WE ARE . . .
MARSHALL

MARSHALL UNIVERSITY

FINANCIAL REPORT

For year ending
June 30, 2005

One John Marshall Drive
Huntington, WV 25755

CONTINUING STEWARDSHIP

This binder contains the complete financial statements and the independent auditors' report pertaining to the fiscal year concluding on June 30, 2005 for Marshall University. The information contained in this report affirms our continuing dedication to effective stewardship of University resources.

Each fiscal year presents new as well as recurring challenges. Responsible stewardship is a sacred trust that we earn each day. Our goal is to generate the greatest value for each dollar spent. In doing so, we continue our commitment to balancing university priorities, programs, services and business practices in ways that make the greatest use of the resources entrusted to us.

Sincerely,

Stephen J. Kopp
President

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Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Governing Board of Marshall University:

We have audited the accompanying statements of net assets of Marshall University (the "University") as of June 30, 2005 and 2004 and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the management of the University. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the discretely presented financial statements of The Marshall University Foundation, Inc. (a component unit of the University). Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the discretely presented financial statements of The Marshall University Foundation, Inc., is based solely on the report of such other auditors.

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. The Marshall University Foundation, Inc.'s financial statements, which were audited by other auditors, were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and the discretely presented component unit of the University as of June 30, 2005 and 2004, and the respective changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 to 12 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the University's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the University's 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 12, 2005, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should considered in assessing the results of our audit.

Deloitte & Touche LLP

October 12, 2005

Marshall University
Management Discussion and Analysis
Fiscal Year 2005

About Marshall University

Marshall University (the "University" or the "Institution") is one of West Virginia's State universities. The University was founded in 1837 and achieved University status in 1961. Integral parts of the Institution, and included in the financial information presented, are the Marshall University Research Corporation (MURC), Joan C. Edwards School of Medicine (SOM) and the Marshall Community and Technical College (MCTC). MURC has a separately presented financial statement which can be referenced for additional information about changes to that organization. MCTC is a separately accredited institution, administratively linked to the University for which additional information is provided immediately following the notes to the financial statements.

Marshall University is governed by a 16-member Board of Governors (the "Board") that determines, controls, supervises and manages the financial, business and educational policies and affairs of the Institution. The Board of Governors also develops a master plan, approves the Institution'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.

The University, including MCTC and SOM, has more than 16,000 students, 730 faculty and 804 staff members. The Institution currently operates 13 colleges and schools, offering 24 associate degree programs, 44 baccalaureate degree programs, 41 master's degree programs, 5 doctoral programs and a doctorate of medicine.

Overview of the Financial Statements and Financial Analysis

The emphasis of discussions about these Statements will be on FY 2005 data explaining significant changes from the financial statements presented for the year ended June 30, 2004. 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) issues directives for presentation of college and University financial statements. The reporting format prior to FY 2002 presented financial balances and activities by fund groups. The current reporting format places emphasis on the overall economic resources of the University. Direct comparison with financial statements issued for periods prior to FY 2002 will not always be consistent. The GASB Statement No. 39 "Determining Whether Certain Organizations are Component Units" became effective for financial statement periods beginning after June 15, 2003. Detailed financial information of the Marshall University Foundation, which is controlled and managed by an independent 501(c) (3) corporation with a separate independent Board of Directors, is included. The University does not control these resources.

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 non-current), liabilities (current and non-current), and net assets (assets minus liabilities). Current assets and liabilities are typically associated with resources or obligations that will be used within the fiscal year. Non-current assets and liabilities are not typically used within the fiscal year. 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, lenders 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 for FY 2003 are balances designated in West Virginia State Code. Changes to WV State Code in FY 2004 removed these designations. The final category is unrestricted net assets. Unrestricted net assets are available for general use by the Institution.

Net Assets
(In thousands of dollars)

	FY 2005	FY 2004	FY 2003	Percentage Difference FY 04 to 05	Percentage Difference FY 03 to 04
Assets:					
Current assets	$ 80,979	$ 74,852	$ 70,682	8.2%	5.9%
Other noncurrent assets	18,442	16,587	19,089	11.2%	13.1%
Capital assets, net	258,715	236,577	226,244	9.4%	4.6%
Total Assets	$ 358,136	$ 328,016	$ 316,015	9.2%	3.8%
Liabilities					
Current liabilities	$ 30,225	$ 27,674	$ 22,966	9.2%	20.5%
Noncurrent liabilities	108,841	114,048	118,827	4.6%	4.0%
Total Liabilities	$ 139,066	$ 141,722	$ 141,793	1.9%	0.1%
Net Assets					
Invested in capital assets, net of debt	$ 166,923	$ 141,113	$ 133,614	18.3%	5.6%
Restricted - nonexpendable	176	176	176	0.0%	0.0%
Restricted - expendable	13,130	9,178	26,618	43.1%	65.5%
Unrestricted	38,841	35,827	13,814	8.4%	159.4%
Total Net Assets	$ 219,070	$ 186,294	$ 174,222	17.6%	6.9%

Changes to Total Assets

Total assets of the Institution increased by $30.1 million in FY 2005 compared to increases of approximately $12 million in FY 2004. The increase of $30.1 million in total assets in FY 2005 is primarily related to increases in cash, accounts receivable, capital assets, MURC assets, and a decrease in loans receivable.

Total current and non-current cash and cash equivalents of the University excluding MURC increased approximately $800,000. Cash balances associated with auxiliary operations were reduced $3.8 million, of which $2.5 million was expended for residence hall renovations. Cash balances of the CTC increased $1.6 million associated with student fees. The School of Medicine cash increased $3.1 million of which $1.8 million is attributed to increased private grants and contracts and $1.2 million is associated with student fees. The cash balances of the general University other than CTC and School of Medicine decreased $70,000.

Accounts receivable of the University excluding MURC increased approximately $2 million. This increase is attributed to appropriations and reimbursements from the Higher Education Policy Commission (the "Commission" or "HEPC") which were appropriated or allocated in FY 2005 but received in FY 2006. Included in this amount is approximately $600,000 associated with projects funded by Lottery Bond proceeds and $700,000 associated with an appropriation received late in the fiscal year for property purchases concluded in FY 2006. Appropriations receivable from the State for amounts not expended at June 30 increased by $550,000. Student receivables increased $650,000 as a result of changes to the Federal requirements for repayment of financial aid when classes are dropped and delays in contract payments. Other receivables decreased $500,000 due to more timely collections.

Loans receivable of the University decreased approximately $200,000 due to the increase in students electing to consolidate their loans through outside lending agencies and thereby paying off their loans with the University.

Increases of approximately $22 million in Capital Assets included $18.3 million for the construction of the Biotechnology Science Center and approximately $2 million for the Clinical Outreach Facility. Total assets of MURC increased $5.5 million.

Changes to Total Liabilities

Total liabilities decreased by $2.7 million in FY 2005 compared to a decrease of $71,000 in FY 2004. The primary changes to liabilities in FY 2005 are related to Debt to Commission, capital leases, bonds payable, compensated absences and MURC.

Long term debt decreased by approximately $4 million. Continued repayment of the University's portion of system wide bond obligations of the Commission reduced liabilities by $2.8 million, but the Debt Due to Commission allocation was increased by $250,000 during FY 2005. Capital lease obligations including the Mid-Ohio Valley Center building and buildings on the South Charleston campus further reduced liabilities by $450,000. Principal payments of $1.1 million on bonds issued by the University further reduced the total liabilities outstanding.

Compensated absences are a combination of annual leave accumulations and sick leave accumulations that may convert to pay insurance benefits upon retirement as further described in Note 2 of the financial statements. This liability can fluctuate from year to year based on annual and sick leave used and changes to salaries and insurance premium rates. In FY 2005, the University's annual leave liability increased $413,000 and sick leave estimated to convert to pay health insurance premiums decreased $125,000.

Total liabilities of MURC increased $1.1 million.

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 Institution 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. Investment in capital assets net of related debt increased $25.8 million in FY 2005. This amount consists of land, buildings, equipment, and similar assets with a total net increase of $28.4 million, reduced by the net addition to accumulated depreciation of $6.4 million and increased by $3.7 million by the net decrease of debt liability related to these assets. During FY 2004, the invested in capital assets-net of related debt increased by $7.5 million.

The net assets-invested in capital assets of MURC increased $150,000 in FY 2005, consisting of equipment less accumulated depreciation.

Total restricted net assets increased approximately $4 million. Sponsored projects of the University remained relatively constant but net assets "Restricted – Expendable" of MURC increased by $3.9 million. Endowments are recorded as restricted nonexpendable net assets.

The Unrestricted Net Asset balance of $38.8 million in FY 2005 represents an approximate $3 million increase over FY 2004. The University's increase in unrestricted net assets of $2.6 million consisted of a $1.5 million increase for the School of Medicine, a $1.7 million increase for the Community and Technical College, a $1.1 million increase for the general University and a $1.7 million decrease for the auxiliaries.

The MURC Unrestricted Net Assets increased $430,000.

In the spring of 2004, the WV Legislature removed certain restrictive language from State code resulting in a redistribution of Net Assets to other classifications. Of the $22.4 million increase to the Unrestricted Net Asset balance in FY 2004, $18.7 million would have been classified as unrestricted assets in FY 2003 using the State code definition applicable to FY 2004 balances.

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

	FY 2005	FY 2004	FY 2003	Percentage Difference FY 04 to 05	Percentage Difference FY 03 to 04
Operating revenues	$ 145,286	$ 128,050	$ 113,017	13.5%	13.3%
Operating expenses	(194,414)	(180,328)	(173,721)	7.8%	3.8%
Operating gain (loss)	$ (49,128)	$ (52,278)	$ (60,704)	6.0%	13.9%
Nonoperating revenues	$ 63,464	$ 64,767	$ 70,357	2.0%	7.9%
Nonoperating expenses	(5,433)	(5,123)	(5,932)	6.1%	13.6%
Income (loss) before other revenues, expenses, gains or losses	$ 8,903	$ 7,366	$ 3,721	20.9%	98.0%
Other revenues, expenses, gains or losses	$ 24,123	$ 4,564	$ 3,672	428.5%	24.3%
Increase (decrease) in Net Assets before Transfers	$ 33,026	$ 11,930	$ 7,393	176.8%	61.4%
Transfer of asset (liability) from Policy Commission	(250)	142	176	276.1%	19.3%
Increase (decrease) in Net Assets	$ 32,776	$ 12,072	$ 7,569	171.5%	59.5%

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 non-operating, and the expenses paid by the Institution, operating and non-operating, 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 non-operating revenues. For example, appropriations from the State of West Virginia (the "State") are non-operating 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.

Operating Revenues

Operating revenues increased to $145.3 million in FY 2005 for an increase of $17.2 million or 13.5% from FY 2004. Operating revenues increased approximately $15 million or 13.3% in FY 2004. These increases are primarily from tuition and fee revenue, revenue from grants and contracts, and auxiliary revenue. Tuition and fee revenue in FY 2005 was $47.6 million for an increase of $4.2 million as compared to an increase in FY 2004 of approximately $2 million. Tuition and fees accounted for 22.8% of the revenue received by the University in FY 2005 and 22.5% in FY 2004. Charges for tuition and fees increased approximately 11% in FY 2005 and 9.25% in FY 2004. Total FTE enrollment decreased by 1.4% in FY 2005 and increased by 1.6% in FY 2004, with the number of non-resident students increasing by approximately 1% in FY 2005 and 2.3% in FY 2004. Enrollment fees increased $2.3 million for the general University, $296,000 for CTC and $370,000 for the School of Medicine. E-course fees increased $1.4 million offset by a decrease of $200,000 in other miscellaneous fees.

Grants and contracts increased to $65.2 million in FY 2005 compared to $55.5 million in FY 2004. This area of revenue accounts for 31% of the revenue in FY 2005 and 29% of revenue in FY 2004. 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. The $9.7 million increase in FY 2005 reflects the growing importance of grants to the University including the impact of the PROMISE Scholarship program. University grants and contracts increased $6.6 million with a $270,000 decrease in federal, a $2.1 million increase in State - primarily due to PROMISE scholarships, and a $4.8 million increase in private grants and contracts of the School of Medicine. MURC grants and contracts, net of eliminations, increased $3.1 million in FY 2005.

Auxiliary revenue increased $2.7 million, primarily due to the collection of $1.5 million in equity fees in FY 2005.

Operating Expenses

Operating expenses increased to $194.4 million in FY 2005 as compared to $180.3 million in FY 2004 for an increase of $14.1 million or 7.8%. In 2004, the increase was $6.6 million or 3.8%.

Expenditures for personal services including salaries, wages and fringe benefits were $122.4 million in FY 2005 for an increase of $7.3 million or 6.3%. 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. Personal services expenses at MURC increased $1.4 million in FY 2005. Personal services accounted for 61.4% of total operating expenses in FY 2005 compared to 63.8% in FY 2004.

Supplies and other services increased to $39.2 million for an increase of $4.8 million or 13.9%. Of this increase, $4.7 million is related to the University including increases of $2.1 million in the School of Medicine which includes amounts associated with private grants, Athletics increase of $760,000 related to bowl games and ticket guarantees, increase of $250,000 related to Enrollment Management promotions and marketing, and approximately $250,000 increase for E-courses. MURC supplies and other services net of eliminating entries increased $62,000.

Utilities in FY 2005 increased to $5.8 million for a 7.4% increase or $400,000. Gas usage increased $340,000 or 30% over FY 2004.

Student financial aid increased to $14.2 million in FY 2005 for an increase of approximately $1 million primarily attributed to the PROMISE Scholarship program.

Non-operating Revenues and Expenses

Non-operating revenues for FY 2005 were $63.5 million which was a decrease of $1.3 million or 2% from FY 2004. The most significant change to the non-operating revenue relates to reductions of State appropriations.

The largest source of revenue to the University is an appropriation from the State that is reflected as non-operating revenue under GASB requirements. Actual State appropriations decreased by approximately $2 million or 3.4% in FY 2005 but the indirect appropriation to the University through the WV Department of Health and Human Services increased by $800,000 which lessened the impact of reduced State appropriation to $1.2 million. The direct State appropriation of $57.2 million and indirect State appropriation of approximately $4 million results in the total amount of State appropriations of $61.2 million for FY 2005. State Appropriations in FY 2004 were $62.4 million in total which consisted of $59.2 million direct and $3.2 million indirect.

State appropriations accounted for 29% of the budget in FY 2005 and 32% of the budget in FY 2004. With slow revenue growth and rapidly increasing health care, pension costs, and other expenses at the State level, reductions in State appropriation were ordered for all State agencies, including higher education, for both FY 2005 and FY 2004. An improving State economy in the last half of FY 2005 helped to avoid a further reduction. Declines in support for the Institution from State sources has resulted in more of the cost of education shifting to students through tuition fees that have been rising faster than the rate of inflation.

Gift revenue in FY 2005 was $880,000. This was a decrease of $600,000 from the $1.5 million in FY 2004. In FY 2004, there was an approximate $1 million gift from the MU Foundation related to the capital lease for the Athletic

Facilities Building. In FY 2005, there was a $400,000 gift from the MU Foundation related to the stadium turf replacement.

Investment income was up $700,000 to $1.4 million in FY 2005. This increase is primarily related to interest distributions associated with the State's investment pool. Information on the investment pool of the State is discussed further in Notes 2 and 3 to the financial statements.

Non-operating expenditures for FY 2005 were $5.4 million which was an increase of $300,000 or 6.1% from FY 2004. Other non-operating expenses increased $500,000 offset by a decrease of $200,000 related to a reduction in interest associated with system-wide bonds issued through the Commission.

Income before other Revenues, Expenses and Other items

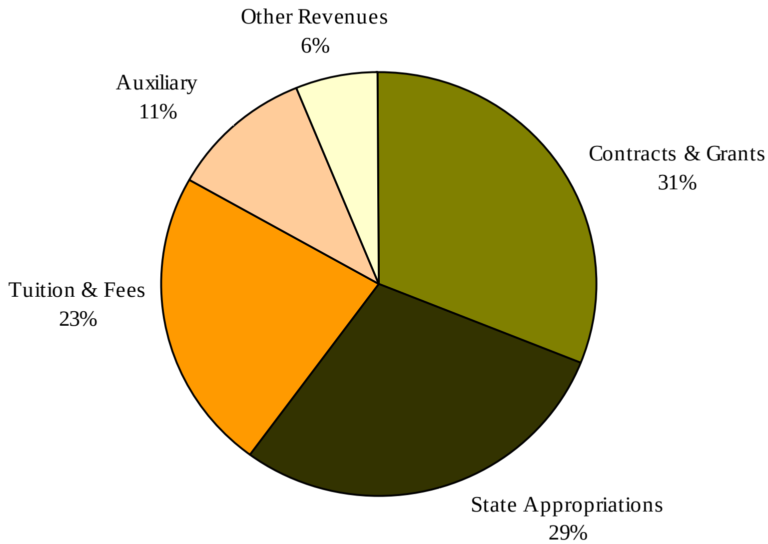
The gain or loss from the total of both operating and non-operating revenues and expenses is reflected in the income before other revenues, expenses and other items. In FY 2005, the income was $8.9 million for the Institution. Of this total, the University, including Marshall Community and Technical College, had income of $4.2 million in FY 2005 and $4.5 million in FY 2004. MURC, net of eliminations, had income of $4.7 million and $2.9 million for FY 2005 and 2004, respectively.

Changes to Net Assets

The increase in net assets of $32.8 million reflects improvement in the Institution's general financial condition. Increased tuition and fees, contracts and grants, and investment earnings helped to offset decreases in State appropriations. Specific net asset category changes from FY 2004 were discussed under the "Statement of Net Assets" section.

The $142,100 in FY 2004 is the reduction in liability attributable to the Commission bond refinancing in FY 2004. The $250,000 in FY 2005 is the increase in liability attributable to the Commission refinancing in FY 2005.

FY 2005 Total Operating and Non-operating Revenues

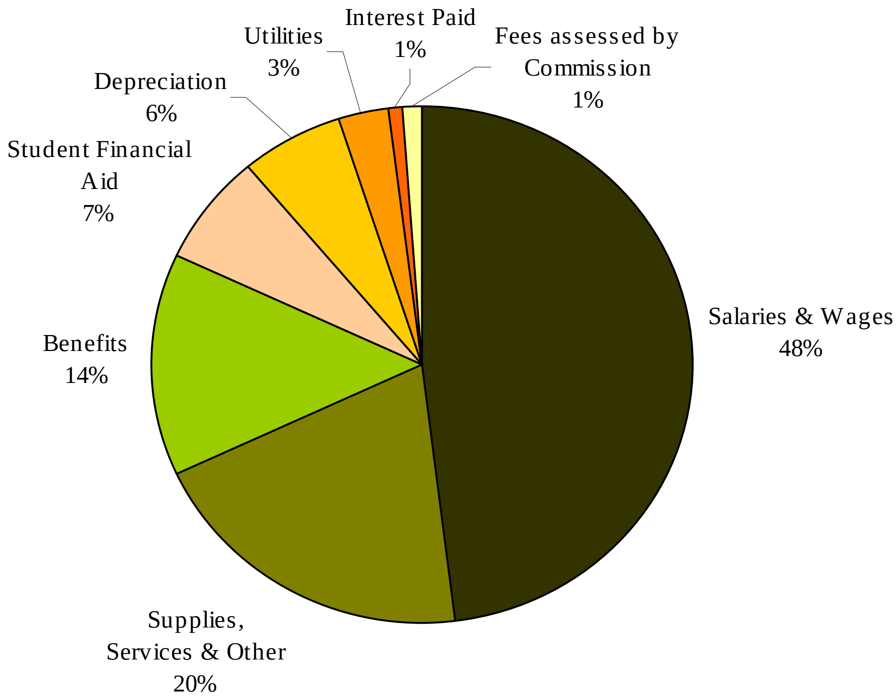


Total operating and non-operating revenue for the Institution was $208.7 million in FY 2005 as compared to approximately $193 million in FY 2004.

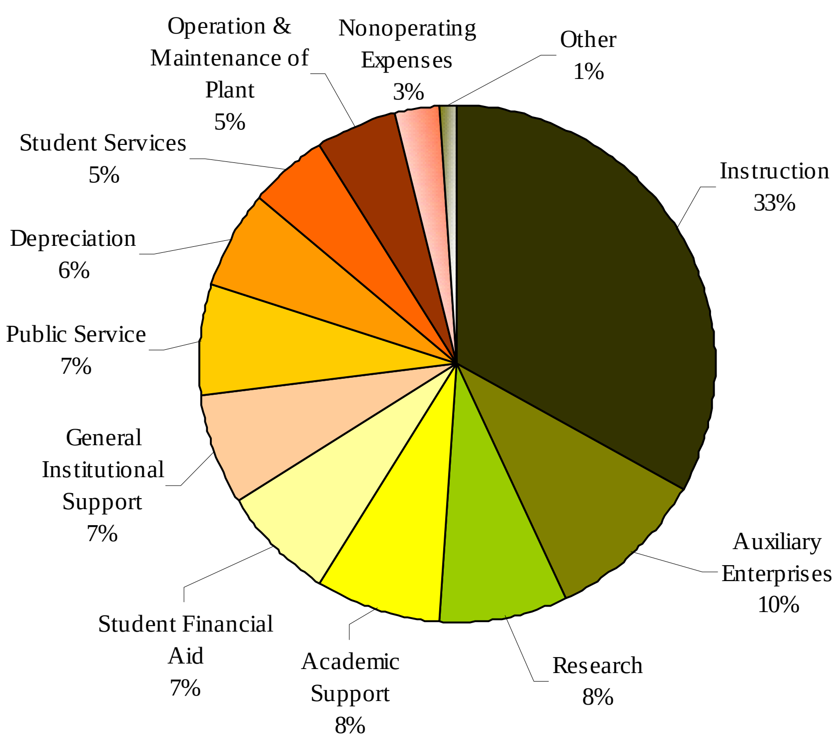
Total operating and non-operating expenditures of the Institution amounted to $199.8 million in FY 2005 as compared to $185.5 million in FY 2004. Expenditures are shown by primary object of expenditure and by functional classifications. Salaries, wages, and benefits account for more than 62% of the total budgeted expenditures of the Institution. Of the total expenditures, 33% are used for instruction. Interest payments on system-wide debt of approximately $2 million are included in the fees assessed by the Commission.

FY 2005 Total Operating and Non-operating Expenses

By Object



By Function



Cash Flows
(In thousands of dollars)

	FY 2005	FY 2004	FY 2003	Percentage Difference FY 04 to 05	Percentage Difference FY 03 to 04
Cash provided (used) by:					
Operating activities	$ (37,856)	$ (37,767)	$ (47,218)	0.2%	20.0%
Noncapital financing activities	61,513	63,384	67,736	3.0%	6.4%
Investing activities	1,312	(2,572)	2,663	151.0%	196.6%
Capital and related financing activities	(22,861)	(18,710)	(14,888)	22.2%	25.7%
Net Change in current cash	$ 2,108	$ 4,335	$ 8,293	51.4%	47.7%
Current cash, beginning of year	$ 62,832	$ 58,497	$ 50,204	7.4%	16.5%
Current cash, end of year	$ 64,940	$ 62,832	$ 58,497	3.4%	7.4%

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 non-operating, 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.

The change in "Operating activities" reflects increases to cash collections for tuition and fees, grants, auxiliaries, and other operating revenues, offset by increased cash disbursements for operating expenditures. Although operating revenues increased, the increase in accounts receivable in FY 2005 represents a reduction in cash received increasing the cash used by operating activities. Reflected in the "Noncapital financing activities" is the reduction of State appropriations. The category "Investing activities" was primarily impacted by increased interest earnings on the State investment pool and the initial purchase of investments by MURC in FY 2004. The final category of "Capital and related financing activities" reflects the change in cash available as the Biotechnology Science Center and other construction projects are completed and increased payments on bonds and leases.

Capital Asset and Debt Administration

The University continues to expand its facilities. In addition to ongoing maintenance of existing facilities, the addition of new facilities reflects the continued growth of the University. The Robert C. Byrd Biotechnology Science Center is under construction on 3rd Avenue in Huntington. The total project cost for this facility is approximately $48 million funded primarily by federal and state grants.

The University is also participating in a system-wide bond issue of HEPC. West Virginia Lottery Commission revenues will be used to pay the debt service of this issue. Bond proceeds of $30.5 million available to the University will be used for biotechnology facilities, student health and wellness center, community college facilities, other facilities and major improvements to existing facilities.

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. 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 combined bond issue. Principal payments to the HEPC of $2.8 million, interest assessed by HEPC of approximately $2 million, and fees assessed for debt service reserve and other bond costs of $123,000 resulted in a total payment of $4.9 million related to system-wide bonds. Total principal and interest payments were distributed to the following bond issues:

- West Virginia Higher Education System bonds of 2003 (Series A) in which the University participated were the result of refinancing of bonds originally issued in 1992. 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 is $2.1 million. 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. A portion of these bonds was refinanced in August 2004 as part of another system-wide bond issue of HEPC. These system-wide bonds will be retired through 2016 and the annual payment is $1.2 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 $840,000.
- 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 and 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.
- During FY 2005 the University participated in a system-wide bond issue of HEPC. Repayment of these bonds is through lottery sales of the State of West Virginia. Tuition and fees of all public colleges and universities in West Virginia have been pledged to the retirement of these bonds in the event lottery sales are insufficient to meet bond payments. No liability from this bond issue is expected to be assessed to the University by HEPC in FY 2005, but $30.5 million of these bond proceeds are dedicated to projects at the University.

Economic Outlook

The number of high school graduates in the State continues to decline but 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. The University is placing additional emphasis on retention of all students and for recruitment of out-of-state students. An increase in non-resident student headcount of 1% over FY 2004 is viewed as positive related to the image of the University. Improved facilities and favorable comparison of fee structures with peer institutions along with the growth of non-resident enrollment numbers indicate that the University will be able to remain competitive for new and returning students.

Electronic courses are another primary source of revenue for the University, with annual revenue increasing from $1.9 million to $3.3 million in the past two years. It is anticipated this revenue stream will continue to grow as the University expands its ability to reach students wherever Internet service is available.

A significant percentage of the University's operations are funded by State appropriations so the University may be vulnerable to significant downturns in the State's economy. The University's State support budget for FY 2005 was

3.4 % less than the direct appropriation for FY 2004. As a positive indicator, the State appropriation for FY 2006 was increased approximately 2.7% over FY 2005. Following a trend that has impacted many other states, Marshall University's State support budget for FY 2004 was 7.5% less than the original State support budget for FY 2003. In line with the anticipated reductions in support from State appropriations, the University increased general student fees by an average of 3.15 % for FY 2006, 11% for FY 2005 and 9.25% for FY 2004. For FY 2005, the University implemented a $100 per semester equity fee to support Title IX athletic programs as well as program and laboratory fees to support specific academic programs and colleges.

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 ability to adequately compensate personnel to recruit and maintain quality faculty and staff is an ongoing challenge with tight budgets and uncertain future economic conditions. Medical malpractice insurance premiums are 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 Institution's budget.

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2005 AND 2004

	2005	2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 64,939,675	$ 62,831,938
Accounts receivable—net	13,580,750	9,826,597
Loans receivable	779,835	1,016,857
Inventories	788,393	769,140
Other current assets	890,647	406,957
Total current assets	80,979,300	74,851,489
NONCURRENT ASSETS:		
Cash and cash equivalents	6,429,490	4,164,259
Accounts receivable	849,871	876,591
Loans receivable (net of allowance of $1,472,907 and $1,296,652) in 2005 and 2004, respectively	6,196,894	6,565,166
Investments	3,818,034	3,763,465
Other assets	1,147,270	1,217,992
Capital assets—net	258,715,530	236,577,024
Total noncurrent assets	277,157,089	253,164,497
TOTAL	$358,136,389	$328,015,986

(Continued)

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2005 AND 2004

	2005	2004
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 8,844,474	$ 7,178,484
Accrued liabilities	4,364,789	4,101,380
Deferred revenue	6,304,134	6,928,023
Deposits	510,683	469,680
Compensated absences—current portion	5,395,417	4,568,348
Debt obligation to Commission—current portion	2,725,000	2,556,300
Capital lease obligations—current portion	966,109	802,085
Bonds payable—current portion	1,115,000	1,070,000
Total current liabilities	30,225,606	27,674,300
NONCURRENT LIABILITIES:		
Notes payable	41,594	51,358
Advances from federal sponsors	6,689,000	6,948,568
Compensated absences	9,797,436	10,307,553
Debt obligation to Commission	38,268,275	40,968,275
Capital lease obligations	8,644,711	9,256,887
Bonds payable	45,400,000	46,515,000
Total noncurrent liabilities	108,841,016	114,047,641
Total liabilities	139,066,622	141,721,941
NET ASSETS:		
Invested in capital assets—net of related debt	166,922,564	141,112,864
Restricted for:		
Nonexpendable	176,000	176,000
Expendable:		
Scholarships	67,315	57,378
Sponsored projects	10,169,607	6,206,488
Loans	2,132,746	1,935,533
Capital projects	211,241	416,082
Debt service	549,248	562,218
Total restricted expendable	13,130,157	9,177,699
Unrestricted	38,841,046	35,827,482
Total net assets	219,069,767	186,294,045
TOTAL	$358,136,389	$328,015,986

See notes to combined financial statements. (Concluded)

MARSHALL UNIVERSITY

THE MARSHALL UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2005 AND 2004

	2005	2004
ASSETS		
Cash and cash equivalents	$ 3,009,990	$ 4,572,337
Interest receivable	3,583	3,583
Notes receivable	669,489	1,404,567
Unconditional promises to give, less allowance for uncollectible promises of $657,935 and $257,847 in 2005 and 2004, respectively	5,056,683	6,581,493
Contributions receivable from Remainder Trusts	728,605	954,307
Investments	76,363,508	65,046,693
Net investment in direct financing leases	337,559	455,890
Property and equipment—net	1,116,447	1,356,104
Property on operating lease	412,500	545,350
Cash surrender value—life insurance, net of policy loans	146,867	146,867
Total assets	$87,845,231	$81,067,191
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	$ 188,694	$ 308,150
Notes payable	689,050	850,083
Annuity payment liability	381,477	381,477
Total liabilities	1,259,221	1,539,710
NET ASSETS:		
Unrestricted	15,249,237	15,439,265
Temporarily restricted	27,089,912	21,542,711
Permanently restricted	44,246,861	42,545,505
Total Net Assets	86,586,010	79,527,481
Total Liabilities and Net Assets	$87,845,231	$81,067,191

The accompanying notes are an integral part of the financial statements

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
OPERATING REVENUES:		
Student tuition and fees, net of scholarship allowance of $17,771,162 and $15,751,669 in 2005 and 2004, respectively	$ 47,648,262	$ 43,423,513
Contracts and grants:		
Federal	39,070,859	36,762,535
State	14,106,552	11,617,023
Local	767,453	809,973
Private	11,311,831	6,321,177
Interest on student loans receivable	115,234	140,269
Sales and services of educational activities	309,048	264,917
Auxiliary enterprise revenue, net of scholarship allowance of $2,618,449 and $2,247,827 in 2005 and 2004, respectively	23,058,753	20,285,096
Other operating revenues	8,897,597	8,425,310
Total operating revenues	145,285,589	128,049,813
OPERATING EXPENSES:		
Salaries and wages	95,307,563	89,631,914
Benefits	27,090,727	25,449,632
Supplies and other services	39,236,047	34,437,032
Utilities	5,755,629	5,358,256
Student financial aid—scholarships and fellowships	14,217,065	13,157,602
Depreciation	12,077,349	11,587,535
Other operating expenses	41,343	45,614
Fees assessed by the Commission for operations	687,912	660,600
Total operating expenses	194,413,635	180,328,185
OPERATING LOSS	(49,128,046)	(52,278,372)

(Continued)

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
NONOPERATING REVENUES (EXPENSES):		
State appropriations	$ 61,191,375	$ 62,427,203
Gifts	878,596	1,483,503
Investment income	1,394,620	677,637
Interest on indebtedness	(2,786,451)	(2,836,042)
Fees assessed by the Commission for debt service	(2,118,840)	(2,286,434)
Other nonoperating (expenses) revenues—net	(528,394)	178,494
Net nonoperating revenues	58,030,906	59,644,361
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	8,902,860	7,365,989
CAPITAL GRANTS AND GIFTS	22,648,396	4,564,313
CAPITAL PROJECTS AND BOND PROCEEDS FROM THE COMMISSION	1,474,466	
INCREASE IN NET ASSETS BEFORE TRANSFERS	33,025,722	11,930,302
TRANSFER OF (LIABILITY) ASSET FROM THE COMMISSION	(250,000)	142,100
INCREASE IN NET ASSETS	32,775,722	12,072,402
NET ASSETS—Beginning of year	186,294,045	174,221,643
NET ASSETS—End of year	$ 219,069,767	$ 186,294,045

See notes to combined financial statements.

(Concluded)

THE MARSHALL UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT, REVENUES, AND RECLASSIFICATIONS:				
Gifts, contributions, and other	$ 630,149	$ 7,516,099	$ 1,456,811	$ 9,603,059
Investment income	4,704,681	2,380,948	16,785	7,102,414
Net assets released from restrictions				
Satisfaction of program restrictions	6,877,337	(6,877,337)		
Total public support, revenues, and reclassifications	12,212,167	3,019,710	1,473,596	16,705,473
EXPENSES:				
Program services:				
Academic assistance	6,917,477			6,917,477
Student assistance	1,210,466			1,210,466
Total program services	8,127,943	-	-	8,127,943
Supporting services:				
Management and general	937,398			937,398
Fundraising	581,603			581,603
Total supporting services	1,519,001	-	-	1,519,001
Total expenses	9,646,944	-	-	9,646,944
CHANGE IN NET ASSETS	2,565,223	3,019,710	1,473,596	7,058,529
NET ASSETS—Beginning of year	15,439,265	21,542,711	42,545,505	79,527,481
TRANSFERS	(2,755,251)	2,527,491	227,760	
NET ASSETS—End of year	$15,249,237	$27,089,912	$44,246,861	$86,586,010

The accompanying notes are an integral part of the financial statements

THE MARSHALL UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT, REVENUES, AND RECLASSIFICATIONS:				
Gifts, contributions, and other	$ 738,553	$ 5,954,188	$ 1,457,464	$ 8,150,205
Investment income	4,540,514	1,847,578	310,717	6,698,809
Net assets released from restrictions				
Satisfaction of program restrictions	5,047,485	(5,047,485)		
Total public support, revenues, and reclassifications	10,326,552	2,754,281	1,768,181	14,849,014
EXPENSES:				
Program services:				
Academic assistance	4,199,291			4,199,291
Student assistance	1,094,794			1,094,794
Total program services	5,294,085			5,294,085
Supporting services:				
Management and general	819,262			819,262
Fundraising	671,541			671,541
Total supporting services	1,490,803			1,490,803
Total expenses	6,784,888			6,784,888
CHANGE IN NET ASSETS	3,541,664	2,754,281	1,768,181	8,064,126
NET ASSETS—Beginning of year	13,456,265	17,638,699	40,368,391	71,463,355
TRANSFERS	(1,558,664)	1,149,731	408,933	
NET ASSETS—End of year	$15,439,265	$21,542,711	$42,545,505	$79,527,481

The accompanying notes are an integral part of the financial statements

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 47,229,909	$ 43,926,103
Contracts and grants	68,018,522	60,612,949
Payments to and on behalf of employees	(122,097,522)	(114,834,722)
Payments to suppliers	(42,899,903)	(38,092,216)
Payments to utilities	(5,755,629)	(5,358,256)
Payments for scholarships and fellowships	(14,217,065)	(13,157,602)
Loans issued	(1,474,977)	(1,727,238)
Collection of loans	1,610,193	1,386,610
Sales and service of educational activities	309,048	264,917
Auxiliary enterprise charges	22,945,050	21,106,981
Fees assessed by Commission	(687,912)	(660,600)
Other receipts—net	9,163,765	8,765,580
Net cash used in operating activities	(37,856,521)	(37,767,494)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	60,473,803	62,315,854
Notes payable	(9,764)	1,751
Gift receipts	1,008,645	793,503
Advance from federal sponsor (nonoperating)	40,430	272,568
William D. Ford direct lending receipts	45,471,262	41,802,108
William D. Ford direct lending payments	(45,471,026)	(41,801,948)
Net cash provided by noncapital financing activities	61,513,350	63,383,836
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital grants and gifts received	22,691,579	4,783,686
Capital projects proceeds from Commission	850,228	
Purchases of capital assets	(34,456,383)	(21,030,296)
Principal paid on bonds and leases	(2,025,338)	(1,155,547)
Interest paid on bonds and leases	(2,804,931)	(2,878,227)
Proceeds from sale of capital assets	49,269	125,915
Principal payment on debt obligation due Commission	(2,781,300)	(2,698,525)
Fees assessed by Commission	(2,118,841)	(2,286,434)
Lease escrow deposit to restricted cash	(2,600,000)	
Decrease in noncurrent cash and cash equivalents	334,769	6,429,395
Net cash used in capital financing activities	(22,860,948)	(18,710,033)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(44,622)	(3,893,575)
Sale/maturity of investments		400,000
Interest on investments	1,282,213	792,008
Lease receipts	74,265	129,966
Net cash provided by (used in) investing activities	1,311,856	(2,571,601)
NET INCREASE IN CURRENT CASH AND CASH EQUIVALENTS	2,107,737	4,334,708
CURRENT CASH AND CASH EQUIVALENTS—Beginning of year	62,831,938	58,497,230
CURRENT CASH AND CASH EQUIVALENTS—End of year	$ 64,939,675	$ 62,831,938

(Continued)

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$(49,128,046)	$(52,278,372)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	12,077,349	11,587,535
Changes in assets and liabilities:		
Accounts receivable—net	(2,538,516)	109,709
Loans receivable—net	605,294	(305,614)
Prepaid expenses	(483,690)	(301,250)
Inventories	(19,253)	74,893
Accounts payable	1,893,101	1,466,049
Accrued liabilities	263,172	436,695
Compensated absences	316,952	143,999
Deferred revenue	(623,889)	1,120,595
Deposits held in custody for others	41,003	48,225
Advances from federal sponsors	(259,998)	130,042
NET CASH USED IN OPERATING ACTIVITIES	$(37,856,521)	$(37,767,494)
NONCASH TRANSACTIONS:		
Capital lease obligation incurred for equipment	$ 507,186	$ 1,074,633
Capital gifts of equipment	$ 1,870,916	$ 513,105
Loss on disposal of assets	$ 698,443	$ 60,790

See notes to combined financial statements.

(Concluded)

NOTES TO COMBINED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

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.

As a requirement of Governmental Accounting Standards Board ("GASB") Statement No. 39, the University has included information from the Marshall University Foundation, Inc. Although the University benefits from the activities of the Foundation, the Foundation is independent of the University in all respects. The Foundation is not a subsidiary of the University and is not directly or indirectly controlled by the University. The Foundation has its own separate, independent Board of Directors. Moreover, the assets of the Foundation are the exclusive property of the Foundation and do not belong to the University. The University is not accountable for, and does not have ownership of, any of the financial and capital resources of the Foundation. The University does not have the power or authority to mortgage, pledge, or encumber the assets of the Foundation. The Board of Directors of the Foundation are entitled to make all decisions regarding the business and affairs of the Foundation, including, without limitation, distributions made to the University. Under state law, neither the principal nor income generated by the assets of the Foundation can be taken into consideration in determining the amount of state-appropriated funds allocated to the University. Third parties dealing with the University, The Marshall University Board of Governors and the State of West Virginia (or any agency thereof) should not rely upon the financial statements of the Foundation for any purpose without consideration of all the foregoing conditions and limitations.

The additional information schedules are included to comply with the requirements of the West Virginia Higher Education Policy Commission and the West Virginia Council of Community and Technical College Education to provide financial information for all component parts of Marshall University under Senate Bill 448. This presentation provides financial information for the University, which includes the four year, graduate, and medical programs, and Marshall Community and Technical College.

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 GASB, including Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, an Amendment of GASB Statement No. 34. The financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

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 and the Commission (which includes West Virginia Network for Educational Telecomputing), 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 14 and 15) 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 under GASB Statement No. 14, *The Financial Reporting Entity*.

GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, as an amendment to GASB Statement No. 14, was adopted by the University as of July 1, 2003. As a result, the audited financial statements of the Marshall University Foundation, Incorporated (the "Foundation") are presented here as a discrete component unit with the University financial statements for the fiscal years ended June 30, 2005 and 2004. The Foundation is a separate private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundations audited financial information as it is presented herein (See also Note 14).

Financial Statement Presentation—GASB Statement No. 35, as amended by GASB Statements No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures* establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a basis to focus on the University as a whole. 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 State Legislature ("State Legislature"), as a regulatory body outside the reporting entity, had 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. House Bill 101 passed in March 2004, simplified the tuition and fee structure and removed the restrictions but included designations associated with auxiliary and capital items. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the State 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.

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"). The State Treasurer's Office is permitted by West Virginia Code 12-1-12A to invest up to $125 million in overnight repurchase agreements. 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 in accordance with West Virginia code, policies set by the IMB, and by provisions of bond indentures and trust agreements, when applicable. 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.

The IMB maintains the Consolidated Fund Investment Fund which consists of five investment pools and participant-directed accounts, in which the state and local governmental agencies invest. The IMB also manages other investment pools which include amounts invested by pension funds of the State, as well as certain operating funds of the Workers' Compensation Fund and other funds. These pools have been structured as multiparticipant variable net asset funds to reduce risk and offer investment liquidity diversification to the Fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the IMB's investment operations pool can be found in the IMB's annual report. A copy of the IMB's annual report can be obtained from the following address: 500 Virginia Street East, Suite 200, Charleston, WV 25301 or http://www.wvimb.org.

Investments—MURC held US Government Securities at June 30, 2005 and 2004. Additionally, MURC invested in an intermediate term fund comprised of high-quality fixed income securities at June 30, 2005 and 2004. The estimated fair value of all financial instruments has been determined using available market information.

Permissible investments for all agencies include those guaranteed by the United States of America, its agencies and instrumentalities, (U.S. Government obligations); equities; corporate debt obligations, including commercial paper, which meet certain ratings; certain money market funds; investment agreements with certain financial institutions; repurchase agreements; state and local government securities ("SLGS"); and other investments. Other investments consist primarily of single family mortgage loans and collateralized mortgage obligations. SLGS are direct obligations of the U.S. Government, issued to state and local government entities to provide those governments with required cash flows at yields which do not exceed IRS arbitrage limits.

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. The University's capitalization threshold is $100,000 for buildings and $1,000 for most other capital assets.

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 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 Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB Statement No. 34, such as state appropriations and investment income.

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

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 2005 and 2004, the University received and disbursed approximately $45,500,000 and $41,800,000, 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 2005 and 2004, the University received and disbursed approximately $11,800,000 and $11,900,000, 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.

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.

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

Recent Statements Issued by the GASB—The GASB has issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, effective for fiscal years beginning after December 15, 2004. This statement requires the University to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred and record impaired assets and impairment losses accordingly. This statement also addresses the appropriate recording of an insurance recovery associated with events or changes in circumstances resulting in impairment of a capital asset. The University has not yet determined the effect that the adoption of GASB Statement No. 42 may have on the financial statements.

The GASB has also issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after December 15, 2006. This statement provides standards for the measurement, recognition, and display of other postemployment benefit expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. The University has not yet determined the effect that the adoption of GASB Statement No. 45 may have on the financial statements.

The GASB has also issued Statement No. 46, *Net Assets Restricted by Enabling Legislation* (an amendment of GASB Statement No. 34), effective for fiscal years beginning after June 15, 2005. This statement provides guidance clarifying the meaning of the phrase “legally enforceable” as it applies to restrictions imposed on net asset use by enabling legislation. The University has not yet determined the effect, if any, that adoption of GASB Statement No. 46 may have on its financial statements.

The GASB has also issued Statement No. 47, *Accounting for Termination Benefits*, effective for fiscal years beginning after June 15, 2005. However, for termination benefits that affect defined benefit postemployment benefits other than pensions, GASB Statement No. 47 should be implemented simultaneously with GASB Statement No. 45. This statement provides recognition and measurement guidance related to benefits provided to employees that are terminated. The University has not yet determined the effect, if any that adoption of GASB Statement No. 47 may have on its financial statements.

Reclassifications—Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

3. CASH AND CASH EQUIVALENTS

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

	2005		
	Current	Noncurrent	Total
Cash on deposit with the State Treasurer:			
University	$ 53,255,703	$ 176,000	$ 53,431,703
Municipal Bond Commission	280,073	389,869	669,942
Cash on deposit with Trustee	83,923	3,263,621	3,347,544
Restricted cash		2,600,000	2,600,000
Cash equivalents	4,376,765		4,376,765
Cash in bank	6,209,180		6,209,180
Cash on hand	734,031		734,031
	$ 64,939,675	$ 6,429,490	$ 71,369,165

	2004		
	Current	Noncurrent	Total
Cash on deposit with the State Treasurer:			
University	$ 52,659,564	$ 176,000	$ 52,835,564
Municipal Bond Commission	275,767	382,534	658,301
Cash on deposit with Trustee	915,642	3,605,725	4,521,367
Cash equivalents	3,939,264		3,939,264
Cash in bank	4,979,179		4,979,179
Cash on hand	62,522		62,522
	$ 62,831,938	$ 4,164,259	$ 66,996,197

Cash designated as held by the Municipal Bond Commission for the University represents various repair and replacement and debt service accounts trusteed with the State's Municipal Bond Commission related to various University specific bond issues (see Note 8). Other cash held by the State Treasurer includes $1,630,785 and $2,128,441 at June 30, 2005 and 2004, respectively, of restricted cash for sponsored projects, loans, and other purposes. 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 8).

MURC has $523,227 and $512,013 of cash equivalents held in highly liquid money market funds comprised of high grade fixed income securities, and $3,853,539 and $3,427,251 of cash equivalents held in repurchase agreements which are collateralized at 102% and the collateral is held in MURC's name at June 30, 2005 and 2004, respectively.

The combined carrying amount of cash in bank at June 30, 2005 and 2004 was $6,209,180 and $4,979,179, respectively, as compared with the combined bank balance of $9,223,479 and $6,222,901, 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.

Restricted cash **-** On December 10, 2004, MURC entered into a lease agreement for the occupancy of a building to commence on July 26, 2005. This transaction included the execution of two Escrow Agreements for a total of $2.6 million. This amount is included in noncurrent cash and cash equivalents in the Statement of Net Assets.

Cash on deposit with the State Treasurer is comprised of the following investment pools.

Cash Liquidity

Credit Risk—The IMB limits the exposure to credit risk in the Cash Liquidity pool by requiring all corporate bonds to be rated AA or higher. Commercial paper must be rated A1 by Standard & Poor's and P1 by Moody's. Additionally, the pool must have at least 15% of its assets in United States Treasury issues.

The following table provides information on the weighted average credit ratings of the Cash Liquidity pool's investments.

Security Type	Moody's	S&P	Carrying Value	Percent of Assets
Commercial paper	P1	A-1	$ 598,241,394	37.9 %
U. S. Treasury bills	Aaa	AAA	259,397,648	16.4
Corporate notes	Aaa	AAA	155,559,323	9.9
Certificates of deposit	P1	A-1	152,998,937	9.7
Agency bonds	Aaa	AAA	147,955,465	9.4
Agency discount notes	P1	A-1	119,564,248	7.6
Money market funds	Aaa	AAA	4,241,278	0.3
Total rated investments			$ 1,437,958,293	91.20 %

Unrated securities include repurchase agreements of $141,050,000. Acceptable collateral for the repurchase agreements include U. S. Treasury and government agency securities, all of which carry the highest credit rating.

The University's ownership represents 2.55% of the net asset position of this pool.

Concentration of Credit Risk—West Virginia statutes prohibit the Cash Liquidity pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2005, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial Credit Risk—At June 30, 2005, the Cash Liquidity pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the IMB. Securities lending collateral that is reported in the statements of net assets and liabilities is invested in the lending agent's money market fund.

Interest Rate Risk—The weighted average maturity of the investments of the Cash Liquidity pool cannot exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted average maturities (WAM) for the various asset types in the Cash Liquidity pool.

Security Type	Carrying Value	WAM
Commercial paper	$ 598,241,394	49
U. S. Treasury bills	259,397,648	30
Corporate notes	155,559,323	53
Certificates of deposit	152,998,937	42
Agency bonds	147,955,465	88
Repurchase agreements	141,050,000	1
Agency discount notes	119,564,248	52
Money market funds	4,241,278	1
Total assets	$ 1,579,008,293	45

Foreign Currency Risk

The Cash Liquidity pool has no securities that are subject to foreign currency risk.

Government Money Market

Credit Risk**—**The IMB limits the exposure to credit risk in the Government Money Market pool by limiting the pool to U. S. Treasury issues, U. S. government agency issues, money market funds investing in U. S. Treasury issues and U. S. government agency issues, and repurchase agreements collateralized by U. S. Treasury issues and U. S. government agency issues. None of the government agency issues held by the pool have the explicit guarantee of the U. S. Treasury; however, they are all rated Aaa by Moody's and AAA by Standard & Poor's. Agency discount notes held by the pool are rated P1 by Moody's and A-1 by Standard & Poor's.

The University's ownership represents 0.68% of the net asset position of this pool.

Concentration of Credit Risk**—**West Virginia statutes prohibit the Government Money Market pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2005, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial Credit Risk**—**At June 30, 2005, the Government Money Market pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the IMB. Securities lending collateral that is reported in the Statement of Assets and Liabilities is invested in the lending agent's money market fund.

Interest RateRrisk**—**The weighted average maturity of the investments of the Government Money Market pool cannot exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted average maturities (WAM) for the various asset types in the Government Money Market pool.

Security Type	Carrying Value	WAM (days)
Agency discount notes	$ 46,409,362	32
Agency bonds	42,571,144	75
Repurchase agreements	39,950,000	1
U. S. Treasury bills	24,903,836	48
Money market funds	985,190	1
Total assets	$154,819,532	38

Foreign Currency Risk

The Government Money Market pool has no securities that are subject to foreign currency risk.

Enhanced Yield

Credit Risk**—**The IMB limits the exposure to credit risk in the Enhanced Yield pool by requiring all corporate bonds to be rated A or higher. Commercial paper must be rated A1 by Standard & Poor's and P1 by Moody's. Additionally, the pool must have at least 15% of its assets in U.S. Treasury issues.

The following table provides information on the weighted average credit ratings of the Enhanced Yield pool's investments.

Security Type	Moody's	S&P	Fair Value	Percent of Assets
Corporate notes	A	AA	$ 81,631,581	30.0 %
Agency bonds	Aaa	AAA	69,203,277	25.5
U. S. Treasury notes	Aaa	AAA	66,466,539	24.5
Corporate asset backed securities	Aaa	AAA	49,990,408	18.4
Total rated investments			$ 267,291,805	98.4 %

Unrated securities include repurchase agreements of $4,362,262. Acceptable collateral for the repurchase agreements include U. S. Treasury and government agency securities, all of which carry the highest credit rating.

The University's ownership represents 4.00% of the net assets position of this pool.

Concentration of Credit Risk—West Virginia statutes prohibit the Enhanced Yield pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2005, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial Credit Risk—At June 30, 2005, the Enhanced Yield pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the IMB. Securities lending collateral that is reported in the Statement of Assets and Liabilities is invested in the lending agent's money market fund.

Interest Rate Risk—The weighted average maturity of the investments of the Enhanced Yield pool cannot exceed two years. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted average maturities (WAM) for the various asset types in the Enhanced Yield pool.

Security Type	Fair Value	WAM (years)
Corporate notes	$ 81,631,581	1.7
Agency bonds	69,203,277	1.9
U. S. Treasury notes	66,466,539	2.3
Corporate asset backed securities	49,990,408	1.1
Repurchase agreement	4,362,262	0.0
Total assets	$ 271,654,067	1.7

Foreign Currency Risk

The Enhanced Yield pool has no securities that are subject to foreign currency risk.

Cash in Bank with Trustee

Credit Risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Cash in bank with Trustee is governed by provisions of the bond agreement. Investments authorized by the Trustee have credit quality ratings from nationally recognized statistical organizations.

Investment Type	Moody's Rating	Carrying Value
Money Market Fund	Aaa	$ 71,690
Money Market Fund (Credit Enhancers/Collateral 1.000 Financial Guaranty Insurance Co. Municipal Bond Insurance Policy)	Aaa	83,923
MBIA Guaranteed Investment Contract (GIC)	N/A	3,191,931
		$ 3,347,544

The objective of the Money Market Fund is to increase the current level of income while continuing to maintain liquidity and capital. Assets are invested in high quality, short-term money market instruments.

Custodial Credit Risk—Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The University has an MBIA Guaranteed Investment Contract ("GIC") with a fixed rate of interest of 5.18%.

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University has no formal investment policy as of June 30, 2005 that limits investment maturities from potential fair value losses due to increasing interest rates.

Foreign currency risk—Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The University has no securities with foreign currency risk.

4. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30:

	2005		
	Current	Noncurrent	Total
Student tuition and fees, net of allowance for doubtful accounts of $424,009	$ 1,342,517	$ -	$ 1,342,517
Grants and contracts receivable, net of allowance for doubtful accounts of $241,065	8,950,920		8,950,920
Due from the Commission	1,538,542		1,538,542
Due from other State agencies	1,381,258		1,381,258
Other accounts receivable	367,513	849,871	1,217,384
	$ 13,580,750	$ 849,871	$ 14,430,621

	2004		
	Current	Noncurrent	Total
Student tuition and fees, net of allowance for doubtful accounts of $136,607	$ 674,521	$ -	$ 674,521
Grants and contracts receivable, net of allowance for doubtful accounts of $304,132	7,148,621		7,148,621
Due from the Commission	121,425		121,425
Due from other State agencies	818,253		818,253
Other accounts receivable	1,063,777	876,591	1,940,368
	$ 9,826,597	$ 876,591	$ 10,703,188

5. INVESTMENTS

Investments of MURC consist of the following at June 30:

	2005	2004
U.S. Government Agency Securities	$ 1,949,685	$ 1,949,726
Fixed Income Bond Fund—Common Fund	1,868,349	1,813,739
Total investments	$ 3,818,034	$ 3,763,465

Credit Risk—MURC's investment policy limits individual investments to U.S. government securities and nationally recognized Bond Funds holding those securities. The U.S. government agency securities have an average maturity of 1.1 years and the Fixed Income Bond Fund had an average maturity of 2.8 years. At June 30, 2005, MURC's investments in U.S. government agency securities were rated Aaa by Moody's Investors Service and AAA by Standard & Poor's rating service. The average rating of the Fixed Income Bond Fund was AA+.

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

6. CAPITAL ASSETS

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

	2005				
	Beginning Balance	Additions	Reductions	Other	Ending Balance
Capital assets not being depreciated:					
Land	$ 19,543,460	$ 584,920	$ -	$ -	$ 20,128,380
Antiques and artwork (inexhaustible)	132,107				132,107
Construction in progress	11,775,296	25,412,032		(3,396,486)	33,790,842
Total capital assets not being depreciated	31,450,863	25,996,952	-	(3,396,486)	54,051,329
Other capital assets:					
Land improvements	1,522,704				1,522,704
Infrastructure	19,237,540	208,572	(8,792)	41,000	19,478,320
Buildings	238,899,436	1,428,632	(2,664,426)	3,355,486	241,019,128
Equipment	58,505,629	7,148,663	(3,492,991)		62,161,301
Library books	7,790,267	180,749	(30,885)		7,940,131
Total other capital assets	325,955,576	8,966,616	(6,197,094)	3,396,486	332,121,584
Less accumulated depreciation for:					
Land improvements	714,901	101,514			816,415
Infrastructure	9,311,395	1,039,660	(8,792)		10,342,263
Buildings	69,250,620	4,582,014	(2,243,843)		71,588,791
Equipment	34,805,807	6,023,299	(3,165,861)		37,663,245
Library books	6,746,692	330,862	(30,885)		7,046,669
Total accumulated depreciation	120,829,415	12,077,349	(5,449,381)	-	127,457,383
Other capital assets—net	$ 236,577,024	$ 22,886,219	$ (747,713)	$ -	$ 258,715,530
Capital asset summary:					
Capital assets not being depreciated	$ 31,450,863	$ 25,996,952	$ -	$ (3,396,486)	$ 54,051,329
Other capital assets	325,955,576	8,966,616	(6,197,094)	3,396,486	332,121,584
Total cost of capital assets	357,406,439	34,963,568	(6,197,094)		386,172,913
Less accumulated depreciation	(120,829,415)	(12,077,349)	5,449,381		(127,457,383)
Capital assets—net	$ 236,577,024	$ 22,886,219	$ (747,713)	$ -	$ 258,715,530

	2004				
	Beginning Balance	Additions	Reductions	Other	Ending Balance
Capital assets not being depreciated:					
Land	$ 18,934,550	$ 608,910	$ -	$ -	$ 19,543,460
Antiques and artwork (inexhaustible)	132,107				132,107
Construction in progress	34,549,413	12,542,734	(18,750)	(35,298,101)	11,775,296
Total capital assets not being depreciated	53,616,070	13,151,644	(18,750)	(35,298,101)	31,450,863
Other capital assets:					
Land improvements	1,522,704				1,522,704
Infrastructure	11,402,566	707,356	(41,159)	7,168,777	19,237,540
Buildings	210,770,112			28,129,324	238,899,436
Equipment	52,072,876	8,017,099	(1,584,346)		58,505,629
Library books	7,572,555	228,302	(10,590)		7,790,267
Total other capital assets	283,340,813	8,952,757	(1,636,095)	35,298,101	325,955,576
Less accumulated depreciation for:					
Land improvements	613,387	101,514			714,901
Infrastructure	8,148,819	1,203,735	(41,159)		9,311,395
Buildings	64,795,700	4,454,920			69,250,620
Equipment	30,753,448	5,471,830	(1,419,471)		34,805,807
Library books	6,401,746	355,536	(10,590)		6,746,692
Total accumulated depreciation	110,713,100	11,587,535	(1,471,220)	-	120,829,415
Other capital assets—net	$ 226,243,783	$ 10,516,866	$ (183,625)	$ -	$ 236,577,024
Capital asset summary:					
Capital assets not being depreciated	$ 53,616,070	$ 13,151,644	$ (18,750)	$ (35,298,101)	$ 31,450,863
Other capital assets	283,340,813	8,952,757	(1,636,095)	35,298,101	325,955,576
Total cost of capital assets	336,956,883	22,104,401	(1,654,845)	-	357,406,439
Less accumulated depreciation	(110,713,100)	(11,587,535)	1,471,220		(120,829,415)
Capital assets—net	$ 226,243,783	$ 10,516,866	$ (183,625)	$ -	$ 236,577,024

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.

At June 30, 2005, the University, excluding MURC, had outstanding contractual commitments of approximately $900,000 for property, plant, and equipment expenditures.

7. LONG-TERM LIABILITIES

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

	2005				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and capital leases:					
Revenue bonds payable, including unexpended funds of $3,263,621	$ 47,585,000	$ -	$(1,070,000)	$ 46,515,000	$ 1,115,000
Capital leases payable	10,058,972	507,186	(955,338)	9,610,820	966,109
Total bonds and capital leases	57,643,972	507,186	(2,025,338)	56,125,820	2,081,109
Other long-term liabilities:					
Notes payable	51,358		(9,764)	41,594	
Accrued compensated absences	14,875,901	316,952		15,192,853	5,395,417
Advances from Federal sponsors	6,948,568	110,321	(369,889)	6,689,000	
Debt obligation to Commission	43,524,575	250,000	(2,781,300)	40,993,275	2,725,000
Total long-term liabilities	$ 123,044,374	$ 1,184,459	$(5,186,291)	$ 119,042,542	$ 10,201,526

	2004				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and capital leases:					
Revenue bonds payable, including unexpended funds of $3,605,725	$ 47,750,000	$ -	$ (165,000)	$ 47,585,000	$ 1,070,000
Capital leases payable	10,835,010	1,074,633	(1,850,671)	10,058,972	802,085
Total bonds and capital leases	58,585,010	1,074,633	(2,015,671)	57,643,972	1,872,085
Other long-term liabilities:					
Notes payable	40,433	10,925		51,358	
Accrued compensated absences	14,731,901	144,000		14,875,901	4,568,348
Advances from Federal sponsors	6,614,452	352,616	(18,500)	6,948,568	
Debt obligation to Commission	46,365,200		(2,840,625)	43,524,575	2,556,300
Total long-term liabilities	$ 126,336,996	$ 1,582,174	$(4,874,796)	$ 123,044,374	$ 8,996,733

8. BONDS

Bonds payable consisted of the following at June 30:

		2005		2004	
	Original Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding	Annual Principal Installment Due	Principal Amount Outstanding
University Center Revenue Bonds due through 2009	4%- 6%	$ 185,000 to $ 215,000	$ 800,000	$ 175,000 to $ 215,000	$ 975,000
University Facilities Revenue Bonds due through 2031	3.6%-5.3%	$ 930,000 to $3,035,000	45,715,000	$ 895,000 to $3,035,000	46,610,000
			$46,515,000		$47,585,000

The University Center Revenue Bonds were issued in 1969 to finance the construction of the University Student Center. Interest is payable semiannually on January 1 and July 1 of each year, at varying rates up to 6% per annum.

These bonds are secured by a first lien on and pledge of the entire University Center fees charged to students at the University and the net revenues, excluding bookstore revenues, derived from the operation of the University Center.

In June 2001, the Board sold $46,610,000 of Revenue Bonds, 2001 Housing and Parking Facilities Series A (the "Bonds"). The Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended, and the Bonds 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. Bank One is now JP Morgan/Chase.

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 4) 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, 2005 is as follows:

Year Ending	University Center		University Facilities		Total	Total
June 30	Principal	Interest	Principal	Interest	Principal	Interest
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	215,000	8,600	1,045,000	2,146,676	1,260,000	2,155,276
2010			1,085,000	2,102,264	1,085,000	2,102,264
2011-2015			6,225,000	9,720,384	6,225,000	9,720,384
2016-2020			8,010,000	7,938,656	8,010,000	7,938,656
2021-2025			10,270,000	5,676,469	10,270,000	5,676,469
2026-2030			13,150,000	2,798,969	13,150,000	2,798,969
2031			3,035,000	151,750	3,035,000	151,750
Total	$800,000	$105,800	$45,715,000	$37,211,021	$46,515,000	$37,316,821

9. LEASES

Operating—Future annual minimum lease payments on operating leases for years subsequent to June 30, 2005 are as follows:

Year Ending June 30	
2006	$ 517,798
2007	363,841
2008	308,055
2009	209,734
2010	114,780
2011-2012	210,430
	$ 1,724,638

Total rent expense for the years ended June 30, 2005 and 2004, was $669,960 and $575,114, respectively.

Capital—The University leases various equipment and buildings through capital leases. At June 30, 2005 and 2004, leased equipment with a net book value of $781,796 and $562,302, respectively, and leased buildings with a net book value of $12,166,227 and $12,466,647, 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, 2005 are as follows:

Year Ending June 30	**Principal**	**Interest**	**Total**
2006	$ 966,109	$ 410,388	$ 1,376,497
2007	811,054	389,435	1,200,489
2008	782,677	353,514	1,136,191
2009	628,927	321,124	950,051
2010	629,403	292,502	921,905
2011-2015	3,263,771	1,027,352	4,291,123
2016-2020	1,714,685	386,241	2,100,926
2021-2025	814,194	96,844	911,038
			12,888,220
Less interest			3,277,400
			$ 9,610,820

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 $1. The following lists the components of the net investment in direct financing lease as of June 30.

	2005	**2004**
Total minimum lease payments to be received	$ 1,442,425	$ 1,516,692
Less unearned income	541,079	590,052
Net investment in direct financing and sales-type leases	$ 901,346	$ 926,640

10. COMPENSATED ABSENCES

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

	2005	2004
Health or life insurance benefits	$ 9,155,953	$ 9,280,737
Accrued vacation leave	6,036,900	5,595,164
	$ 15,192,853	$ 14,875,901

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, 2005 and 2004, the amount paid by the University for extended health or life insurance coverage retirement benefits totaled approximately $323,879 and $332,114, respectively. As of June 30, 2005 and 2004, there were 159 and 173 retirees, respectively, receiving these benefits.

11. 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 education and general capital fees (previously 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.

Payments to the Commission for the 2005 and 2004 years were $4,900,140 and $4,984,958, respectively, which consisted of $2,781,300 and $2,698,525 in principal, and $2,118,840 and $2,286,434 in interest and other related charges, respectively. Certain bonds issued by the Commission were refinanced in August 2003 and 2004 at lower interest rates.

During the year ended June 30, 2005, the Commission issued $167 million of 2005 Series B 30-year Revenue Bonds to fund capital projects at various higher education institutions in the State of West Virginia. The University has been approved to receive $30.5 million of these funds. State lottery funds will be used to repay the debt, although the University revenues are pledged if lottery funds prove insufficient.

12. UNRESTRICTED NET ASSETS

The University has not formally designated any of its unrestricted net assets. However, as a general rule, unrestricted auxiliary net asset balances in the amount of $6,009,925 and $8,175,407 at June 30, 2005 and 2004 respectively, have been used only for auxiliaries. In addition, unrestricted net asset balances of $7,856,187 and $5,050,975 at June 30, 2005 and 2004 respectively, have been allocated to repairs and maintenance, debt payments, capital projects, and equipment purchases.

13. 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.

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the Educators Money 401(a) basic retirement plan. New hires have the choice of either plan. As of June 30, 2005, 11 employees were enrolled in the Educators Money 401(a) basic retirement plan.

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, 2005 and 2004. Required employee contributions were at the rate of 6% of total annual salaries for the years ended June 30, 2005 and 2004. Participants in the STRS may retire with full benefits upon reaching age 60 with 5 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.

Total contributions to the STRS for the years ended June 30, 2005, 2004, and 2003 were approximately $1,305,000, 1,322,000, and $1,431,000, respectively, which consisted of approximately $932,000, $944,000, and $1,022,000 from the University and approximately $373,000, $378,000, and $409,000 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.

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 TIAA-CREF for the years ended June 30, 2005, 2004, and 2003 were approximately $9,765,000, $9,095,000, and $8,638,000, respectively, which consisted of approximately $4,792,000, $4,473,000, and $4,265,0000 from the University and approximately $4,973,000, $4,622,000, and $4,373,000 from covered employees, respectively.

The University's total payroll for the years ended June 30, 2005 and 2004 was approximately $95,307,000 and $89,632,000, respectively; total covered employees salaries in the STRS and TIAA-CREF were approximately $6,210,000 and $80,400,000, respectively, in 2005 and $6,295,000 and $75,159,000, respectively, in 2004.

14. MARSHALL UNIVERSITY FOUNDATION, INCORPORATED

The Marshall University Foundation, Incorporated (the "Foundation") is a separate nonprofit organization incorporated in the State having as its purpose to benefit the work and services of the University and its affiliated nonprofit organizations. The Foundation has a board of directors consisting of 34 members selected by its Board members. The President of the University is a non voting ex-officio member of the Foundation's Board. In carrying out its responsibilities, the board of directors of the Foundation employs management, forms policy, and maintains fiscal accountability over funds administered by the Foundation. The University administration does not control the resources of the Foundation.

The Foundation's financial statements are presented as part of the University's financial statements, in accordance with GASB 39. During the years ended June 30, 2005 and 2004, the Foundation contributed approximately $7 and $6 million, respectively, to the University for scholarships, academic assistance, and fundraising.

15. AFFILIATED ORGANIZATIONS

The University has separately incorporated affiliated organizations, including the MUGC Foundation, 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 under GASB Statement No. 14. They are not included in the University's accompanying combined financial statements under GASB 39 as they are 1) not material or 2) have dual purpose (i.e. not entirely or almost entirely for the benefit of the University).

16. 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.

17. 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. During the 2004 fiscal year Bank One became JP Morgan/Chase.

Condensed financial information for each of the University's segments as of June 30 is as follows:

Condensed Statement of 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	
	2005	2004	2005	2004
ASSETS:				
Current assets	$ 1,921,760	$ 2,128,718	$ 5,549,109	$ 12,197,818
Noncurrent assets	4,119,127	3,864,440	50,536,216	45,938,714
Total assets	$ 6,040,887	$ 5,993,158	$ 56,085,325	$ 58,136,532
LIABILITIES:				
Current liabilities	$ 269,586	$ 289,451	$ 2,802,240	$ 3,674,373
Noncurrent liabilities	668,873	868,778	45,237,788	46,684,839
Total liabilities	938,459	1,158,229	48,040,028	50,359,212
NET ASSETS:				
Invested in capital assets—net of related debt	2,929,258	2,889,440	4,529,252	2,496,508
Restricted:				
Debt service	436,850	423,934	112,398	(331,125
Capital projects	211,241	207,267		
Unrestricted	1,525,078	1,314,288	3,403,648	5,611,937
Total net assets and liabilities	$ 6,040,886	$ 5,993,158	$ 56,085,326	$ 58,136,532

Condensed Statement of Revenues, Expenses, and Changes in Net Assets for the Year Ended 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	
	2005	2004	2005	2004
OPERATING:				
Operating revenues	$ 1,367,968	$ 1,422,135	$ 13,956,899	$ 12,707,726
Operating expenses	(1,062,480)	(996,540)	(11,182,289)	(10,259,101
Operating income	305,488	425,595	2,774,610	2,448,625
NONOPERATING:				
Nonoperating revenues	12,738	6,667	170,459	264,981
Nonoperating expenses	(48,950)	(59,150)	(2,332,004)	(2,431,712
TRANSFERS FROM (TO) THE UNIVERSITY	(1,778)	(31,921)	(345,013)	(8,238,869
CHANGES IN NET ASSETS	267,498	341,191	268,052	(7,956,975
NET ASSETS—Beginning of year	4,834,929	4,493,738	7,777,320	15,734,295
NET ASSETS—End of year	$ 5,102,427	$ 4,834,929	$ 8,045,372	$ 7,777,320

Condensed Statement of Cash Flows

NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 395,590	$ 537,345	$ 2,682,956	$ 3,258,823
NET CASH USED IN CAPITAL AND RELATED FINANCING	(212,990)	(425,888)	(6,222,648)	(8,670,866
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	182,600	111,457	(3,539,692)	(5,412,043
CASH AND CASH EQUIVLENTS—Beginning of year	2,108,338	1,996,881	12,061,681	17,473,724
CASH AND CASH EQUIVALENTS—End of year	$ 2,290,938	$ 2,108,338	$ 8,521,989	$ 12,061,681

18. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

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

2005

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Other Operating Expense	Fees Assessed by Commission	Total
Instruction	$46,695,111	$12,975,873	$ 6,537,161	$ 387	$ 30,061	$ -	$ -	$ -	$ 66,238,593
Research	6,676,768	2,053,314	6,353,162	321,589	16,513		(63,320)		15,358,026
Public service	8,032,410	2,015,021	4,188,770	187,368	58,133				14,481,702
Academic support	8,705,898	2,353,271	4,083,623	10,692					15,153,484
Student services	5,680,940	1,805,840	3,149,547	688					10,637,015
General institutional support	8,984,954	2,280,423	2,748,123	35,033	2,990		253		14,051,776
Operations and maintenance of plant	3,555,920	1,341,100	2,853,515	3,398,999					11,149,534
Student financial aid	30,800	3,035	19,931		14,109,368				14,163,134
Auxiliary enterprises	6,944,762	2,262,850	9,302,215	1,800,873					20,310,700
Depreciation						12,077,349			12,077,349
Other							104,410	687,912	792,322
Total	$95,307,563	$27,090,727	$39,236,047	$5,755,629	$14,217,065	$12,077,349	$ 41,343	$687,912	$194,413,635

2004

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Other Operating Expense	Fees Assessed by Commission	Total
Instruction	$43,678,070	$11,968,224	$ 5,218,873	$ 647	$ 4,100	$ -	$ -	$ -	$ 60,869,914
Research	5,794,044	1,894,449	6,572,287	279,431	26,191		5,700		14,572,102
Public service	7,976,894	1,943,144	3,323,343	231,327	37,756		(17,294)		13,495,170
Academic support	8,490,993	2,357,325	3,697,796	5,899			(114,992)		14,437,021
Student services	5,398,227	1,704,829	2,808,986	139			10,528		9,922,709
General institutional support	8,485,070	2,352,750	2,752,953	3,247	2,710		(38,962)		13,557,768
Operations and maintenance of plant	3,422,596	1,278,440	1,483,553	3,284,732			28,725		9,498,046
Student financial aid	840	70	1,647		13,086,845		23,499		13,112,901
Auxiliary enterprises	6,385,180	1,950,401	8,577,594	1,552,834					18,466,009
Depreciation						11,587,535			11,587,535
Other							148,410	660,600	809,010
Total	$89,631,914	$25,449,632	$34,437,032	$5,358,256	$13,157,602	$11,587,535	$ 45,614	$660,600	$180,328,185

19. COMPONENT UNIT'S DISCLOSURES

The following are the notes taken directly from the audited financial statements of the Foundation:

Note 1 - Summary of Significant Accounting Policies:

- *Organization and Nature of Activities*—The Marshall University Foundation, Inc. ("Foundation") was established in January, 1947 as a non-profit, tax-exempt, educational corporation to solicit, receive, manage; and administer gifts on behalf of Marshall University. It is a public charity under Section 501(c)(3) of the Internal Revenue Code.

- *Public Support and Revenue*—Contributions are generally available for unrestricted use unless specifically restricted by the donor. Unconditional promises to give are recorded as received. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts. An allowance for uncollectible promises is provided based on management's evaluation of potential uncollectible promises receivable at year end.

- Contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

  Endowment contributions are permanently restricted by the donor. Investment earnings on endowment funds inclusive of realized and unrealized gains and losses are recorded in temporarily restricted net assets except for endowments that require investment earnings to be added to the endowment principal.

- *Estimates*—The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management's estimates.

- *Cash and Cash Equivalents*—The Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

- *Investments*—Investments are reported in the financial statements at market value using quoted market prices. The current year increase or decrease in market value over book value is recognized currently in the statement of activities. Investment funds are pooled into three categories Operating Pool, Project Pool and Endowment Pool. The total investment return consists of interest and dividend income, realized gains and losses and capital appreciation, net of related investment expenses.

- *Property and Equipment*—Property and equipment purchased for use by the Foundation has been capitalized at cost and is depreciated over the estimated useful life of the property and equipment which ranges from five to forty years using the straight line method. Property and equipment purchased for Marshall University departments is expensed when received and immediately donated to the University by The Marshall University Foundation, Inc.

Basis of Accounting—The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Note 2 - Cash and Cash Equivalents—Cash and cash equivalents at June 30, 2005 and 2004 are comprised of the following:

	2005	2004
Cash	$ 666,920	$ 1,886,259
Short-term investments	2,343,070	2,686,078
Total	$ 3,009,990	$ 4,572,337

Note 3 - Notes Receivable—Notes receivable at June 30, 2005 and 2004 consists of the following:

	2005	2004
\$600,000—original face, receivable at borrower's discretion, interest at 6.5%, unsecured, due June, 2008.	$ 266,520	$ 363,820
\$500,000—original face, receivable in 40 quarterly installments of \$15,355 inclusive of interest at 5% due September 30, 2012, unsecured.	402,969	452,230
\$614,915—original face, receivable in 17 monthly installments of \$6,000 inclusive of interest at 9.0% with one final payment due February, 2005, secured by a deed of trust on real estate.		588,517
Total	$ 669,489	$ 1,404,567

Note 4 - Investments—Investments as of June 30, 2005 and 2004 are summarized as follows:

	2005		
	Book Value	Fair Value	Unrealized Gain (Loss)
Bonds	$ 20,810,650	$ 22,079,416	$ 1,268,766
Stocks	31,343,918	37,520,896	6,176,978
Other	16,549,948	16,763,196	213,248
Total	$ 68,704,516	$ 76,363,508	$ 7,658,992

	2004		
	Book Value	Fair Value	Unrealized Gain (Loss)
Bonds	$ 22,962,539	$ 23,105,261	$ 142,722
Stocks	33,001,129	35,673,715	2,672,586
Other	6,403,844	6,267,717	(136,127)
Total	$ 62,367,512	$ 65,046,693	$ 2,679,181

The following summarizes the investment return for the years ended June 30, 2005 and 2004:

	2005	2004
Interest and dividends	$ 1,820,135	$ 1,763,230
Realized gain (loss)	423,501	2,456,157
Unrealized gain (loss)	4,979,811	2,577,138
Investment fees	(121,033)	(97,716)
Net investment return	$ 7,102,414	$ 6,698,809

Gain or loss on sale of investments is determined by utilizing the average cost method.

As of June 30, 2005 and 2004, the aggregate amount of the deficiencies for all donor-restricted endowment funds for which the fair value of the investments is less than the level required by donor stipulation or law totaled $193,441 and $315,388, respectively.

Note 5 - Net Investment in Direct Financing Leases—On December 3, 1996, the Foundation entered into a direct financing lease with the State of West Virginia (the lessee) and Marshall University (the tenant) for the Faith United Methodist Church. Under the lease agreement, the Foundation was to receive annual lease payments from the tenant in the amount of $50,000 beginning December 1, 1997 through December 1, 2003 and a final payment of $43,387 due on December 1, 2003. Upon receipt of all lease payments, the Foundation transferred ownership of the building and land to the tenant.

On June 25, 1997, the Foundation entered into a second direct financing lease with the State of West Virginia (the lessee) and Marshall University (the tenant) for the Athletics Facilities Building. In July, 2003, the Foundation renegotiated this lease. Under the new lease terms, the Foundation is to receive semi-annual lease payments in the amount of $34,368 beginning July 1, 2003 with final payment due January 1, 2019. Upon receipt of all lease payments, the Foundation will transfer ownership of the building to the tenant.

Following is a summary of the components of the Foundation's net investment in the direct financing leases at June 30, 2005 and 2004:

	2005	2004
Total minimum lease payments to be received	$ 403,292	$ 590,038
Unearned income	(65,733)	(134,148)
Net investment	$ 337,559	$ 455,890

Minimum lease payments to be received as of June 30, 2005 for each of the next five years and in the aggregate are:

Year Ended June 30,	
2006	$ 68,736
2007	68,736
2008	68,736
2009	68,736
2010	68,736
Thereafter	59,612
Total	$ 403,292

Note 6 - Promises to Give—Unconditional promises to give at June 30, 2005 and 2004 are as follows:

	2005	2004
Receivable in less than one year	$ 2,597,095	$ 2,422,910
Receivable in one to five years	3,326,376	4,633,592
Receivable in more than five years	215,279	175,249
Total unconditional promises to give	6,138,750	7,231,751
Less discounts to net present value	(424,132)	(392,411)
Less allowance for uncollectible promises	(657,935)	(257,847)
Net unconditional promises to give	$ 5,056,683	$ 6,581,493

Discount rates used on long-term promises to give ranged from 4.25% to 9.5% for fiscal years ended June 30, 2005 and 2004.

Note 7 - Property and Equipment—The following is a summary of property and equipment at June 30, 2005 and 2004:

	2005	2004
Land	$ 220,000	$ 442,149
Buildings	1,034,275	1,034,275
Office equipment	286,961	264,072
	1,541,236	1,740,496
Less accumulated depreciation	(424,789)	(384,392)
	$ 1,116,447	$ 1,356,104

Depreciation expense charged to operations was $41,472 and $45,070 for the years ended June 30, 2005 and 2004, respectively.

Note 8 - Contingent Assets—The Foundation is the beneficiary of various whole life and term insurance policies. Proceeds payable to the Foundation upon the demise of the insured parties totaled approximately $4,902,968 and $5,297,968 at June 30, 2005 and 2004, respectively.

Note 9 - Income Taxes—The Foundation is a tax exempt organization under Internal Revenue Code Section 501 (c)(3). The Foundation does, however, engage in some activities that are considered by the Internal Revenue Service to be unrelated business activities and therefore subject to unrelated business tax at the prevailing corporate rates. The Foundation’s income tax expense for the fiscal years ended June 30, 2005 and 2004 totaled $ -0-.

Note 10 - Notes Payable—Notes payable at June 30, 2005 and 2004 consists of the following:

	2005	2004
$450,000—original face, 7% note payable, payable in 180 monthly installments of $4,045 including interest, due September 2012, secured by real estate with a book value of $439,292 at June 30, 2005.	$ 275,350	$ 303,533
$750,000—original face, 5.25% note payable, payable in one lump sum due June 1, 2007 with regular monthly payments of accrued interest beginning June 30, 2002, secured by investment accounts.	413,700	546,550
Total	$ 689,050	$ 850,083

Following are maturities of notes payable for each of the next five years and in aggregate:

Year Ended June 30,	
2006	$ 30,220
2007	446,104
2008	34,747
2009	37,258
2010	39,952
Thereafter	100,769
Total	$ 689,050

Interest expense for the years ended June 30, 2005 and 2004 totaled $46,551 and $54,659, respectively.

Note 11 - Charitable Gift Annuities—As of June 30, 2005 and 2004, the Foundation had liabilities under irrevocable charitable gift annuities. The Foundation agrees to pay to the donors, quarterly annuity payments until the donor's death. Based on the donor's life expectancy and the IRS discount rate (3.4% at June 30, 2005), the present value of future liabilities expected to be paid by the Foundation to the beneficiaries totaled $381,477 as of June 30, 2005 and 2004.

Assets received under these split interest agreements are recognized at fair market value at the date of receipt. The assets have been deposited in the Foundation's regular cash and investment accounts and are not maintained separately. The difference between the fair value of the assets received and the present value of the future distributions to the donors is recorded as contribution revenue.

Contribution revenue net of change in valuation of charitable gift annuities totaled ($50,959) and $57,506 for the years ended June 30, 2005 and 2004, respectively.

Note 12 - Charitable Remainder Trusts—The Foundation is named as the residual beneficiary of three charitable remainder unitrusts. Under the terms of the unitrusts, a primary beneficiary receives annual distributions of a certain percentage of the net fair market value of the trust as of the first day of the taxable year. At the death of the primary beneficiary the Foundation receives all of the principal and income of the trust. Because these unitrusts are administered by third-party trustees, the Foundation records this as a contribution receivable and contribution revenue for the present value of the future benefits expected to be received from the trusts. The present value is calculated based on IRS actuarial formulas based on the primary beneficiary's life expectancy utilizing a rate of 3.4% at June 30, 2005. At June 30, 2005 and 2004, the contribution receivable from the remainder trusts totaled $728,605 and $954,307, respectively.

The Foundation was also named as the trustee and residual beneficiary for one charitable remainder annuity trust. The Foundation agreed to pay to the primary beneficiary 50 % of the annual income from the trust in an amount no less than $1,200 per month and no more than $2,000 per month. Because the Foundation was the trustee, this trust was recorded as assets held in charitable remainder trust at fair market value, a liability based on the present value of future payments to be made to the primary beneficiary and, contribution revenue for the difference between the fair value of the asset and the liability, which represented the present value of the expected benefits to be received by the Foundation.

The obligation under this agreement expired in 2004 at the death of the beneficiary.

Contribution revenue net of change in valuation of charitable remainder trusts totaled ($225,702) and $69,632 for the years ended June 30, 2005 and 2004, respectively.

Note 13 - Temporarily Restricted Net Assets—Temporarily restricted net assets at June 30, 2005 and 2004 are available for the following purposes or periods:

	2005	2004
Periods after June 30,		
Program activities:		
Academic assistance	$ 17,575,275	$ 15,093,050
Student assistance	4,459,052	4,144,222
Unrealized gain on investments - unallocated	5,676,129	2,453,490
Unconditional promises to give, net - unallocated	(620,544)	(148,051)
Total temporarily restricted net assets	$ 27,089,912	$ 21,542,711

Net assets were released from donor restrictions during the years ended June 30, 2005 and 2004 by incurring expenses satisfying the purpose specified by donors as follows:

	2005	2004
Purpose restrictions accomplished:		
Academic assistance	$ 5,508,285	$ 3,841,423
Student assistance	1,210,466	1,094,794
Fundraising	158,586	111,268
Total restrictions released	$ 6,877,337	$ 5,047,485

Note 14 - Permanently Restricted Net Assets—Net assets were permanently restricted for the following purposes at June 30, 2005 and 2004:

	2005	2004
Academic assistance	$ 13,217,895	$ 13,281,198
Student assistance	30,847,558	28,846,203
Unrealized gain on investments - unallocated	204,021	440,628
Unconditional promises to give, net - unallocated	(22,613)	(22,524)
Total permanently restricted net assets	$ 44,246,861	$ 42,545,505

Note 15 - Concentrations of Credit Risk—The Foundation receives pledges from alumni as well as other individuals and companies. The pledges are unsecured. Unconditional promises to give are recorded net of an allowance for bad debts of $657,935 and $257,847 at June 30, 2005 and 2004, respectively.

The Foundation maintains substantially all of its cash balances with two financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $100,000. The Foundation had gross bank balances of $332,932 and $512,709 at these two financial institutions at June 30, 2005 and 2004, respectively.

Note 16 - Retirement Plan—The Foundation sponsors a defined contribution pension plan that covers all full-time employees and certain other employees. Full-time employees are eligible for participation on the first day of the month following employment. Employees hired on a part-time, temporary or irregular basis for less than 1,000 hours a year are eligible for participation “only if credited with 1,000 hours or more of service (including paid absence) during any 12 consecutive calendar month period commencing with his or her date of employment or any anniversary date, in which event he or she becomes an eligible employee as of the beginning of the 12 month period during which he or she was credited with at least 1,000 hours of service. Eligible employee does not include a person whose employment is incidental to his or her educational program.

Contributions to the plan are based on a percentage of salary as follows:

Employer	6 %
Employee	6 %

Pension expense for the fiscal years ended June 30, 2005 and 2004 was $24,490 and $14,489, respectively.

Note 17 - Functional Allocation of Expenses—The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 18 - Donated Services—The Foundation receives a significant amount of donated services from unpaid volunteers who assist in fund raising activities. No amounts have been recognized in the Statement of Activities because the criteria for recognition under SFAS No. 116 have not been satisfied.

Note 19 - Commitments—In June, 2002, the Foundation entered into an operating lease with the State of West Virginia (the lessee) and Marshall University (the tenant) for land. Under the terms of the agreement, the Foundation has committed to sell the property to the tenant at the termination of the lease at a purchase price of $748,800. The tenant has the option of paying the purchase price or a portion thereof prior to the termination of the lease. Under the lease agreement, the Foundation is to receive monthly payments ($2,873 at June 30, 2005) based on the outstanding purchase price beginning June 1, 2002 and ending May 31, 2007 unless otherwise cancelled. If the tenant exercises its option to pay a portion of the purchase price prior to termination of the lease, that portion of the property will be deeded to the tenant. The tenant opted to exercise this right in December 2004; January, 2004 and May, 2003 and made partial payments of $132,850, $103,200 and $100,250, respectively. Once the tenant pays the remainder of the purchase price, the lease shall terminate and the Foundation shall deed the remaining land to the tenant.

Minimum payments to be received as of June 30, 2005 for each of the next two years and in the aggregate are:

June 30,	
2006	$ 34,476
2007	31,603
Total	$ 66,079

Following is a summary of property on or held for lease at June 30, 2005 and 2004:

	2005	2004
Land	$ 412,500	$ 545,350

The Foundation has entered into employment contracts expiring in various years through 2008 for fund-raising services. At June 30, 2005, the total commitment was $33,568. The Foundation has also guaranteed contractual obligations for these personal services. At June 30, 2005, the maximum amount of these outstanding guarantees totaled $221,688.

The Foundation has entered into an agreement with an individual for fund-raising services. This agreement has no expiration date. The Foundation agrees to pay $25,000 annually for these personal services.

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ADDITIONAL INFORMATION

MARSHALL UNIVERSITY

ADDITIONAL INFORMATION - COMPONENT FINANCIAL DATA
SCHEDULE OF NET ASSETS INFORMATION
AS OF JUNE 30, 2005

	Community and Technical College	Four-Year and Other Components	Eliminations	Combined Institution
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 6,615,146	$ 58,324,529	$ -	$ 64,939,675
Accounts receivable—net	283,197	13,380,650	(83,097)	13,580,750
Loans receivable	317,585	462,250		779,835
Inventories		788,393		788,393
Other current assets	1,850	888,797		890,647
Total current assets	7,217,778	73,844,619	(83,097)	80,979,300
NONCURRENT ASSETS:				
Cash and cash equivalents		6,429,490		6,429,490
Accounts receivable		849,871		849,871
Loans receivable		6,196,894		6,196,894
Investments		3,818,034		3,818,034
Other assets		1,147,270		1,147,270
Capital assets—net	686,605	258,028,925		258,715,530
Total noncurrent assets	686,605	276,470,484		277,157,089
TOTAL	$ 7,904,383	$ 350,315,103	$ (83,097)	$ 358,136,389

(Continued)

MARSHALL UNIVERSITY

ADDITIONAL INFORMATION - COMPONENT FINANCIAL DATA
SCHEDULE OF NET ASSETS INFORMATION
AS OF JUNE 30, 2005

LIABILITIES AND NET ASSETS	Community and Technical College	Four-Year and Other Components	Eliminations	Combined Institution
CURRENT LIABILITIES:				
Accounts payable	$ 230,405	$ 8,697,166	$ (83,097)	$ 8,844,474
Accrued liabilities	209,670	4,155,119		4,364,789
Deferred revenue	329,306	5,974,828		6,304,134
Deposits		510,683		510,683
Compensated absences—current portion	89,702	5,305,715		5,395,417
Debt obligation to Commission—current portion		2,725,000		2,725,000
Capital lease obligations—current portion		966,109		966,109
Bonds payable—current portion		1,115,000		1,115,000
Total current liabilities	859,083	29,449,620	(83,097)	30,225,606
NONCURRENT LIABILITIES:				
Notes payable	32,003	9,591		41,594
Advances from federal sponsors	373,117	6,315,883		6,689,000
Compensated absences	262,518	9,534,918		9,797,436
Debt obligation to Commission		38,268,275		38,268,275
Capital lease obligations		8,644,711		8,644,711
Bonds payable		45,400,000		45,400,000
Total noncurrent liabilities	667,638	108,173,378	-	108,841,016
Total liabilities	1,526,721	137,622,998	(83,097)	139,066,622
NET ASSETS:				
Invested in capital assets—net of related debt	686,605	166,235,959		166,922,564
Restricted for:				
Nonexpendable		176,000		176,000
Expendable:				
Scholarships		67,315		67,315
Sponsored projects	3,112	10,166,495		10,169,607
Loans		2,132,746		2,132,746
Capital projects		211,241		211,241
Debt service		549,248		549,248
Total restricted expendable	3,112	13,127,045	-	13,130,157
Unrestricted	5,687,945	33,153,101		38,841,046
Total net assets	6,377,662	212,692,105	-	219,069,767
TOTAL	$7,904,383	$350,315,103	$ (83,097)	$358,136,389

See note to additional information - component financial data. (Concluded)

MARSHALL UNIVERSITY

ADDITIONAL INFORMATION—COMPONENT FINANCIAL DATA
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005

	Community and Technical College	Four-Year and Other Components	Eliminations	Combined Institution
OPERATING REVENUES:				
Student tuition and fees (net of scholarship allowance of $2,082,398, $15,688,764, and $17,771,162), respectively	$ 2,972,585	$ 44,675,677	$ -	$ 47,648,262
Contracts and grants:				
Federal	2,236,693	36,834,166		39,070,859
State	1,067,219	16,846,346	(3,807,013)	14,106,552
Local		767,453		767,453
Private	67,113	11,244,718		11,311,831
Interest on loans receivable	9,531	105,703		115,234
Sales and services of educational activities		309,048		309,048
Auxiliary enterprise revenue (net of scholarship allowance of $0, $2,618,449, and $2,618,449), respectively	246,013	22,812,740		23,058,753
Other operating revenues	2,120,211	6,777,386		8,897,597
Total operating revenues	8,719,365	140,373,237	(3,807,013)	145,285,589
OPERATING EXPENSES:				
Salaries and wages	3,508,930	91,798,633		95,307,563
Benefits	693,922	26,396,805		27,090,727
Supplies and other services	5,807,767	37,235,293	(3,807,013)	39,236,047
Utilities	4,347	5,751,282		5,755,629
Student financial aid—scholarships and fellowships	1,437,406	12,779,659		14,217,065
Depreciation	193,723	11,883,626		12,077,349
Other operating expenses	14,450	26,893		41,343
Fees assessed by the Commission for operations	60,238	627,674		687,912
Total operating expenses	11,720,783	186,499,865	(3,807,013)	194,413,635
OPERATING LOSS	(3,001,418)	(46,126,628)	-	(49,128,046)

(Continued)

MARSHALL UNIVERSITY

ADDITIONAL INFORMATION—COMPONENT FINANCIAL DATA
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005

	Community and Technical College	Four-Year and Other Components	Eliminations	Combined Institution
NONOPERATING REVENUES (EXPENSES):				
State appropriations	$ 5,334,681	$ 55,856,694	$ -	$ 61,191,375
Gifts		878,596		878,596
Investment income	118,498	1,276,122		1,394,620
Interest on indebtedness		(2,786,451)		(2,786,451)
Fees assessed by the Commission for debt service		(2,118,840)		(2,118,840)
Other nonoperating revenues (expenses)—net	(4,249)	(524,145)		(528,394)
Net nonoperating revenues	5,448,930	52,581,976	-	58,030,906
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	2,447,512	6,455,348		8,902,860
CAPITAL GRANTS AND GIFTS		22,648,396		22,648,396
CAPITAL PROJECTS AND BOND PROCEEDS FROM THE COMMISSION		1,474,466		1,474,466
INCREASE IN NET ASSETS BEFORE TRANSFERS	2,447,512	30,578,210	-	33,025,722
TRANSFER OF ASSET (LIABILITY) FROM THE COMMISSION		(250,000)		(250,000)
TRANSFERS—INCLUDING DEBT	(686,742)	686,742		
INCREASE IN NET ASSETS	1,760,770	31,014,952	-	32,775,722
NET ASSETS—Beginning of year	4,616,892	181,677,153		186,294,045
NET ASSETS—End of year	$ 6,377,662	$212,692,105	$ -	$219,069,767

See note to additional information—component financial data. (Concluded)

MARSHALL UNIVERSITY

ADDITIONAL INFORMATION—COMPONENT FINANCIAL DATA
SCHEDULE OF CASH FLOW INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005

	Community and Technical College	Four Year and Other Components	Combined Institution
CASH FLOWS FROM OPERATING ACTIVITIES:			
Student tuition and fees	$ 2,942,179	$ 44,287,730	$ 47,229,909
Contracts and grants	3,317,249	64,701,273	68,018,522
Payments to and on behalf of employees	(4,267,720)	(117,829,802)	(122,097,522)
Payments to suppliers	(5,713,038)	(37,186,865)	(42,899,903)
Payments to utilities	(4,347)	(5,751,282)	(5,755,629)
Payments for scholarships and fellowships	(1,437,406)	(12,779,659)	(14,217,065)
Loans issued		(1,474,977)	(1,474,977)
Collection of loans	55,102	1,555,091	1,610,193
Sales and service of educational activities		309,048	309,048
Auxiliary enterprise charges	246,013	22,699,037	22,945,050
Fees assessed by Commission	(60,238)	(627,674)	(687,912)
Other receipts—net	2,113,704	7,050,061	9,163,765
Net cash used in operating activities	(2,808,502)	(35,048,019)	(37,856,521)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
State appropriations	5,249,983	55,223,820	60,473,803
Notes payable	32,003	(41,767)	(9,764)
Gift receipts		1,008,645	1,008,645
Advance from federal sponsor (nonoperating)	430	40,000	40,430
William D. Ford direct lending receipts		45,471,262	45,471,262
William D. Ford direct lending payments		(45,471,026)	(45,471,026)
Net cash provided by noncapital financing activities	5,282,416	56,230,934	61,513,350
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:			
Capital grants and gifts received		22,691,579	22,691,579
Capital projects proceeds from Commission		850,228	850,228
Purchases of capital assets	(253,116)	(34,203,267)	(34,456,383)
Principal paid on bonds and leases		(2,025,338)	(2,025,338)
Interest paid on bonds and leases		(2,804,931)	(2,804,931)
Proceeds from sale of capital assets		49,269	49,269
Principal payment on debt obligation due Commission		(2,781,300)	(2,781,300)
Fees assessed by Commission		(2,118,841)	(2,118,841)
Lease escrow deposit to restricted cash		(2,600,000)	(2,600,000)
Transfers - Including Debt	(686,742)	686,742	
Decrease in noncurrent cash and cash equivalents		334,769	334,769
Net cash used in capital financing activities	(939,858)	(21,921,090)	(22,860,948)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments		(44,622)	(44,622)
Sale/maturity of investments			
Interest on investments	105,285	1,176,928	1,282,213
Lease receipts		74,265	74,265
Net cash provided by (used in) investing activities	105,285	1,206,571	1,311,856
INCREASE IN CURRENT CASH AND CASH EQUIVALENTS	1,639,341	468,396	2,107,737
CURRENT CASH AND CASH EQUIVALENTS—Beginning of year	4,975,805	57,856,133	62,831,938
CURRENT CASH AND CASH EQUIVALENTS—End of year	$ 6,615,146	$ 58,324,529	$ 64,939,675

(Continued)

MARSHALL UNIVERSITY

ADDITIONAL INFORMATION—COMPONENT FINANCIAL DATA
SCHEDULE OF CASH FLOW INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005

	Community and Technical College	Four Year and Other Components	Combined Institution
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:			
Operating loss	$ (3,001,418)	$ (46,126,628)	$ (49,128,046)
Adjustments to reconcile net operating loss to net cash used in operating activities:			
Depreciation expense	193,723	11,883,626	12,077,349
Changes in assets and liabilities:			
Accounts receivable—net	150,454	(2,688,970)	(2,538,516)
Loans receivable—net	(317,585)	922,879	605,294
Other Assets	(1,850)	(481,840)	(483,690)
Inventories		(19,253)	(19,253)
Accounts payable	41,764	1,851,337	1,893,101
Accrued liabilities	28,729	234,443	263,172
Compensated absences	(93,597)	410,549	316,952
Deferred revenue	(181,409)	(442,480)	(623,889)
Deposits held in custody for others		41,003	41,003
Advances from federal sponsors	372,687	(632,685)	(259,998)
NET CASH USED IN OPERATING ACTIVITIES	$ (2,808,502)	$ (35,048,019)	$ (37,856,521)
NONCASH TRANSACTIONS:			
Capital lease obligation incurred for equipment	$	$ 507,186	$ 507,186
Capital gifts of equipment	$	$ 1,870,916	$ 1,870,916
Loss on disposal of assets	$ 4,249	$ 694,194	$ 698,443

See note to additional information - component financial data

(Concluded)

MARSHALL UNIVERSITY

ADDITIONAL INFORMATION—COMPONENT FINANCIAL DATA
SCHEDULE OF NATURAL CLASSIFICATIONS WITHIN FUNCTIONAL CLASSIFICATIONS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005

Community and Technical College

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Other Operating Expenses	Fees Assessed by Commission
Instruction	$ 2,690,040	$ 569,300	$ 1,504,965	$ -	$ -	$ -	$ -	$ -
Research								
Public service	346,045	50,670	198,959	3,639			14,450	
Academic support	273,267	100,732	719,568					
Student services			795,389					
General institutional support	199,578	(26,780)	390,127					
Operations and maintenance of plant			1,952,746	708				
Student financial aid					1,437,406			
Auxiliary enterprises			246,013					
Depreciation						193,723		
Other								60,238
Total	$ 3,508,930	$ 693,922	$ 5,807,767	$ 4,347	$ 1,437,406	$ 193,723	$ 14,450	$ 60,238

Four Year and Other Components

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Other Operating Expenses	Fees Assessed by Commission
Instruction	$44,005,071	$12,406,573	$ 5,032,196	$ 387	$ 30,061	$ -	$ -	$ -
Research	6,676,768	2,053,314	6,353,162	321,589	16,513		(63,320)	
Public service	7,686,365	1,964,351	3,989,811	183,729	58,133		(14,450)	
Academic support	8,432,631	2,252,539	3,886,055	10,692				
Student services	5,680,940	1,805,840	3,088,158	688				
General institutional support	8,785,376	2,307,203	2,710,250	35,033	2,990		253	
Operations and maintenance of plant	3,555,920	1,341,100	2,853,515	3,398,291				
Student financial aid	30,800	3,035	19,931		12,671,962			
Auxiliary enterprises	6,944,762	2,262,850	9,302,215	1,800,873				
Depreciation						11,883,626		
Other							104,410	627,674
Total	$91,798,633	$26,396,805	$37,235,293	$5,751,282	$12,779,659	$11,883,626	$ 26,893	$627,674

See note to additional information—component financial data.

NOTE TO ADDITIONAL INFORMATION—COMPONENT FINANCIAL DATA
FOR THE YEAR ENDED JUNE 30, 2005

1. COMMUNITY AND TECHNICAL COLLEGE

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

Education and general capital 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 paid to the University as an operating expense for CTC and state contract revenue for the University.

Tuition and required education and general 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, 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's share of the Institution's operating expenses are calculated through the use of cost pools following cost allocation methods based on FTE enrollment of the CTC and the University.

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Board of Trustees
West Virginia Council of Community and Technical College Education:

We have performed the procedures enumerated below, which were agreed to by the West Virginia Council of Community and Technical Colleges (the "Council") and Marshall University (the "Institution") and solely to assist you in evaluating compliance of the Institution with respect to the provisions of the "Chargeback Agreement for Fiscal Year 2005" as approved by the Council on July 7, 2004 for the year ended June 30, 2005. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility Council and the Institution. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures that we performed and our findings are as follows:

Procedures:

1. Agree the beginning net assets of the Community and Technical College (C.T.C.) component to the Agreement with Institution.
2. Agree the administrative charge to C.T.C. for administrative (i.e., accounting or any other fixed fee established by Agreement) services to the Agreement with Institution.
3. Agree the FTE's of the C.T.C. and the Institution to the Table of Full Time Tuition Equivalent by Banner Rate Code as provided by Institution's Office of Institutional Research.
4. Recompute the C.T.C.'s FTE percentage of total FTE's.
5. Recompute the overhead charge to C.T.C. based on C.T.C.'s FTE percentage.

Findings:

The procedures 1 through 5 were performed without exception.

We were not engaged, and did not perform an examination, the objective of which would be the expression of an opinion on the assertion of the Council and the Institution. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

October 12, 2005

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Marshall University Governing Board:

We have audited the financial statements of Marshall University (the "University") as of and for the year ended June 30, 2005, and have issued our report thereon dated October 12, 2005, which states reliance on other auditors for the discretely presented component unit. We conducted our audit of the University 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. The audit of the University's discretely presented component unit was audited in accordance with generally accepted auditing standards but not in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 reportable 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.

Compliance and Other Matters

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 or other matters that are required to be reported under *Government Auditing Standards*.

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 and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

October 12, 2005

Marshall University
&
Marshall Community & Technical College
Student Profile

For the five year period, the headcount (FTE) has increased significantly going from 15,635 (11,623 FTE) in the Fall of 1999 to 16,326 (12,493 FTE) in the Fall of 2004. This is a five year increase of 691 (4%) in headcount and 870 (7%) FTEs.

Total Headcount

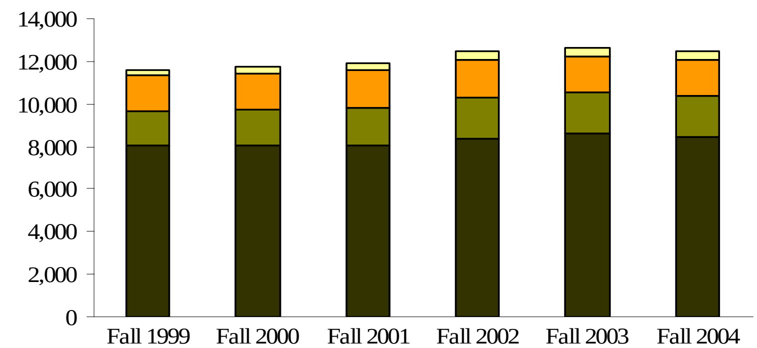
Undergraduate	12,262
Graduate	3,865
1st Professional	199
Full-time	11,068
Part-time	5,258

Age Distribution		
Less than 24	9,096	56%
24 to 29	2,994	18%
30 to 39	2,151	13%
40 to 49	1,379	9%
50 and older	706	4%

Residence Status		
In-State	13,532	83%
Out-of-State	2,794	17%

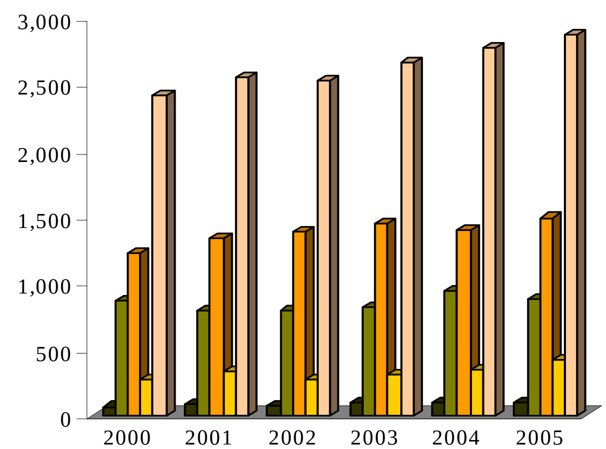
Living Arrangements		
Residence Halls	1,999	12%
Commuters	14,327	88%

FTE Enrollment 1999-2004



	Fall 1999	Fall 2000	Fall 2001	Fall 2002	Fall 2003	Fall 2004
Graduate and First Professional Non-Resident	316	317	335	387	402	401
Graduate and First Professional Resident	1,674	1,688	1,732	1,813	1,687	1,680
Undergraduate Non-Resident	1,626	1,716	1,774	1,905	1,936	1,924
Undergraduate Resident	8,007	8,028	8,058	8,360	8,639	8,488
TOTAL	11,623	11,749	11,899	12,465	12,664	12,493

Degrees Granted 1999-2005



	2000	2001	2002	2003	2004	2005
1st Professional, Graduate Certificate and Doctoral	64	82	74	99	95	90
Masters Degree	861	793	788	810	937	871
Baccalaureate Degree	1,226	1,336	1,384	1,447	1,395	1,487
Associate Degree	264	333	271	306	337	420
Total	2,415	2,544	2,517	2,662	2,764	2,868

Higher Education Policy Commission
2004-2005

Mary Clare Eros, Esq., Chair
Elliot G. Hicks, Esq., Vice Chair
Michael S. Garrison, Esq., secretary
Richard M. Adams
Kay Huffman Goodwin, Ex-Officio
R. Ken Hall
J. Thomas Jones
Nelson B. Robinson, Jr.
Terry R. Sammons, Esq.
Dr. David L. Steward, Ex-Officio
J. Michael Mullen, Chancellor

Marshall University Board of Governors
2004-2005

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Menis Ketchum, Esq., Vice Chair
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Gary Adkins
Letitia Neese Chafin
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Robert L. Shell, Jr.
William Smith
Gary G. White

Sherri Noble, Classified Staff Representative
Dr. James M. Sottile, Jr., Faculty Representative
Seth Murphy, Student Representative

ACKNOWLEDGEMENTS

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