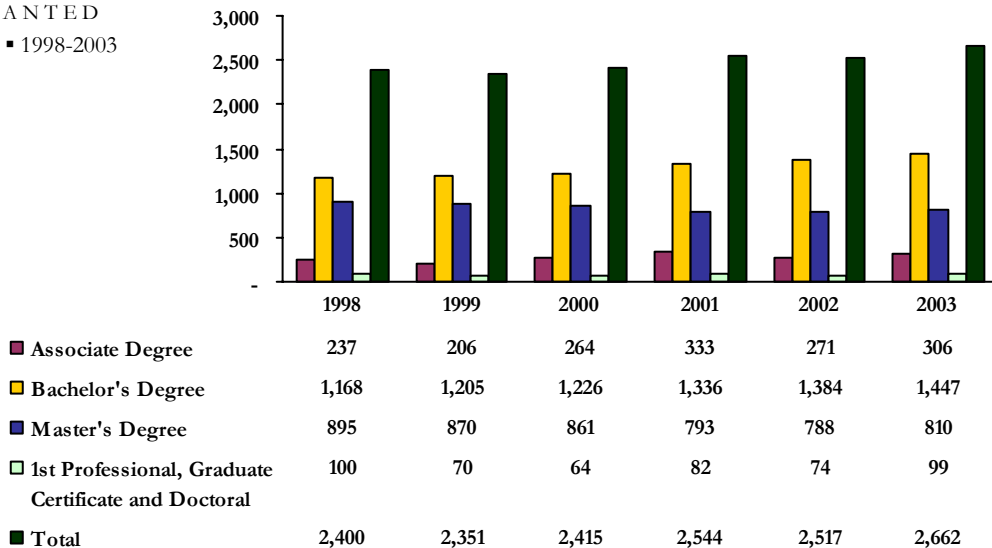
STUDENT PROFILE

For the five-year period, the headcount (FTE) has increased significantly going from 15,690 (11,312 FTE) in the Fall of 1997 to 16,551 (12,466 FTE) in the Fall of 2002. This is a five year increase of 861(5%) in headcount and 1,154 (9%) FTEs.

Total Headcount		Age Distribution			
Undergraduate Headcount	12,222	Less than 24	9,179	56%	
Graduate Headcount	4,130	24 to 29	2,856	17%	
1 st Professional Headcount	199	30 to 39	2,261	14%	
<i>Full-time headcount</i>	<i>11,025</i>	40 to 49	1,535	9%	
<i>Part-time headcount</i>	<i>5,526</i>	50 and older	720	4%	
Residence Status		Living Arrangements			
In-State	13,808	83%	Residence Halls	1,776	11%
Out-of-State	2,743	17%	Commuters	14,775	89%



DEGREES GRANTED
By Marshall University ■ 1998-2003



HIGHER EDUCATION ADMINISTRATION

Higher Education Policy Commission 2002-2003

J. Thomas Jones, chairman
Mary Clare Eros, Esq., vice chairman
Elliot G. Hicks, secretary
Mr. R. Ken Hall
Kay Huffman Goodwin
John R. Hoblitzell, Esq.
Terry R. Sammons, Esq.
Dr. David L. Stewart
Mrs. Shawn R. Williams
J. Michael Mullen, Chancellor

Marshall University Board of Governors 2002-2003

Gary G. White, chairman
A. Michael Perry, vice chairman
Joseph L. Williams, secretary
Carol Hartley
Menis Ketchum
Virginia King
Dr. Thomas F. Scott
Dr. Sam Sentelle
Robert Shell, Jr.
David Todd
Thomas D. Wilkerson

Sherri Noble, Classified Staff Representative
Dr. Marshall Onofrio, Faculty Representative
Cory Dennison, Student Representative

ACKNOWLEDGEMENTS

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and the included financial
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