Marshall University

Combined Financial Statements as of and for the
Years Ended June 30, 2008 and 2007,
Additional Information as of and for the
Year Ended June 30, 2008, and
Independent Auditors' Reports

MARSHALL UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

To the Governing Board of
Marshall University:

We have audited the accompanying combined statements of net assets of Marshall University (the "University") as of June 30, 2008 and 2007, and the related combined statements of revenues, expenses, and changes in net assets, and of cash flows for the years then ended. These combined financial statements are the responsibility of the management of the University. Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the discretely presented financial statements of The Marshall University Foundation, Inc. (the "Foundation") or MSH – Marshall, L.L.C. ("MSH – Marshall") (component units of the University). Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the discretely presented financial statements of the Foundation and MSH – Marshall, is based solely on the reports 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 financial statements of the Foundation and MSH – Marshall, 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 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 reports of the other auditors, such combined financial statements present fairly, in all material respects, the respective financial position of the University and the discretely presented component units of the University as of June 30, 2008 and 2007, 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.

As discussed in Note 2 to the financial statements, during the year ended June 30, 2008, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

The Management's Discussion and Analysis on pages 3 to 13 is not a required part of the basic combined financial statements, but is supplementary information required by the GASB. This supplementary information is the responsibility of the University's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information, and we do not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the University's basic combined 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 combined 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 combined financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2008, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

September 26, 2008

Marshall University
Management's Discussion and Analysis (Unaudited)
Fiscal Year 2008

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. With the passage of House Bill 3215 during the session of the West Virginia Legislature, effective July 1, 2008 the MCTC becomes a freestanding and independent institution no longer administratively linked to the four-year campus of Marshall University (See footnote 1 for more details).

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 approves 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, 803 faculty and 855 staff members. The Institution currently operates 12 colleges and schools, offering 26 associate degree programs, 47 baccalaureate degree programs, 42 master's degree programs, 2 post-master's degree programs and 5 doctoral programs, including a doctorate of medicine.

Overview of the Financial Statements and Financial Analysis

The emphasis of discussions about these Statements will be on FY 2008 data explaining with use of approximate dollar amounts the significant changes from the financial statements presented for the year ended June 30, 2007. 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, Inc., and MSH - Marshall, L.L.C. which are controlled and managed by independent 501(c) (3) corporations with separate independent Boards of Directors, are 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 related 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. The final category is unrestricted net assets. Unrestricted net assets are available for general use by the Institution.

Condensed Combined Statements of Net Assets
(In thousands of dollars)

	FY 2008	FY 2007	FY 2006
Assets:			
Current assets	$ 90,454	78,687	77,454
Other noncurrent assets	30,067	27,309	26,786
Capital assets, net	323,595	320,126	302,277
Total Assets	$ 444,116	$ 426,122	$ 406,517
Liabilities			
Current liabilities	$ 30,681	$ 31,419	$ 33,119
Noncurrent liabilities	100,966	108,171	110,223
Total Liabilities	$ 131,647	$ 139,590	$ 143,342
Net Assets			
Invested in capital assets, net of related debt	$ 241,037	$ 233,180	$ 213,613
Restricted - nonexpendable	176	176	176
Restricted - expendable	19,768	14,509	12,504
Unrestricted	51,488	38,667	36,882
Total Net Assets	$ 312,469	$ 286,532	$ 263,175

Changes to Total Assets

Total assets of the Institution increased by $17.9 million in FY 2008 compared to an increase of $19.6 million in FY 2007. This increase is due to the following:

- Total current and non-current cash and cash equivalents increased $14.5 million.
  - Cash balances at the research corporation increased $9.4 million, mainly due to $5.0 million from ESRE grant funds and $2.9 million from bond proceeds restricted for construction.
  - The School of Medicine cash increased $1.0 million of which $0.3 million is attributed to increased private grants and contracts and $0.7 million is related to student fees.
  - The Community and Technical College cash increased $0.6 million primarily related to new grants.
  - Cash balances for the University undergraduate/graduate increased $3.4 million, which is associated with E-courses and other student fees. Approximately $2 million in salaries and benefits previously paid from student fees were moved to state appropriations in FY 08.
  - Auxiliary cash increased $0.1 million, with current cash increasing $0.5 million offset by a decrease of $0.4 million in noncurrent cash for the payoff of the student center bonds.
- Total current and non-current accounts receivable increased $1.1 million.
  - There was a decrease of $1.0 million in current receivables from the Higher Education Policy Commission (the "Commission" or "HEPC") associated with capital projects.
  - Appropriations receivable from the state increased $0.9 million.
  - Receivables for the University include an increase of $0.6 million in noncurrent receivables related to the agreement with University Physicians & Surgeons (UP&S) for estimated malpractice liabilities. (See note 2 to the financial statements for more information).

    - Accounts receivable for MURC increased $0.6 million.
- Investments decreased $1.0 million, of which $0.2 million was investments of the University primarily due to market value decreases and $0.8 million was at MURC due to sale/maturity of investments.
- A decrease in other assets of $0.1 million is due to expenditures associated with the Mid Ohio Valley Center and amortization of bond issue costs.
- Capital Assets net of depreciation increased $3.5 million. Asset additions of $18.0 million were offset by disposals and depreciation of $14.5 million.
    - Construction in progress additions of $10.8 million included $1.2 million to complete the construction of the SOM Clinical Outreach Facility; $2.9 million for the new Engineering Lab building; $3.5 million for the new softball field, $0.8 million for Smith Hall renovations; and $0.4 million for phase II of the facilities building.
    - Land additions totaled $1.7 million, of which $1.4 million was the Faith United Methodist Church property on Fifth Avenue and 21^{st} street.
    - Equipment additions totaled $5.3 million
    - Infrastructure and Library Book additions totaled $0.2 million

Changes to Total Liabilities

Total liabilities of the Institution decreased $7.9 million in FY 2008 compared to a decrease of $3.7 million in FY 2007. The major change to liabilities this year is the adoption of GASB 45 for Other Post Employment Benefits (OPEB), which replaces the sick leave portion of the compensated absence liability previously recorded in accordance with GASB 16. See footnotes 2 and 10 for more information on OPEB. Other changes to liabilities in FY 2008 are related to deferred revenue, other noncurrent liabilities, and long-term debt including debt obligation to Commission, capital lease obligations and bonds payable.

The liability changes are related to the following:

- The compensated absences liability decreased $9.2 million by the elimination of the GASB 16 liability for sick leave. The annual leave portion of this liability increased by $0.2 million.
- The sick leave portion of the compensated absence liability was replaced by a $1.3 million liability for Other Post Employment Benefits (OPEB) as required by GASB 45
- Notes payable increased $3.0 million at MURC for the construction of an addition to the Forensic science center.
- Deferred revenue decreased $0.7 million including a $0.3 million decrease at MURC and a $0.4 million decrease at the University. The decrease for the University was due to: Athletics deferred revenue decreased by $1.0 million due to fewer advance season ticket sales for football, offset by increases in deferred revenue for grants of $0.3 million, an increase in deferred student fees of $0.1 million and an increase in housing reservation deposits of $0.2 million.
- Other noncurrent liabilities increased $1.2 million in FY 2008 reflecting the third year SOM agreement with the Board of Risk and Insurance Management (BRIM). This year a 80% confidence level was used to record the liability and in previous years a 90% confidence level was used.
- Current and noncurrent debt decreased by $4.5 million as repayment continues on the debt obligation to Commission, capital leases, and University bonds. This includes the payoff of the 1969 University Center Revenue Bonds.
- Accrued liabilities for payroll, accounts payable, and student deposits increased a total of $0.8 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 related 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 $7.9 million in FY 2008 and $19.6 million in FY 2007.

For the University, the increase is $7.2 million resulting from a $2.7 million increase in capital assets and a $4.5 million decrease in debt for capital assets. The net assets-invested in capital assets of MURC increased $0.7 million.

Endowments are recorded as restricted nonexpendable net assets and did not change.

Total expendable restricted net assets increased $5.3 million in FY 2008 and $2.0 million in FY 2007. Net assets of the University restricted for sponsored projects and loans decreased $0.4million and total expendable restricted net assets of MURC increased by $5.7 million primarily related to the $5.0 million ESRE grant.

The unrestricted net asset balance of $51.5 million in FY 2008 represents a $12.8 million increase from FY 2007, which contrasts to the $1.8 million increase in FY 2007 from FY 2006. Unrestricted net assets increased $0.6 million for MURC and $12.2 million for the University. The cumulative effect of adoption of accounting principle relating to the removal of the GASB 16 compensated absence liability (sick leave portion) increased net assets for the University by $9.2 million.

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

	FY 2008	FY 2007	FY 2006
Operating revenues	$ 172,931	$ 163,611	$ 157,451
Operating expenses	(240,548)	(229,608)	(215,182)
Operating loss	(67,617)	(65,997)	(57,731)
Nonoperating revenues	78,017	72,104	65,793
Nonoperating expenses	(4,505)	(5,609)	(4,985)
Income before other revenues, expenses, gains or losses	5,895	498	3,077
Other revenues, expenses, gains or losses	10,842	23,694	41,028
Increase in Net Assets before Transfers	16,737	24,192	44,105
Cumulative effect of adoption of accounting principle	9,200		
Transfer of liability from Policy Commission	-	(835)	-
Increase in Net Assets	$ 25,937	$ 23,357	$ 44,105

Statement of Revenues, Expenses and Changes in Net Assets

The purpose of the Statement of Revenues, Expenses, and Changes in Net Assets is to present the revenues and expenses, both operating and non-operating, as well as other gains and losses of the Institution.

Operating Revenues

Operating revenues are received for student tuition and fees, grants and contracts, auxiliary services and miscellaneous revenue. Operating revenues were $172.9 million in FY 2008 for an increase of $9.3 million compared to an increase of $6.1 million in FY 2007. These increases are primarily the result of:

- Tuition and fee revenue increased $2.0 million, of which $1.7 million was E-course fees with the remainder attributed to net increases in E&G, capital, and other fees.

- Federal grant and contract revenue increased $2.8 million. Federal grants for the University increased $1.6 million and for MURC, net of eliminations for construction grants, the increase was $1.2 million. The increase for the University was primarily due to a $1.5 million increase in PELL grants.
- State grant and contract revenue increased $3.6 million, of which $0.5 million was at the University and $3.1 million was at MURC (net of eliminations for construction grants). The increase at MURC is primarily due to the $5.0 million Eminent Scholars Recruitment & Enhancement Program (ESRE) grant.
- Private and local grant and contract revenues decreased a total of $1.3 million, of which $1.1 million is due to the decrease in the contract receivable from UP&S for their portion of the medical malpractice coverage.
- Auxiliary enterprise revenues increased $3.6 million. Housing revenues increased $1.2 million due to increases in housing rates and Athletic revenues increased $1.9 million due to increased season ticket sales related to the home game with WVU.
- Other operating revenues decreased $1.4 million. MURC, net of eliminations, decreased $0.8 million and the University decreased $0.6 million, including a $1.0 million decrease at CTC offset by a $0.2 million increase for SOM and $0.2 million increase in graduate/undergraduate.

Operating Expenses

Operating expenses are paid for goods and services to carry out the mission of the Institution. Operating expenses increased to $240.5 million in FY 2008 for an increase of $10.9 million as compared to an increase of $14.4 million in FY 2007. These increases are primarily the result of:

- Salaries and wages increased $4.1 million due to raises that averaged 2.3% for faculty and staff.
- Benefits increased $4.4 million
    - Other Post Employment Benefits for FY08 totaled $7.9 million, of which $3.8 million was restated from insurance benefits expense, for a net increase of $4.1 million.
    - Fringe benefits (net of OPEB restatement) increased $0.3 million
- Utilities increased $0.8 million. For the University, electric increased $0.4 million, gas increased $0.3 million, water increased $0.2 million and other utilities increased $0.1 million while MURC utilities decreased $0.2 million.
- Student financial aid increased $0.9 million. Scholarships increased $2.5 million offset by a $1.6 million increase in the scholarship allowance. PELL increased $1.5 million, logo royalty and other institutional scholarships increased $ 0.4 million and Higher Ed grants increased $0.5 million.
- Depreciation increased $0.3 million with the Clinical Outreach Center and various renovation projects starting to depreciate.

Non-operating Revenues and Expenses

Revenues for which goods and services are not provided are reported as non-operating revenues. Non-operating revenues for FY 2008 were $78.0 million which was an increase of $5.9 million as a result of:

- State appropriations increased $5.0 million.
    - The School of Medicine appropriations increased $2.5 million including a supplemental appropriation of $2.0 million for support of the Orthopedic Residency Program.
    - Community and Technical College appropriations increased $0.3 million including a supplemental appropriation of $89,000 in lieu of the requested tuition and fee increase.
    - General University appropriations increased $2.2 million including $250,000 for the Autism Training Center.
- Gift revenue increased $0.1 million primarily due to gifts from the MU Foundation.
- Investment income decreased $2.0 million.
    - Investment income for the University from multi-strategy funds managed by Commonfund decreased $1.6 million, of which $1.4 million is the result of market value changes.
    - Interest distributions associated with the State's investment pool decreased $0.3 million.
    - Investment income for MURC decreased $0.1 million.
- Payments on behalf of Marshall University increased $2.8 million. This represents the amount contributed by the State and PEIA towards the OPEB expenses for Marshall employees. PEIA contributed $2.1 million

and the state provided an additional contribution of $0.7 million. These contributions may not be continued in future years.

Non-operating expenses for FY 2008 were $4.5 million which was a decrease of $1.1 million as a result of:

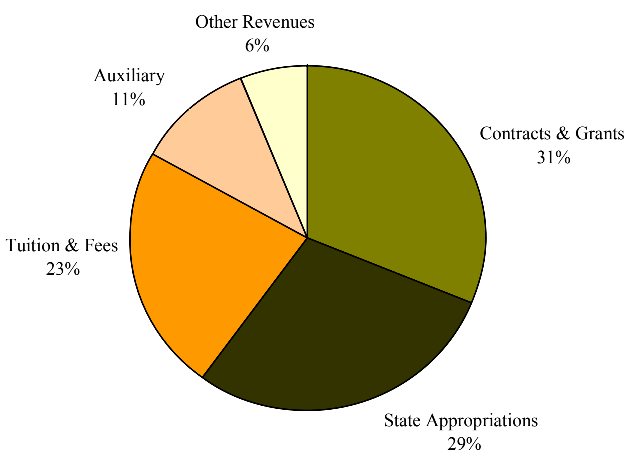
- Interest on indebtedness and fees retained by Commission (Higher Education Policy Commission) combined decreased $0.4 million. This represents the reduction in interest expense as the principal amounts of the associated liabilities decreased.
- Other non-operating expenses decreased $0.7 million. In FY07, the expenses were higher due to the demolition of two storage buildings to accommodate construction of the Student Health and Wellness Center.

Total operating and non-operating revenue for the Institution was $250.9 million in FY 2008 as compared to $235.7 million in FY 2007. Revenues as a percentage for FY 2008 and 2007 are shown on graph A.

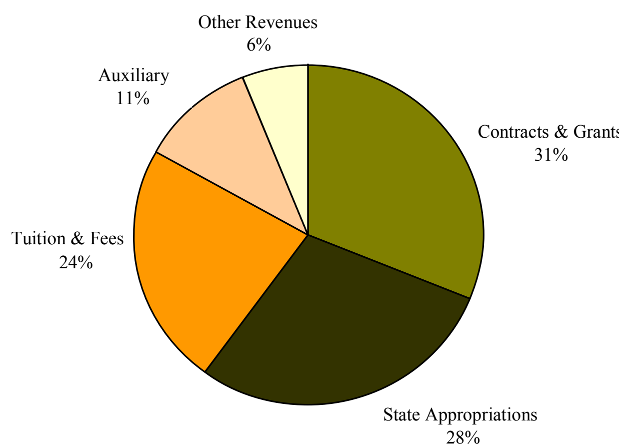
Total operating and non-operating expense for the Institution was $245.0 million in FY 2008 as compared to $235.2 million in FY 2007. Expenses as a percentage for FY 2008 and 2007 are shown by object of expenditure in graph B and by functional classification in graph C.

Total Operating and Non-operating Revenues (Graph A)

FY 2008



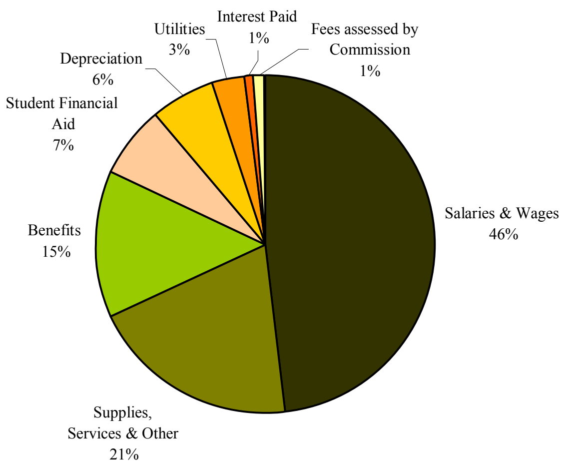
FY 2007



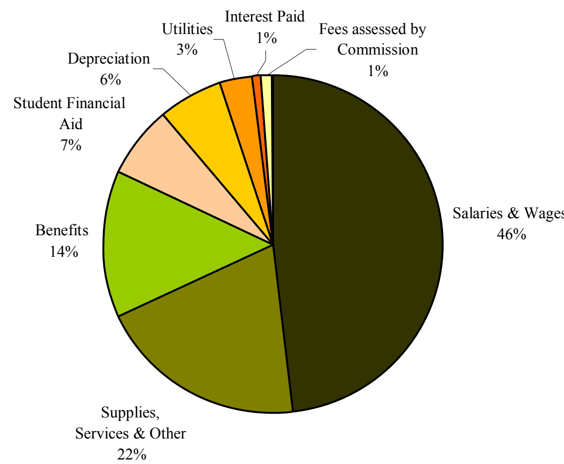
Total Operating and Non-operating Expenses

By Object (Graph B)

FY 2008

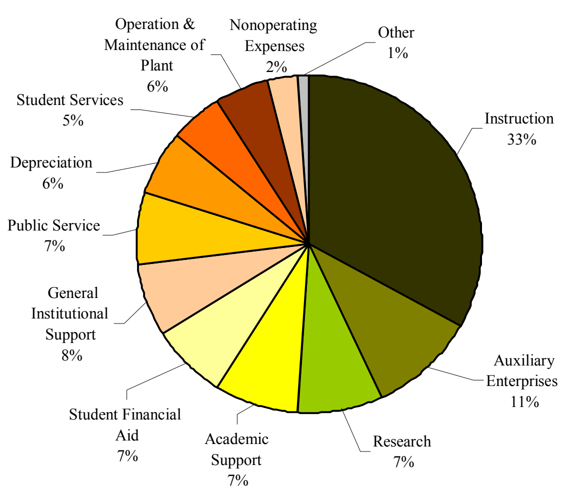


FY 2007

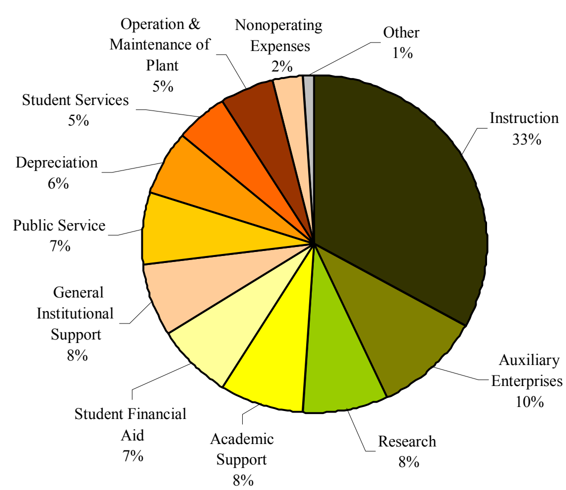


By Function (Graph C)

FY 2008



FY 2007



Income before other Revenues, Expenses and Other items

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 2008, the income was $5.9 million for the Institution. Of this total, the University had a net loss of $1.0 million while MURC had income of $6.9 million.

Changes to Net Assets

The increase in net assets of $25.9 million reflects improvement in the Institution's general financial condition. The net asset increase includes federal construction grants of $1.1 million and $3.2 million of Lottery bond proceeds from HEPC.

The $9.2 million cumulative effect of adoption of accounting principle in FY 2008 is due to the change in reporting requirements when adopting GASB 45 for Other Post Employment Benefits. This required removing the previous compensated absence (sick leave) liability at 6-30-07 of $9.2 million that was recorded in accordance with GASB 16.

The $835,000 transfer of liability from Policy Commission in FY 2007 is attributable to the Commission bond refinancing in that year. There was not any similar activity in FY 2008 or FY 2006.

Statement of Cash Flows

The statement of cash flows provides information about the cash receipts, cash payments, and net change in cash resulting from the operating, investing, and financing activities (capital and noncapital) of the University during the year. This statement helps users assess the University's ability to generate net cash flows, its ability to meet obligations as they come due, and its need for external finance.

Condensed Combined Statements of Cash Flows
(In thousands of dollars)

	FY 2008	FY 2007	FY 2006
Cash flows provided by (used in):			
Operating activities	$ (49,028)	$ (46,694)	$ (45,688)
Noncapital financing activities	71,996	67,666	64,583
Capital and related financing activities	(15,067)	(17,272)	(21,936)
Investing activities	3,497	3,823	(4,702)
Net Change in current cash	11,398	7,523	(7,743)
Current cash, beginning of year	64,720	57,197	64,940
Current cash, end of year	$ 76,118	$ 64,720	$ 57,197

The statement of cash flows is divided into five sections:

- Cash flows from operating activities show the net cash used by the operating activities of the university. The change in this section reflects increases to cash collections for tuition and fees, auxiliaries, and other operating revenues, offset by increased cash disbursements for operating expenditures
- Cash flows from noncapital financing activities reflect the cash received and paid for nonoperating, noninvesting, and noncapital financing purposes. The increase in State appropriations was the primary reason for the change in this section.

- Cash flows from capital financing activities include cash used for the acquisition and construction of capital and related items. This category reflects the decrease in cash outflows as construction projects were completed.
- Cash flows from investing activities show the purchases, proceeds, and interest received from investing activities. Decreased earnings on investments and cash on deposit in the State investment pool were the primary reason for changes in this section.
- Reconciliation of operating loss to net cash used in operating activities provides a schedule that reconciles the accrual-based operating income loss and net cash used in operating activities.

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. Projects completed this year include the Clinical Outreach Center and the new softball field. New projects started this year include the Engineering Lab building which opened in August 2008, an addition to the Forensic Science building, and phase two of the Athletic Facilities building.

A new component unit for the University, as reported to comply with GASB 39, is MSH – Marshall, L.L.C., which was formed for the purpose of acquiring and financing the new freshman residence halls which opened in August 2008 as well as the wellness center which is scheduled to open in February 2009. Their financial statements for the nine months ended June 30, 2008 are presented on separate pages following the University statements. Further disclosures concerning the assets and related debt of this company are included in footnote 21.

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 has been used for biotechnology facilities, student health and wellness center land development, community college facilities, other facilities and major improvements to existing facilities. The University has recognized $30.1 million of this available amount as of June 30, 2008.

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 including two revenue bond issues of the University. The first was for construction of Memorial Student Center (1969) and the second was for construction of housing and parking facilities (2001). The Memorial Student Center bonds were paid off during the 2008 fiscal year. Both of these bonds including payment schedules are more fully described in Note 8 to the financial statements.

The second method of bonding 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. 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. In FY 2008, principal payments to the HEPC of $3.1 million, interest assessed by HEPC of $1.6 million, and fees assessed for debt service reserve and other bond costs of $49,000 resulted in a total payment of $4.7 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 issuance 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 were refinanced in 2007 as part of the 2007 Series A bonds and will be retired through 2027 with annual payments of $0.8 million.
- In 2000, the University participated in a system-wide bond issuance 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. These bonds were refinanced in 2007 as the part of the 2007 Series A bonds and future payments will be approximately $660,000 per year through 2025. Payment on these bonds is made from rental income from University Physicians and Surgeons, Inc., the practice plan associated with the University's School of Medicine.

Economic Outlook

The State of West Virginia continues to experience a downward trend in the number of high school graduates. The University is well positioned by virtue of its location in the two largest metropolitan regions of the state to attract and maintain non-traditional students to replace any losses of traditional college-age students. The University continues to place additional emphasis on the retention of all students and the recruitment of out-of-state students. An increase in non-resident headcount of 10% (Fall, 2008 over Fall, 2007) is viewed as positive related to the competitiveness of the University in these multi-state markets. The addition of the new freshman year residence halls, which opened in the Fall of 2008, and the student health and wellness center scheduled to open in February 2009, combined with improvements to existing facilities along with the growth in non-resident students and a marketable fee structure, should allow the University to sustain a positive competitive advantage in the ability to attract new and retain returning students at higher levels than in the past.

Additionally, the availability of electronic courses, which has provided an increase in revenues of approximately $4.2 million over the past four years, assists in the University's efforts to attract the non-traditional student by expanding its outreach opportunities to better serve students in remote markets wherever Internet service is available. Growth in electronic course enrollment is anticipated to continue and will provide the University with a revenue stream apart from state appropriations.

The University's financial position is closely correlated to that of the State of West Virginia. The institution continues to be at risk for a reallocation of state appropriations to other state institutions and/or non-higher education state funded entities. A considerable percentage of the University's operational budget is funded by state appropriations; however, the University has taken strides to lower this dependence through initiatives that will provide greater self-reliance and sustainability for the future.

Significant University resources are expended on salaries and fringe benefits associated with a labor-intensive organization. Over the past five years, the University has granted overall nearly 14.8% in salary increases; however, the increased costs related to health insurance and postemployment benefits continue to place added economic pressure on the operational budget. The ability to compensate personnel and to recruit and maintain quality faculty and staff continues to be an ongoing challenge given the limited resources intertwined with tight budgets to fund salary increases and the uncertainty of future economic conditions.

The opening of the Robert C. Byrd Biotechnology Science Center on the Huntington campus in FY 2007 provides state-of-the-art facilities for the University's biomedical research programs, medical education, and the College of Science. The ability to bring such a facility to students enrolled in these programs together in a central location will enhance educational and research initiatives of the University and will serve as a catalyst for economic development in West Virginia and the surrounding region. In April 2008, the Marshall Institute for Interdisciplinary Research, Inc. (MIIR) was created to develop and manage a specific endowment-based research program in furtherance of MURC's research mission with a focus on interdisciplinary research and development involving targeted areas of biotechnology and bio-nanotechnology. Private endowment gifts in support of research will be matched dollar-for-dollar through the WV Research Trust Fund created by the WV Legislature. This funding mechanism will assist these efforts. MIIR is expected to intensify and accelerate the rate at which Marshall's research reaches the marketplace, thus benefiting the university and the state. A new Engineering Laboratory facility, which will serve the University's new 4-year engineering program, was completed in August 2008. This latter program is one of the fastest growing academic programs at the university in terms of enrollment growth.

Management is unable to predict with certainty the full extent or effect of future economic events; however, we are confident the University has a sound financial base and a well-developed, comprehensive plan for long-range, sustainable revenue enhancement and will take the necessary action required should economic conditions of the state negatively impact the institution's operational budget.

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 76,117,676	$ 64,719,913
Accounts receivable — net	12,445,371	11,981,922
Loans receivable	777,085	785,684
Inventories	754,195	812,697
Other current assets	359,459	386,876
Total current assets	90,453,786	78,687,092
NONCURRENT ASSETS:		
Cash and cash equivalents	7,924,835	4,838,061
Investments	10,301,590	11,342,246
Accounts receivable	4,322,083	3,666,248
Loans receivable — net of allowance of $1,431,673 and $1,505,993 in 2008 and 2007, respectively	6,380,388	6,244,981
Other assets	1,138,894	1,217,322
Capital assets — net	323,594,585	320,126,245
Total noncurrent assets	353,662,375	347,435,103
TOTAL	$444,116,161	$426,122,195

(Continued)

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2008 AND 2007

LIABILITIES AND NET ASSETS	2008	2007
CURRENT LIABILITIES:		
Accounts payable	$ 4,866,204	$ 4,561,887
Due to the Commission	1,654	6,604
Accrued liabilities	6,641,035	6,167,953
Deferred revenue	7,770,591	8,473,610
Deposits	708,983	636,583
Compensated absences — current portion	5,427,287	6,222,462
Debt obligation to the Commission — current portion	3,206,000	3,097,400
Capital lease obligations — current portion	1,014,361	1,048,056
Bonds payable — current portion	1,045,000	1,205,000
Total current liabilities	30,681,115	31,419,555
NONCURRENT LIABILITIES:		
Notes payable	3,047,957	41,633
Advances from federal sponsors	6,469,811	6,601,954
Other noncurrent liability	5,735,000	4,534,425
Compensated absences	2,784,492	10,953,715
Other postemployment benefits liability	1,373,286	
Debt obligation to the Commission	29,947,400	33,153,400
Capital lease obligations	9,832,934	9,850,888
Bonds payable	41,775,000	43,035,000
Total noncurrent liabilities	100,965,880	108,171,015
Total liabilities	131,646,995	139,590,570
NET ASSETS:		
Invested in capital assets — net of related debt	241,036,631	233,179,806
Restricted for:		
Nonexpendable	176,000	176,000
Expendable:		
Scholarships	79,803	93,583
Sponsored projects	17,053,091	11,248,706
Loans	2,551,552	2,457,684
Capital projects	1,473	154,648
Debt service	82,688	554,079
Total restricted expendable	19,768,607	14,508,700
Unrestricted	51,487,928	38,667,119
Total net assets	312,469,166	286,531,625
TOTAL	$444,116,161	$426,122,195

See notes to combined financial statements.

(Concluded)

MARSHALL UNIVERSITY

THE MARSHALL UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2008 AND 2007

ASSETS	2008	2007
Cash and cash equivalents	$ 8,847,710	$ 5,513,374
Notes receivable	153,423	251,278
Unconditional promises to give, less allowance for uncollectible promises of $145,785 and $280,033 in 2008 and 2007, respectively	5,278,528	5,581,670
Contributions receivable from remainder trusts	760,868	964,151
Other contributions receivable	141,805	
Beneficial interest in perpetual trusts	7,381,412	8,130,467
Investments	93,628,042	99,667,407
Net investment in direct financing leases	4,498,005	
Property and equipment — net	2,732,806	1,961,959
Cash surrender value — life insurance, net of policy loans	277,395	239,926
Other assets	614,000	
TOTAL	$ 124,313,994	$ 122,310,232

LIABILITIES AND NET ASSETS

	2008	2007
LIABILITIES:		
Accounts payable	$ 543,984	$ -
Bonds payable	4,516,015	
Annuity payment liability	561,924	648,037
Deferred revenue	96,435	
Total liabilities	5,718,358	648,037
NET ASSETS:		
Unrestricted	21,596,127	20,404,140
Temporarily restricted	33,592,997	40,220,696
Permanently restricted	63,406,512	61,037,359
Total net assets	118,595,636	121,662,195
TOTAL	$ 124,313,994	$ 122,310,232

The accompanying notes are an integral part of the financial statements.

MARSHALL UNIVERSITY

MSH – MARSHALL, L.L.C.
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2008

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	$ 6,205
Investments — bond funds	34,082,767
Accounts receivable — other	140,646
Total current assets	34,229,618
RESTRICTED ASSETS	
Investments — debt service reserves	5,005,271
OTHER ASSETS:	
Construction in progress	49,157,235
Debt issuance costs — net	2,627,591
Total other assets	51,784,826
TOTAL	$ 91,019,715

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable and accrued liabilities	$ 3,690,629
Accrued interest payable	352,433
Total current liabilities	4,043,062
LONG-TERM LIABILITIES:	
Tax-exempt bonds payable — net	80,745,000
Taxable bonds payable — net	320,000
Developer bond payable	2,700,000
Swap liability	3,211,653
Total long-term liabilities	86,976,653
NET ASSETS, UNRESTRICTED	-
TOTAL	$ 91,019,715

See notes to accompanying financial statements.

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
OPERATING REVENUES:		
Student tuition and fees — net of scholarship allowance of $19,958,390 and $17,726,387 in 2008 and 2007, respectively	$ 57,634,099	$ 55,673,025
Contracts and grants:		
Federal	41,878,472	39,090,666
State	22,920,242	19,336,331
Local	821,529	788,817
Private	13,018,233	14,357,499
Interest on loans receivable	130,336	132,053
Sales and services of educational activities	309,405	341,914
Auxiliary enterprise revenue — net of scholarship allowance of $3,767,298 and $4,408,005 in 2008 and 2007, respectively	28,414,918	24,766,375
Other operating revenues	7,803,731	9,124,361
Total operating revenues	172,930,965	163,611,041
OPERATING EXPENSES:		
Salaries and wages	111,186,588	107,055,131
Benefits	37,572,728	33,190,327
Supplies and other services	51,215,169	50,927,551
Utilities	7,694,673	6,839,388
Student financial aid — scholarships and fellowships	17,738,970	16,839,770
Depreciation	14,267,589	14,001,212
Other operating expenses	182,657	56,701
Fees assessed by the Commission for operations	689,970	697,748
Total operating expenses	240,548,344	229,607,828
OPERATING LOSS	(67,617,379)	(65,996,787)

(Continued)

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
NONOPERATING REVENUES (EXPENSES):		
State appropriations	$ 71,784,367	$ 66,754,533
Payments on behalf of Marshall University	2,787,846	
Gifts	1,120,679	991,752
Investment income	2,324,489	4,357,968
Interest on indebtedness	(2,694,942)	(2,734,331)
Fees assessed by the Commission for debt service	(1,645,777)	(1,958,913)
Other nonoperating expenses — net	(163,946)	(916,094)
Net nonoperating revenues	73,512,716	66,494,915
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	5,895,337	498,128
CAPITAL GRANTS AND GIFTS	7,679,332	10,787,352
CAPITAL BOND PROCEEDS FROM THE COMMISSION	3,163,088	12,906,531
INCREASE IN NET ASSETS BEFORE TRANSFERS	16,737,757	24,192,011
TRANSFER OF LIABILITY FROM THE COMMISSION		(835,000)
INCREASE IN NET ASSETS BEFORE CUMULATIVE EFFECT	16,737,757	23,357,011
CUMULATIVE EFFECT OF ADOPTION OF ACCOUNTING PRINCIPLE	9,199,784	
INCREASE IN NET ASSETS	25,937,541	23,357,011
NET ASSETS — Beginning of year	286,531,625	263,174,614
NET ASSETS — End of year	$312,469,166	$286,531,625

See notes to combined financial statements. (Concluded)

MARSHALL UNIVERSITY

THE MARSHALL UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT, REVENUES, AND RECLASSIFICATIONS:				
Gifts, contributions, and other	$ 1,314,039	$ 10,293,709	$ 2,037,810	$ 13,645,558
Contributions from Marshall University Graduate College Foundation, Inc.		219,067	503,881	722,948
Investment income	(2,947,646)	3,147,795	35,892	236,041
Net assets released from restrictions				
Satisfaction of program restrictions	8,686,317	(8,686,317)		
Total public support, revenues, and reclassifications	7,052,710	4,974,254	2,577,583	14,604,547
EXPENSES:				
Program services:				
Academic assistance	12,205,288			12,205,288
Student assistance	2,359,511			2,359,511
Total program services	14,564,799	-	-	14,564,799
Supporting services:				
Management and general	2,129,461			2,129,461
Fund-raising	976,846			976,846
Total supporting services	3,106,307	-	-	3,106,307
Total expenses	17,671,106	-	-	17,671,106
CHANGE IN NET ASSETS (As restated for 2007)	(10,618,396)	4,974,254	2,577,583	(3,066,559)
NET ASSETS — Beginning of year	20,404,140	40,220,696	61,037,359	121,662,195
TRANSFERS	11,810,383	(11,601,953)	(208,430)	
NET ASSETS — End of year	$ 21,596,127	$ 33,592,997	$63,406,512	$ 118,595,636

The accompanying notes are an integral part of the financial statements.

MARSHALL UNIVERSITY

THE MARSHALL UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT, REVENUES, AND RECLASSIFICATIONS:				
Gifts, contributions, and other	$ 2,660,757	$ 4,080,922	$ 2,775,765	$ 9,517,444
Contributions from Marshall University Graduate College Foundation, Inc.				
Investment income	10,196,409	3,166,787	213,109	13,576,305
Satisfaction of program restrictions	6,290,696	(6,290,696)		
Total public support, revenues, and reclassifications	19,147,862	957,013	2,988,874	23,093,749
EXPENSES:				
Program services:				
Academic assistance	6,504,736			6,504,736
Student assistance	761,200			761,200
Total program services	7,265,936	-	-	7,265,936
Supporting services:				
Management and general	1,759,276			1,759,276
Fund-raising	913,648			913,648
Total supporting services	2,672,924	-	-	2,672,924
Total expenses	9,938,860	-	-	9,938,860
CHANGE IN NET ASSETS — (As restated for 2007)	9,209,002	957,013	2,988,874	13,154,889
NET ASSETS — Beginning of year	22,532,310	29,053,171	56,921,825	108,507,306
TRANSFERS	(11,337,172)	10,210,512	1,126,660	
NET ASSETS — End of year	$ 20,404,140	$40,220,696	$61,037,359	$ 121,662,195

The accompanying notes are an integral part of the financial statements.

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 57,907,224	$ 55,756,527
Contracts and grants	76,993,351	75,633,228
Payments to and on behalf of employees	(143,801,490)	(139,145,798)
Payments to suppliers	(49,700,077)	(50,317,548)
Payments to utilities	(7,694,673)	(6,839,388)
Payments for scholarships and fellowships	(17,738,970)	(16,839,770)
Loans issued	(1,253,653)	(1,243,493)
Collection of loans	850,183	1,252,401
Transfer of loans	(46,063)	
Sales and service of educational activities	309,405	341,914
Auxiliary enterprise charges	27,622,340	26,174,797
Fees assessed by the Commission	(689,970)	(697,748)
Other receipts — net	8,213,845	9,231,123
Net cash used in operating activities	(49,028,548)	(46,693,755)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	70,859,062	66,685,052
Payments on notes and lease payable		(8,178)
Proceeds from notes payable	6,324	2,096
Gift receipts	1,120,679	991,752
Agency fund receipts	353,880	684,420
Agency fund payments	(343,080)	(689,050)
William D. Ford direct lending receipts	54,498,753	49,932,050
William D. Ford direct lending payments	(54,499,297)	(49,932,136)
Net cash provided by noncapital financing activities	71,996,321	67,666,006
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital grants and gifts received	7,679,332	10,800,352
Capital projects and bond proceeds from the Commission	4,131,242	15,245,986
Proceeds from notes payable	3,000,000	
Purchases of capital assets	(16,937,955)	(32,950,370)
Principal paid on bonds and leases	(2,536,397)	(2,440,622)
Interest paid on bonds and leases	(2,702,120)	(2,671,476)
Proceeds from sale of capital assets	129,162	119,703
Principal payment on debt obligation due to the Commission	(3,097,400)	(2,852,475)
Fees assessed by the Commission	(1,645,777)	(1,958,913)
Increase in noncurrent cash and cash equivalents	(3,086,774)	(564,558)
Net cash used in capital financing activities	(15,066,687)	(17,272,373)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(200,808)	(293,255)
Sale/maturity of investments	812,596	812,564
Investment income	2,852,884	3,279,430
Lease receipts	32,005	24,074
Net cash provided by investing activities	3,496,677	3,822,813
NET INCREASE IN CURRENT CASH AND CASH EQUIVALENTS	11,397,763	7,522,691
CURRENT CASH AND CASH EQUIVALENTS — Beginning of year	64,719,913	57,197,222
CURRENT CASH AND CASH EQUIVALENTS — End of year	$ 76,117,676	$ 64,719,913

(Continued)

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (67,617,379)	$ (65,996,787)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	14,267,589	14,001,212
Expenses paid on behalf of Marshall University	2,787,846	
Changes in assets and liabilities:		
Accounts receivable — net	(1,287,713)	2,142,127
Loans receivable — net	(126,807)	144,376
Prepaid expenses	27,417	578,235
Inventories	58,502	(31,485)
Accounts payable	352,686	(2,009,894)
Accrued liabilities	3,036,688	2,961,415
Compensated absences	235,386	352,560
Deferred revenue	(703,020)	1,154,549
Deposits held in custody for others	72,400	89,900
Advances from federal sponsors	(132,143)	(79,963)
NET CASH USED IN OPERATING ACTIVITIES	$ (49,028,548)	$ (46,693,755)
NONCASH TRANSACTIONS:		
Cumulative effect of adoption of accounting principle	$ 9,199,784	$ -
Capital lease obligation incurred for equipment and buildings	$ 1,064,748	$ 97,290
Donated capital assets	$ 6,559,108	$ 148,794
Loss on disposal of assets	$ 163,946	$ 916,093
Construction in progress additions in accounts payable	$ 542,736	$ 552,149

See notes to combined financial statements. (Concluded)

1. ORGANIZATION

Marshall University (the "University") is governed by the Marshall University Board of Governors (the "Board"). The Board was established by Senate Bill (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 institutions budget requests; the duty to review, at least every five years, all academic programs offered at the institutions; and the power to fix tuition and other fees for the different classes or categories of students enrolled at the institutions.

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, *Determining Whether Certain Organizations Are Component Units — an amendment of GASB Statement No. 14*, the University has included information from the Marshall University Foundation, Inc. (the "Foundation") and MSH – Marshall, L.L.C. ("MSH – Marshall").

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 is 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 Board, and the State of West Virginia (the "State") (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.

Although the University benefits from the activities of MSH – Marshall, MSH – Marshall is independent of the University in all respects. MSH – Marshall is not a subsidiary of the University and is not directly or indirectly controlled by the University. MSH – Marshall is a wholly owned subsidiary of Mustard Seed Housing, Inc., which is a nonprofit corporation that is operated for charitable purposes, including providing affordable student housing. The assets of MSH – Marshall are the exclusive property of MSH – Marshall 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 MSH – Marshall. The University does not have the power or authority to mortgage, pledge, or encumber the assets of MSH – Marshall. Any income resulting from the operations of MSH – Marshall is for the benefit of MSH – Marshall and is not distributed to the University.

Third parties dealing with the University, the Board, and the State (or any agency thereof) should not rely upon the financial statements of MSH – Marshall 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 Commission and the West Virginia Council of Community and Technical College Education to provide financial information for all component parts of the University under S.B. 448. This presentation provides financial information for the University, which includes the four-year, graduate, and medical programs, and Marshall Community and Technical College.

During fiscal year 2008, House Bill 3215 was passed, which clarified and redefined relationships between and among certain higher education boards and institutions. This legislation defines the statewide network of independently accredited community and technical colleges. Effective July 1, 2008, the administratively linked community and technical college of the University will have established its own Board of Governors. The newly established MCTC Board of Governors and the University Board of Governors shall jointly agree on a division of assets and liabilities of the University on or before December 1, 2008. The division of all assets and liabilities shall be effective retroactively to July 1, 2008. The amount of net assets to be transferred out from the University to the separately established community and technical college is not determinable as of June 30, 2008. The University and the separately established community and technical college shall develop a plan that enables the financial stability of auxiliary enterprises, including, but not limited to, student housing, student centers, dining services, parking, and athletics through fiscal year 2012. Contracts between MCTC and the University shall continue in effect until July 1, 2009 unless amended or revoked before that date by mutual agreement of both governing boards. Thereafter, a contractual arrangement can be negotiated for the University to provide services to MCTC until July 1, 2011 or until the governing boards of both institutions mutually agree to end the contract arrangement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of the University have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB, including GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, and GASB 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 combined financial statement presentation required by GASB Statements No. 34 and No. 35 provide a comprehensive, entitywide 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 that are not included in the State's general fund. The University is a separate entity that, along with all State institutions of higher education and the Commission (which includes West Virginia Network for Educational Telecomputing), forms the Higher Education Fund of the State. The Higher Education Fund is considered a component unit of the State, and its financial statements are discretely presented in the State's comprehensive annual financial report.

The accompanying combined financial statements present all funds under the authority of the University, including Marshall University Research Corporation (MURC) and Southern West Virginia Brownfields Assistance Center, Inc. (the "Center"). 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, since 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*.

On May 25, 2006, the Center was incorporated to foster and promote the redevelopment of Brownfield sites, including providing assistance to eligible entities on state and federal Brownfield programs, securing state and federal funding for Brownfield redevelopment, and acquire property eligible for state and federal Brownfield assistance as set forth in West Virginia State Code 18B-11-7. As of June 30, 2008 and 2007, the Center had limited financial activity, all of which is included in the accompanying combined financial statements.

GASB Statement No. 39, 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 Foundation and MSH – Marshall are presented here as discrete component units with the University combined financial statements for the fiscal years ended June 30, 2008 and 2007, for the Foundation and the nine months ended June 30, 2008, for MSH – Marshall. The Foundation is a separate, private, nonprofit organization, and MSH – Marshall is a single-member, limited liability company that both report under FASB standards, including FASB Statement No. 117, *Financial Statements of 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 audited financial information as it is presented herein (see Notes 14 and 15).

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 — an Amendment of GASB Statements No. 21 and No. 34*, 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 depreciation and outstanding debt obligations related to those capital assets. To the extent that 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.

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 to meet current expenses for any purpose.

Basis of Accounting — For financial reporting purposes, the University is considered a special-purpose government engaged in only business-type activities. Accordingly, the University's combined financial statements have been prepared on the accrual basis of accounting with a focus on the flow of economic resources measurement. 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 accompanying combined statements 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 Board of Treasury Investments (BTI). These funds are transferred to the BTI, and the BTI is directed by the State Treasurer to invest the funds in specific external investment pools in accordance with West Virginia code and policies set by the BTI, and by provisions of bond indentures and trust agreements, when applicable. Balances in the investment pools are recorded at fair value or amortized cost, which approximates fair value. Fair value 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 and for External Investment Pools.* The BTI 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 are available for immediate withdrawal or on the first day of each month for the WV Short Term Bond Pool (formerly Enhanced Yield Pool) and, accordingly, are presented as cash and cash equivalents in the accompanying combined financial statements.

The BTI maintains the Consolidated Fund Investment Fund, which consists of seven investment pools and participant-directed accounts, three of which the University may invest in. 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 BTI's investment operations pool can be found in its annual report, a copy of which can be obtained from the following address or Web site: 1900 Kanawha Blvd., E. Room E-122, Charleston, WV 25305 or http://www.wvbti.com.

Investments — The University has investments in two multi-strategy funds at June 30, 2008 and 2007. One fund comprises high-quality bond investments, with the other comprising long-term equity investments. MURC held U.S. government agency securities and invested in an intermediate-term fund comprising of high-quality fixed income securities at June 30, 2008 and 2007.

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

Permissible investments for all agencies include those guaranteed by the United States, its agencies, and instrumentalities (U.S. government obligations); corporate debt obligations, including commercial paper, that meet certain ratings; certain money market funds; repurchase agreements; reverse repurchase agreements; asset-backed securities; certificates of deposit; state and local government securities; and other investments. Other investments consist primarily of investments in accordance with the Linked Deposit Program, a program using financial institutions in the State to obtain certificates of deposit, loans approved by the State legislature, and any other program investments authorized by the State legislature.

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 that, 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 and 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 accompanying combined statements 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 at 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 $5,000 for most other capital assets. The accompanying combined financial statements reflect all adjustments required by GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* as of June 30, 2008.

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, and room and board. Financial aid and other deposits are separately classified as deposits.

Compensated Absences and Other Postemployment Benefits — The University accounts for compensated absences in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences.*

Effective July 1, 2007, the University adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement provided standards for the measurement, recognition, and display of other postemployment benefit (OPEB) expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State. Effective July 1, 2007, the University was required to participate in this multiple-employer, cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund, sponsored by the State of West Virginia. Details regarding this plan can be obtained by contacting Public Employees Insurance Agency (PEIA), State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, WV 25305-0710 or http://www.wvpeia.com.

These GASB statements require 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. This liability is now provided for under the multiple-employer, cost-sharing plan sponsored by the State.

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 same hire date mentioned above applies to coverage for faculty employees also.

For the year ended June 30, 2007, 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 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 the vacation leave or OPEB benefits are recorded as a component of benefits expense in the combined statements 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 (SOM). 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 that 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.

SOM established a $250,000 deductible program under the BRIM professional liability coverage effective July 1, 2005. Prior to this date, the SOM was totally covered by BRIM at a limit of $1,000,000 per occurrence. Starting July 1, 2005, the SOM assumed the risk and responsibility for any and all indemnity amounts up to $250,000 per occurrence and all loss expenses associated with medical malpractice claims and/or suits in exchange for a reduction in its premium for medical malpractice insurance.

Under the program, SOM entered into an agreement with BRIM whereby SOM initially deposited $500,000 in an escrow account with the State Treasury from which BRIM could withdraw amounts to pay indemnity costs and allocated expenses in connection with medical malpractice claims against the SOM. At June 30, 2008 and 2007, the balance in the escrow account was $1,604,404 and $1,044,492, respectively. Based on an actuarial valuation of this self-insurance program, the University has recorded a liability of $5,735,000 and $4,534,425 at June 30, 2008 and 2007, respectively, to reflect projected claim payments at 80% and 90% confidence levels at June 30, 2008 and 2007, respectively. The receivable from UP&S for the funding it has agreed to provide for this liability was $4,130,596 and $3,489,933 at June 30, 2008 and 2007, respectively.

In addition, through its participation in PEIA and a third-party insurer, the University has obtained for its employees health, life, and prescription drug coverage, and coverage for job-related injuries. In exchange for the payment of premiums to PEIA and the third-party insurer, the University has transferred its risks related to health, life, prescription drug, and job-related injuries coverage.

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 nonexchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB Statements No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,* and 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 such as the University. Direct student loan receivables are not included in the University's accompanying combined statements of net assets since the loans are repayable directly to the U.S. Department of Education. In 2008 and 2007, the University received and disbursed approximately $54,500,000 and $49,900,000, 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 accompanying combined 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 2008 and 2007, the University received and disbursed approximately $12,500,000 and $11,400,000, 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 accompanying combined statements 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 students' behalf.

Financial aid to students is reported in the combined financial statements under the alternative method as prescribed by the National Association of College and University Business Officers. 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 accompanying combined financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expenses 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 accompanying combined statements of cash flows.

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

Risk and Uncertainties — Investments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain securities, it is reasonably possible that changes in risk and values 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 GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective for fiscal years beginning after December 15, 2007. This statement addresses the obligations of existing pollution events. It provides guidance on whether any components of a remediation should be recognized as a liability. The University has not yet determined the effect that the adoption of GASB Statement No. 49 may have on the accompanying combined financial statements.

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

The GASB has issued GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments,* effective for fiscal years beginning after June 15, 2008. This statement requires endowments to report their land and other real estate investments at fair value. It also requires changes in fair value to be reported as investment income, disclosure of the methods and significant assumptions employed to determine fair value, and disclosure of other information that is currently presented for other investments reported at fair value. The University has not yet determined the effect that the adoption of GASB Statement No. 52 may have on the accompanying combined financial statements.

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

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents at June 30, 2008 and 2007, was held as follows:

	2008		
	Current	**Noncurrent**	**Total**
State Treasurer	$49,087,453	$ 176,000	$49,263,453
Trustee	82,688	6,144,431	6,227,119
Restricted cash		1,604,404	1,604,404
Money markets	19,843,634		19,843,634
In bank	7,097,940		7,097,940
On hand	5,961		5,961
	$76,117,676	$7,924,835	$84,042,511

	2007		
	Current	**Noncurrent**	**Total**
State Treasurer	$43,683,079	$ 176,000	$43,859,079
Municipal Bond Commission	286,564	425,458	712,022
Trustee	83,030	3,192,111	3,275,141
Restricted cash		1,044,492	1,044,492
Money markets	14,160,383		14,160,383
In bank	6,501,146		6,501,146
On hand	5,711		5,711
	$64,719,913	$4,838,061	$69,557,974

Cash designated as held by the Municipal Bond Commission for the University represented various repair and replacement and debt service accounts trusteed with the Municipal Bond Commission related to various University-specific bond issues (see Note 8). Other cash held by the State Treasurer includes $2,641,359 and $2,049,646 at June 30, 2008 and 2007, 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, various repair and replacement and debt service accounts, that relate to the 2001 Housing and Parking Series A Bonds (see Note 8) and proceeds from a note payable that is restricted for the construction of a new forensic science center (see Note 7).

MURC has $593,225 and $573,311 of cash equivalents held in highly liquid money market funds comprising high-grade fixed income securities, and $13,597,062 and $8,123,496 of cash equivalents held in repurchase agreements that are collateralized at 110.49%, and the collateral is held in MURC's name at June 30, 2008 and 2007, respectively. The University has $5,653,347 and $5,463,576 of cash equivalents held in highly liquid money market funds comprising high-grade fixed income securities at June 30, 2008 and 2007, respectively.

The combined carrying amount of cash in bank at June 30, 2008 and 2007, was $7,097,940 and $6,501,146, respectively, as compared with the combined bank balance of $7,335,935 and $6,723,004, 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 — The University entered into an escrow agreement with BRIM for malpractice insurance deductibles with a balance of $1,604,404 and $1,044,492 at June 30, 2008 and 2007, respectively.

Amounts with the State Treasurer and the Municipal Bond Commission as of June 30, 2008 and 2007, comprise the following investment pools:

The BTI has adopted an investment policy in accordance with the Uniform Prudent Investor Act. The "prudent investor rule" guides those with responsibility for investing the money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and in general, avoid speculative investments. The BTI's policy is to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of the BTI's Consolidated Fund, the BTI believes that it is imperative to review and adjust the investment policy in reaction to interest rate market fluctuations/trends on a regular basis and has adopted a formal review schedule. Investment policies have been established for each investment pool and account of the BTI's Consolidated Fund. Of the BTI's Consolidated Fund pools and accounts that the University may invest in, three are subject to credit risk: WV Money Market Pool (formerly Cash Liquidity Pool), WV Government Money Market Pool (formerly Government Money Market Pool), and WV Short Term Bond Pool (formerly Enhanced Yield Pool).

WV Money Market Pool (Formerly Cash Liquidity Pool)

Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For the year ended June 30, 2008, the WV Money Market Pool has been rated "AAAm" by Standard & Poor's (S&P). A fund rated AAAm has an extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. AAAm is the highest principal stability fund rating assigned by Standard & Poor's. Since this pool has been rated in the current year, specific information on the credit ratings of the underlying investments of the pool have not been provided for the year ended June 30, 2008, although the underlying investments are similar securities with similar ratings as those for 2007. For the year ended June 30, 2007, this pool was not rated for credit risk by any organization.

The BTI limits the exposure to credit risk in the WV Money Market Pool by requiring all corporate bonds to be rated AA- by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor's and P1 by Moody's. The pool must have at least 15% of its assets in U.S. Treasury issues.

At June 30, 2008, the WV Money Market Pool investments had a total carrying value of $2,358,470,000, of which the University's ownership represents 1.89%.

The information provided on the credit ratings of the WV Money Market Pool's investments at June 30, 2007, is as follows (in thousands):

	Credit Rating *		2007	
Security Type	**Moody's**	**S&P**	**Carrying Value**	**Percent of Pool Assets**
Investments:				
Commercial paper	P1	A-1	$ 1,015,926	48.89 %
Corporate bonds and notes	Aaa	AAA	98,999	4.76
	Aa3	AA	20,001	0.96
	Aa3	A	23,002	1.11
	Aa2	AA	15,000	0.72
	Aa2	A	27,000	1.30
	Aa1	AA	77,023	3.71
Total corporate bonds and notes			261,025	12.56
U.S. agency bonds	Aaa	AAA	46,994	2.26
U.S. Treasury bills	Aaa	AAA	358,725	17.27
Negotiable certificates of deposit	P1	A-1	76,500	3.68
U.S. agency discount notes	P1	A-1	21,655	1.04
Money market funds	Aaa	AAA	185	0.01
Repurchase agreements (underlying securities) — U.S. agency notes	Aaa	AAA	246,821	11.88
Deposits — nonnegotiable certificates of deposit	NR	NR	50,000	2.41
			$ 2,077,831	100.00 %

* NR = Not Rated. See "Deposits" note at the conclusion of this footnote.

At June 30, 2007, the University's ownership represents 1.89% of these amounts held by the BTI.

WV Government Money Market Pool (formerly Government Money Market Pool)

Credit Risk — For the year ended June 30, 2008, the WV Government Money Market Pool has been rated "AAAm" by Standard & Poor's. A fund rated AAAm has an extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. AAAm is the highest principal stability fund rating assigned by Standard & Poor's. Since this pool has been rated in the current year, specific information on the credit ratings of the underlying investments of the pool have not been provided for the year ended June 30, 2008, although the underlying investments are similar securities with similar ratings as those for 2007. For the year ended June 30, 2007, this pool was not rated for credit risk by any organization.

The BTI limits the exposure to credit risk in the WV 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. The pool must have at least 15% of its assets in U.S. Treasury issues.

At June 30, 2008, the WV Government Money Market Pool investments had a total carrying value of $187,064,000, of which the University's ownership represents 0.23%.

The information provided on the credit ratings of the WV Government Money Market Pool's investments at June 30, 2007, is as follows (in thousands):

	Credit Rating		2007	
Security Type	**Moody's**	**S&P**	**Carrying Value**	**Percent of Pool Assets**
U.S. agency bonds	Aaa	AAA	$ 67,620	29.46 %
U.S. Treasury bills	Aaa	AAA	36,379	15.85
U.S. agency discount notes	P1	A-1	74,143	32.30
Money market funds	Aaa	AAA	9	
Repurchase agreements (underlying securities) — U.S. Treasury notes	Aaa	AAA	51,400	22.39
			$ 229,551	100.00 %

At June 30, 2007, the University's ownership represents 0.65% of these amounts held by the BTI.

WV Short Term Bond Pool (formerly Enhanced Yield Pool)

Credit Risk — The BTI limits the exposure to credit risk in the WV Short Term Bond Pool by requiring all corporate bonds to be rated A (A- in 2007) by Standards & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standards & Poor's and P1 by Moody's. The information provided on the credit ratings of the WV Short Term Bond Pool's investments is as follows (in thousands):

	Credit Rating*		2008		2007	
Security Type	Moody's	S&P	Carrying Value	Percent of Pool Assets	Carrying Value	Percent of Pool Assets
Corporate asset-backed securities	P1	A-1	$ -	- %	$ 42,122	18.40 %
	Aaa	AAA	48,663	13.75		
	Aaa	NR	2,179	0.62		
	NR	AAA	1,135	0.32		
	AA3	AA	192	0.06		
			52,169	14.75	42,122	18.40
Commercial paper	P1	A-1	7,971	2.25		
Corporate bonds and notes	Aaa	AAA	13,146	3.72	1,667	0.73
	Aa1	AA	12,613	3.56	6,431	2.81
	Aa2	AA	20,860	5.89	950	0.41
	Aa2	A	1,061	0.30	2,177	0.95
	Aa3	AA	11,488	3.25	7,857	3.43
	Aa3	A	4,548	1.28	3,905	1.70
	A1	AA	4,305	1.22	3,034	1.32
	A1	A	8,361	2.36	10,706	4.68
	A2	AA	847	0.24	747	0.33
	A2	A	26,585	7.51	8,188	3.58
	A3	A	10,917	3.08	6,958	3.04
	Baa1	AA-	593	0.17		
	Baa1	A-	2,028	0.57		
	Baa3	BB+	645	0.18		
Total corporate bonds and notes			117,997	33.33	52,620	22.98
U.S. agency bonds	Aaa	AAA	71,840	20.29	46,075	20.13
U.S. Treasury notes**	Aaa	AAA	81,875	23.13	55,877	24.41
U.S. agency mortgage-backed securities***	Aaa	AAA	5,345	1.51	11,741	5.13
Repurchase agreements (underlying securities) — U.S. agency notes	Aaa	AAA	16,782	4.74	20,485	8.95
			$ 353,979	100.00 %	$ 228,920	100.00 %

* NR = Not Rated
** U.S. Treasury issues are explicitly guaranteed by the U.S. government and are not subject to credit risk.
***U.S. agency mortgage-backed securities are issued by the Government National Mortgage Association (GNMA), are explicitly guaranteed by the U.S. government, and are not subject to credit risk.

At June 30, 2008 and 2007, the University's ownership represents 1.06% and 0.99%, respectively, of these amounts held by the BTI.

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All the BTI's Consolidated Fund pools and accounts are subject to interest rate risk.

The overall weighted-average maturity of the investments of the WV Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The information provided on the weighted-average maturities for the various asset types in the WV Money Market Pool is as follows:

	2008		2007	
Security Type	**Carrying Value (In Thousands)**	**WAM (Days)**	**Carrying Value (In Thousands)**	**WAM (Days)**
Repurchase agreements	$ 371,163	1	$ 246,821	2
U.S. Treasury bills	406,426	31	358,725	30
Commercial paper	658,879	29	1,015,926	52
Certificates of deposit	147,001	95	126,500	76
U.S. agency discount notes	212,924	84	21,655	113
Corporate notes	158,000	21	261,025	58
U.S. agency bonds/notes	254,019	111	46,994	156
Money market funds	150,058	1	185	1
	$2,358,470	40	$2,077,831	48

The overall weighted-average maturity of the investments of the WV Government Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The information provided on the weighted-average maturities for the various asset types in the WV Government Money Market Pool is as follows:

	2008		2007	
Security Type	**Carrying Value (In Thousands)**	**WAM (Days)**	**Carrying Value (In Thousands)**	**WAM (Days)**
Repurchase agreements	$ 53,400	1	$ 51,400	2
U.S. Treasury bills	29,929	58	36,379	29
U.S. agency discount notes	43,249	77	74,143	106
U.S. agency bonds/notes	60,420	84	67,620	60
Money market funds	66	1	9	1
	$ 187,064	54	$ 229,551	49

The overall weighted-average maturity of the investments of the WV Short Term Bond Pool cannot exceed 731 days. Maximum maturity of individual securities cannot exceed 1,827 days (five years) from date of purchase. The information provided on the weighted-average maturities for the various asset types in the WV Short Term Bond Pool is as follows:

	2008		2007	
Security Type	**Carrying Value (In Thousands)**	**WAM (Days)**	**Carrying Value (In Thousands)**	**WAM (Days)**
Repurchase agreements	$ 16,782	1	$ 20,485	2
U.S. Treasury bonds/notes	81,875	744	55,877	1,092
Corporate notes	117,997	675	52,620	557
Corporate asset-backed securities	52,169	341	42,122	421
U.S. agency bonds/notes	71,840	1,231	46,075	927
U.S. agency mortgage-backed securities	5,345	570	11,741	814
Commercial paper	7,971	50		
	$ 353,979	707	$ 228,920	700

Other Investment Risks — Other investment risks include concentration of credit risk, custodial credit risk, and foreign currency risk. None of the BTI's Consolidated Fund's investment pools or accounts is exposed to these risks, as described below:

Concentration of credit risk is the risk of loss attributed to the magnitude of the BTI Consolidated Fund pool or account's investment in a single corporate issuer. The BTI investment policy prohibits those pools and accounts that are permitted to hold corporate securities from investing more than 5% of their assets in any one corporate name or one corporate issue.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the BTI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. Securities lending collateral that is reported on the BTI's statement of fiduciary net assets is invested in the lending agent's money market fund in the BTI's name. In all transactions, the BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. None of the BTI's Consolidated Fund's investment pools or accounts holds interests in foreign currency or interests valued in foreign currency.

Deposits — Custodial credit risk of deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits include nonnegotiable certificates of deposit. None of the above pools contain nonnegotiable certificates of deposit. The BTI does not have a deposit policy for custodial credit 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.

	2008		2007	
Investment Type	**Moody's Rating**	**Carrying Value**	**Moody's Rating**	**Carrying Value**
Money market fund	AAA	$ 2,952,500		$ -
Money market fund (Credit Enhancers/Collateral 1.000 Financial Guaranty Insurance Co. Municipal Bond Insurance Policy)	Aaa	82,688	Aaa	83,210
MBIA Guaranteed Investment Contract		3,191,931		3,191,931
		$ 6,227,119		$ 3,275,141

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's investment policy requires commercial paper assets to be rated at least A-1 or P-1 (by Moody's or Standard & Poor's). 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's investment policy limits investment maturities from potential fair value losses due to increasing interest rates. No more than 5% of the money market fund's total market value may be invested in the obligations of a single issuer, with the exception of the U.S. government and its agencies.

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 at June 30, 2008 and 2007, are as follows:

	2008		
	Current	Noncurrent	Total
Student tuition and fees — net of allowance for doubtful accounts of $191,638	$ 559,367	$ -	$ 559,367
Grants and contracts receivable — net of allowance for doubtful accounts of $347,129	8,435,418		8,435,418
Due from the Commission	276,261		276,261
Due from other State agencies	2,155,975		2,155,975
Other accounts receivable	1,018,350	4,322,083	5,340,433
	$12,445,371	$4,322,083	$16,767,454

	2007		
	Current	Noncurrent	Total
Student tuition and fees — net of allowance for doubtful accounts of $220,117	$ 710,821	$ -	$ 710,821
Grants and contracts receivable — net of allowance for doubtful accounts of $189,359	7,649,335		7,649,335
Due from the Commission	1,258,837		1,258,837
Due from other State agencies	1,265,105		1,265,105
Other accounts receivable	1,097,824	3,666,248	4,764,072
	$11,981,922	$3,666,248	$15,648,170

5. INVESTMENTS

Investments at June 30, 2008 and 2007, consist of the following:

	2008	2007
Alternative investments:		
U.S. Government Agency Securities (MURC)	$ 402,376	$ 1,191,500
Intermediate Term Fund — Commonfund (MURC)	2,033,458	2,023,934
Multi-Strategy Bond Fund — Commonfund (University)	2,345,837	2,443,747
Multi-Strategy Equity Fund — Commonfund (University)	5,519,919	5,683,065
Total investments	$10,301,590	$11,342,246

Credit Risk — MURC's investment policy limits individual investments to U.S. government agency securities and nationally recognized bond funds holding those securities. The U.S. government agency securities have an average maturity of 0.3 years and 0.8 years, and the Intermediate Term Fund had an average maturity of 1.9 years and 2.2 years as of June 30, 2008 and 2007, respectively. At June 30, 2008 and 2007, MURC's investments in U.S. government agency securities were rated AAA by Moody's Investors Service and Standard & Poor's. The average rating of the Intermediate Term Fund was AA+

for both years, by both services. The Multi-Strategy Bond Fund has a weighted-average maturity of 7.75 years and an effective duration of 7.85 years as of both June 30, 2008 and 2007.

The University's investment policy adheres to fiduciary responsibilities in accordance with the provisions of the Uniform Prudent Investor Act (WV State Code §44-6C-1 Prudent Investor Rule). Oversight will occur with care, skill, prudence, and diligence. The objective of the Long-Term Investment Pool (LTIP) is to enhance long-term viability by maximizing the value of the LTIP with a prudent level of risk. The credit quality rating for the Multi-Strategy Bond Fund is AAA.

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.

The University's investment policy states that investments of a single issuer, with the exception of the U.S. government and its agencies (including GNMA, FNMA, and FHLMC), may not exceed 5% of the total market value of any fund. No more than 25% of the fixed income portfolio may be rated below investment grade.

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk is managed by limiting the time period or duration of the specific investment.

Foreign Currency Risk — The University has no investments with foreign currency risk.

6. CAPITAL ASSETS

Capital asset transactions for the University for the years ended June 30, 2008 and 2007, are as follows:

	2008				
	Beginning Balance	Additions	Reductions	Other	Ending Balance
Capital assets not being depreciated:					
Land	$ 29,412,861	$ 1,760,595	$ -	$ 294,586	$ 31,468,042
Antiques and artwork (inexhaustible)	132,107				132,107
Construction in progress	31,497,656	10,817,827		(37,476,677)	4,838,806
Total capital assets not being depreciated	61,042,624	12,578,422	-	(37,182,091)	36,438,955
Other capital assets:					
Land improvements	1,688,425		(600,382)	4,589,295	5,677,338
Infrastructure	22,541,127	24,262	(13,737)	1,340,122	23,891,774
Buildings	306,635,351			31,252,674	337,888,025
Equipment	67,562,152	5,268,251	(3,356,178)		69,474,225
Library books	8,118,635	174,798	(48,050)		8,245,383
Total other capital assets	406,545,690	5,467,311	(4,018,347)	37,182,091	445,176,745
Less accumulated depreciation for:					
Land improvements	1,031,411	228,357	(472,126)		787,642
Infrastructure	12,463,570	1,172,644	(13,738)		13,622,476
Buildings	81,723,770	6,376,683			88,100,453
Equipment	44,767,129	6,245,294	(3,174,629)		47,837,794
Library books	7,476,189	244,611	(48,050)		7,672,750
Total accumulated depreciation	147,462,069	14,267,589	(3,708,543)	-	158,021,115
Capital assets — net	$ 320,126,245	$ 3,778,144	$ (309,804)	$ -	$ 323,594,585
Capital asset summary:					
Capital assets not being depreciated	$ 61,042,624	$ 12,578,422	$ -	$ (37,182,091)	$ 36,438,955
Capital assets	406,545,690	5,467,311	(4,018,347)	37,182,091	445,176,745
Total cost of capital assets	467,588,314	18,045,733	(4,018,347)	-	481,615,700
Less accumulated depreciation	(147,462,069)	(14,267,589)	3,708,543		(158,021,115)
Capital assets — net	$ 320,126,245	$ 3,778,144	$ (309,804)	$ -	$ 323,594,585

	2007				
	Beginning Balance	Additions	Reductions	Other	Ending Balance
Capital assets not being depreciated:					
Land	$ 24,068,123	$ 6,097,578	$ (752,840)	$ -	$ 29,412,861
Antiques and artwork (inexhaustible)	132,107				132,107
Construction in progress	70,623,545	23,318,333		(62,444,222)	31,497,656
Total capital assets not being depreciated	94,823,775	29,415,911	(752,840)	(62,444,222)	61,042,624
Other capital assets:					
Land improvements	1,688,425				1,688,425
Infrastructure	19,724,833	92,738	(51,111)	2,774,667	22,541,127
Buildings	247,975,948		(1,010,152)	59,669,555	306,635,351
Equipment	67,150,443	3,941,742	(3,530,033)		67,562,152
Library books	8,033,338	176,022	(90,725)		8,118,635
Total other capital assets	344,572,987	4,210,502	(4,682,021)	62,444,222	406,545,690
Less accumulated depreciation for:					
Land improvements	918,849	112,562			1,031,411
Infrastructure	11,364,071	1,150,611	(51,112)		12,463,570
Buildings	76,336,253	5,933,963	(546,446)		81,723,770
Equipment	41,212,254	6,525,637	(2,970,762)		44,767,129
Library books	7,288,475	278,439	(90,725)		7,476,189
Total accumulated depreciation	137,119,902	14,001,212	(3,659,045)	-	147,462,069
Capital assets — net	$ 302,276,860	$ 19,625,201	$ (1,775,816)	$ -	$ 320,126,245
Capital asset summary:					
Capital assets not being depreciated	$ 94,823,775	$ 29,415,911	$ (752,840)	$ (62,444,222)	$ 61,042,624
Other capital assets	344,572,987	4,210,502	(4,682,021)	62,444,222	406,545,690
Total cost of capital assets	439,396,762	33,626,413	(5,434,861)	-	467,588,314
Less accumulated depreciation	(137,119,902)	(14,001,212)	3,659,045		(147,462,069)
Capital assets — net	$ 302,276,860	$ 19,625,201	$ (1,775,816)	$ -	$ 320,126,245

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.

At June 30, 2008, the University had outstanding contractual commitments of approximately $1,185,000 for property, plant, and equipment expenditures.

7. LONG-TERM LIABILITIES

Long-term obligation transactions for the University for the years ended June 30, 2008 and 2007, are as follows:

	2008				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and capital leases:					
Revenue bonds payable — including unexpended funds of $3,191,931	$ 44,240,000	$ -	$ (1,420,000)	$ 42,820,000	$1,045,000
Capital leases payable	10,898,944	1,064,748	(1,116,397)	10,847,295	1,014,361
Total bonds and capital leases	55,138,944	1,064,748	(2,536,397)	53,667,295	
Other long-term liabilities:					
Notes payable	41,633	3,009,436	(3,112)	3,047,957	
Other noncurrent liability	4,534,425	1,200,885	(310)	5,735,000	
Accrued compensated absences	17,176,177	6,606,851	(15,571,249)	8,211,779	5,427,287
OPEB liability		7,933,920	(6,560,634)	1,373,286	
Advances from Federal sponsors	6,601,954	425,279	(557,422)	6,469,811	
Debt obligation to the Commission	36,250,800		(3,097,400)	33,153,400	3,206,000
Total other long-term liabilities	$ 119,743,933	$20,241,119	$ (28,326,524)	$ 111,658,528	

	2007				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and capital leases:					
Revenue bonds payable — including unexpended funds of $3,191,931	$ 45,400,000	$ -	$ (1,160,000)	$ 44,240,000	$1,205,000
Capital leases payable	12,082,894	97,290	(1,281,240)	10,898,944	1,048,056
Total bonds and capital leases	57,482,894	97,290	(2,441,240)	55,138,944	
Other long-term liabilities:					
Notes payable	47,715	2,096	(8,178)	41,633	
Other noncurrent liability	2,200,976	2,333,449		4,534,425	
Accrued compensated absences	16,823,617	6,230,258	(5,877,698)	17,176,177	6,222,462
Advances from Federal sponsors	6,681,917		(79,963)	6,601,954	
Debt obligation to the Commission	38,268,275	835,000	(2,852,475)	36,250,800	3,097,400
Total other long-term liabilities	$ 121,505,394	$9,498,093	$ (11,259,554)	$ 119,743,933	

MURC borrowed the proceeds of a bond issuance by the Cabell County Commission for the construction of an addition to the Marshall University Forensic Science Center. MURC's repayment terms are the same as the bond repayment term. MURC is obligated to make interest payments commencing on October 10, 2008, for the interest due on the loan semi-annually and to make annual principal payments starting on April 1, 2009, based on a hypothetical amortization of the then-remaining principal balance at the then-applicable interest rate for the then-remaining years of the original 20-year amortization period ending April 10, 2028. However, any unspent mortgage proceeds would go to pay the first amounts due for interest and principal. Accordingly, no specific annual repayment information is provided. Any remaining principal balance shall be payable in full on April 10, 2028. The interest rate on the bonds is 3.2% at April 10, 2008, and continuing to and including year five, and will change for each subsequent five-year period to the rate per annum equal to 67% of the five-year Treasury Constant Maturity in effect on that date plus 1.67% per annum. The principal balance of $3,000,000 at June 30, 2008, is reflected in notes payable on the accompanying combined statement of net assets.

8. BONDS

Bonds payable at June 30, 2008 and 2007, consist of the following:

		2008		2007	
	Original Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding	Annual Principal Installment Due	Principal Amount Outstanding
University Center Revenue Bonds paid off in FY 2008			$ -	$ 205,000 to 215,000	$ 420,000
University Facilities Revenue Bonds due through 2031	3.6%–5.3%	$1,045,000 to 3,035,000	42,820,000	1,000,000 to 3,035,000	43,820,000
			$42,820,000		$44,240,000

The University Center Revenue Bonds were issued in 1969 to finance the construction of the University Student Center. Interest was payable semiannually on January 1 and July 1 of each year, at varying rates up to 6% per annum. These bonds were 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. These bonds were paid off in FY 2008.

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 student housing complex and parking facilities at the University and renovations and improvements to existing dormitories at the University, (2) to fund capitalized interest on the Bonds, (3) to fund debt service reserves for the Bonds, and (4) to pay a portion of the costs of issuance of the Bonds.

The above bond issues are specific to the University, although the Bonds were also issued either 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 Municipal Bond Commission or a commercial bank for payment to the Trustee of the bond issue and the bondholders. Mandatory debt service transfers are recorded as the funds are so remitted. The Municipal Bond Commission or a commercial bank may hold certain cash and cash equivalents (see Note 3) for debt service or other bond issue purposes on behalf of the University.

A summary of the annual aggregate principal payments for years subsequent to June 30, 2008, is as follows:

Years Ending June 30	University Facilities Principal	University Facilities Interest
2009	$ 1,045,000	$ 2,146,676
2010	1,085,000	2,102,264
2011	1,135,000	2,055,609
2012	1,185,000	2,005,669
2013	1,235,000	1,952,344
2014–2018	7,230,000	8,717,756
2019–2023	9,310,000	6,637,856
2024–2028	11,910,000	4,034,494
2029–2032	8,685,000	882,500
	$42,820,000	$30,535,168

9. LEASES

Operating — Future annual minimum lease payments on operating leases for years subsequent to June 30, 2008, are as follows:

Years Ending June 30	
2009	$ 413,004
2010	313,080
2011	296,180
2012	277,050
2013	44,917
	$1,344,231

Total rent expense for the years ended June 30, 2008 and 2007, was $504,272 and $557,317, respectively. The University does not have any noncancelable leases.

Capital — The University leases various equipment and buildings through capital leases. At June 30, 2008 and 2007, leased equipment with a net book value of $1,390,303 and $821,441, respectively, and leased buildings with a net book value of $11,320,836 and $14,279,114, respectively, are included in equipment and buildings.

In December 1996, the University entered into a lease agreement with the Marshall University Graduate College (MUGC) Foundation for an academic center to be used by the MUGC. 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. During the year ended June 30, 2008, all assets and liabilities of the MUGC Foundation became part of the Foundation. This lease agreement is now with the Foundation.

The University has a capital lease agreement with the Foundation for the Marshall University Graduate College's administration facility (the "Facility"). The fair value of the Facility was estimated by an independent appraisal during the year ended June 30, 1995, at $5,000,000 (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 1998, the University entered into a lease-purchase agreement with the Mason County Building Commission for the Mid-Ohio Valley Center (MOVC). The construction of MOVC was financed by the Mason County Building Commission through the issuance of revenue bonds and was completed in January 2000. This lease was terminated and replaced with a new lease-purchase agreement in December 2005, with the new lease including an addition to be constructed at MOVC with funds from new bonds issued by the Mason County Building Commission. Ownership of MOVC transfers to the University at the end of the lease term.

Also in December 1998, the University entered into a sublease with Pleasant Valley Hospital for partial ownership of MOVC. This sublease was terminated and replaced with a new sublease in January 2006. Under the terms of the new sublease, Pleasant Valley Hospital's percentage of equity in MOVC will decline over the following three years. On July 1, 2009, the equity contribution of Pleasant Valley Hospital will revert to the University. As of June 30, 2008, the total minimum lease payments to be received on the new sublease through June 30, 2009, are $66,879, including unearned income of $20,290, for a net investment in direct financing and sales type leases of $46,589.

Future annual minimum lease payments for years subsequent to June 30, 2008, are as follows:

Years Ending June 30	**Principal**	**Interest**	**Total**
2009	$ 1,014,361	$ 421,428	$ 1,435,789
2010	954,041	380,421	1,334,462
2011	926,373	340,783	1,267,156
2012	907,219	303,772	1,210,991
2013	944,698	266,295	1,210,993
2014–2018	3,791,265	790,417	4,581,682
2019–2023	1,828,997	280,012	2,109,009
2024–2025	480,341	11,760	492,101
			13,642,183
Less interest			2,794,888
			$ 10,847,295

In June 2008, the University entered into a ground lease with MURC to lease the site for the Marshall University Forensic Science Center Annex Building, which is currently under construction and being funded by debt obligations of MURC. MURC shall pay the University a base rent of $1 per annum, prepaid in full in advance beginning upon substantial completion of the building, which is expected to be in August 2009, and ending 240 months from the rent commencement date. MURC will hold title to the building and rent part of the space to Our Jobs, Our Children, Our Future, Inc., d.b.a. HADCO for a technology business incubator space and the remaining space to the University. The University will be charged rent sufficient to pay the annual debt service.

In October 2007, the University entered into a ground lease with MSH – Marshall to lease the site for the student housing and wellness center project, which is currently under construction and being funded by debt obligations of MSH – Marshall. The ground lease payments will become due at the end of the first year the project is in operation.

10. COMPENSATED ABSENCES LIABILITY AND OTHER POSTEMPLOYMENT BENEFITS

The composition of the compensated absence liability at June 30, 2008 and 2007, is as follows:

	2008	2007
Health or life insurance benefits	$ -	$ 9,199,784
Accrued vacation leave	8,211,779	7,976,393
	$ 8,211,779	$ 17,176,177

For the year ended June 30, 2008, with the adoption of GASB Statement No. 45, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2008, the noncurrent liability related to OPEB costs was $1,373,286. For the year ended June 30, 2008, the University recorded a cumulative effect of the adoption of this accounting principle of $9,199,784, an amount equal to the June 30, 2007, liability for the extended health or life insurance benefit previously recorded in accordance with GASB Statement No. 16. The total of OPEB expense incurred and the amount of OPEB expense that relates to retirees was $7,933,920 and $3,772,788, respectively, during 2008. As of the year ended June 30, 2008, there were 185 retirees receiving these benefits.

For the year ended June 30, 2007, the cost of health and life insurance benefits paid by the University was based on a combination of years of service and age in accordance with GASB Statement No. 16. For the year ended June 30, 2007, the amount paid by the University for extended health or life insurance coverage retirement benefits totaled $379,307. As of June 30, 2007, there were 195 retirees 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 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 a 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 years ended June 30, 2008 and 2007, were $4,743,177 and $4,811,388, respectively, which consisted of $3,097,400 and $2,852,475 in principal, and $1,645,777 and $1,958,913 in interest and other related charges, respectively. Certain bonds issued by the Commission were refinanced in August 2004 at lower interest rates.

During the year ended June 30, 2005, the Commission issued $167,000,000 of 2005 Series B 30-year Revenue Bonds to fund capital projects at various higher education institutions in the State. The University has been approved to receive $30,500,000 of these funds. The University has recognized $30,200,000 of this approved amount as of June 30, 2008. 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 $4,864,674 and $5,717,828 at June 30, 2008 and 2007, respectively, have been used for only auxiliaries. In addition, unrestricted net asset balances of $7,710,185 and $6,320,400 at June 30, 2008 and 2007, 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 (STRS) or the Teachers Insurance and Annuities Association — College Retirement Equities Fund (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 (the "Educators Money"). New hires have the choice of either plan.

Total contributions to the Educators Money for the years ended June 30, 2008, 2007, and 2006, were approximately $128,000, $98,000, and $76,000, respectively, which consisted of approximately $64,000, $49,000, and $38,000 from the University and approximately $64,000, $49,000, and $38,000, from covered employees, respectively.

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 contractual maximum contribution rate is 15%. 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, 2008 and 2007. Required employee contributions were at the rate of 6% of total annual salaries for the years ended June 30, 2008 and 2007. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest 5 years of salary out of the last 15 years) multiplied by the number of years of service.

Total contributions to STRS for the years ended June 30, 2008, 2007, and 2006, were approximately $1,180,000, $1,267,000, and $1,282,000, respectively, which consisted of approximately $843,000, $905,000, and $916,000 from the University and approximately $337,000, $362,000, and $366,000, 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. 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, 2008, 2007, and 2006, were approximately $11,591,000, $11,015,000, and $10,343,000, respectively, which consisted of approximately $5,731,000, $5,443,000, and $5,104,000 from the University and approximately $5,860,000, $5,572,000, and $5,239,000 from covered employees, respectively.

The University's total payroll for the years ended June 30, 2008 and 2007, was approximately $111,187,000 and $107,055,000, respectively; total covered employees salaries in the STRS, TIAA-CREF, and Educators Money were approximately $5,620,000, $95,989,000, and $1,062,000, respectively, in 2008 and $6,035,000, $91,223,000, and $823,000, respectively, in 2007.

14. MARSHALL UNIVERSITY FOUNDATION, INC.

The Foundation is a separate nonprofit organization incorporated in the State whose purpose is to benefit the work and services of the University and its affiliated nonprofit organizations. The Foundation has a board of directors authorized to have 40 members selected by its Board members. At present, there are 37 members, including the President of the University as a nonvoting ex-officio member. 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 combined financial statements in accordance with GASB Statement No. 39.

15. MSH – MARSHALL, L.L.C.

MSH – Marshall is a Delaware single-member, limited liability company whose sole member is Mustard Seed Housing, Inc. The board of Mustard Seed Housing, Inc. consists of five members who are selected by its board members, and it appoints the one-member board (the executive director) for MSH – Marshall. MSH – Marshall was formed for the purpose of acquiring and financing the Series 2007 project. The Series 2007 project consists of an 812-bed housing facility and a 123,850-square-foot student recreation/wellness center located on the Marshall campus. MSH – Marshall has engaged Capstone On-Campus Management, LLC and Centers, LLC to manage and maintain the Series 2007 project under management agreements. The MSH – Marshall financial statements are presented as part of the University's combined financial statements in accordance with GASB Statement No. 39.

16. AFFILIATED ORGANIZATIONS

The University has separately incorporated affiliated organizations, including the University Physicians & Surgeons, Inc. and the Big Green Scholarship Foundation, Inc. Oversight responsibility for these entities rests with independent boards and management not otherwise affiliated with the University. Accordingly, the financial statements of such organizations are not included in the accompanying combined financial statements under GASB Statement No. 14. They are not included in the University's accompanying combined financial statements under GASB Statement No. 39, since they (1) are not material or (2) have dual purposes (i.e., not entirely or almost entirely for the benefit of the University).

17. 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, breaches 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 affect 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 Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. No arbitrage rebate liabilities have been recorded in the accompanying combined financial statements as of June 30, 2008 or 2007.

The University owns various buildings that 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 manner. 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 conditions become 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 manner.

18. 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.

a. *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 were secured by and payable from the revenues of the Center. With the final payoff of the 1969 Bonds in FY 2008, segment information is no longer required.

b. *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 Indenture dated as of June 1, 2001, by and between the Trustee. The 2001 Bonds are secured by and payable from the revenues of the dormitories and parking facilities and certain funds held under the Indenture. The proceeds of the 2001 Bonds are being used (1) to finance a portion of the costs of acquisition, construction, and equipping of a new student housing complex and parking facilities at the University and renovations and improvements to existing dormitories at the University, (2) to fund capitalized interest on the 2001 Bonds, (3) to fund debt service reserves for the 2001 Bonds, and (4) to pay a portion of the costs of issuance of the 2001 Bonds.

Condensed financial information for each of the University's segments as of June 30, 2008 and 2007, is as follows:

	State of West Virginia, West Virginia Board of Education, University Center Revenue Bonds 1969	State of West Virginia, Higher Education Interim Governing Board University Facilities Revenue Bonds, 2001 Series A	
	2007	2008	2007
Condensed Statements of Net Assets			
Assets:			
Current assets	$ 1,795,365	$ 7,839,905	$ 6,467,873
Noncurrent assets	4,298,617	47,064,861	48,254,429
Total assets	$ 6,093,982	$ 54,904,766	$ 54,722,302
Liabilities:			
Current liabilities	$ 556,468	$ 3,053,103	$ 2,665,123
Noncurrent liabilities	57,976	41,957,746	43,142,831
Total liabilities	614,444	45,010,849	45,807,954
Net assets:			
Invested in capital assets — net of related debt	3,453,158	4,244,861	4,434,249
Restricted:			
Debt service	471,049	82,688	83,030
Capital projects	230,525		180
Unrestricted	1,324,806	5,566,368	4,396,889
Total net assets and liabilities	$ 6,093,982	$ 54,904,766	$ 54,722,302
Condensed Statements of Revenues, Expenses, And Changes in Net Assets			
Operating:			
Operating revenues	$ 1,321,411	$ 16,135,227	$ 14,940,540
Operating expenses	(1,136,766)	(13,233,017)	(12,265,561)
Net operating income	184,645	2,902,210	2,674,979
Nonoperating:			
Nonoperating revenues	36,337	535,725	170,331
Nonoperating expenses	(26,922)	(2,248,509)	(2,291,422)
Total nonoperating	9,415	(1,712,784)	(2,121,091)
Transfers from (to) the university		(209,857)	(676,523)
Changes in net assets	194,060	979,569	(122,635)
Net assets — beginning of year	5,285,478	8,914,348	9,036,983
Net assets — end of year	$ 5,479,538	$ 9,893,917	$ 8,914,348
Condensed Statements of Cash Flows			
Net cash provided by operating activities	$ 292,871	$ 4,565,559	$ 4,386,842
Net cash used in capital and related financing	(490,691)	(3,193,376)	(3,864,649)
Net (decrease) increase in cash and cash equivalents	(197,820)	1,372,183	522,193
Cash and cash equivalents — beginning of year	2,405,080	9,508,993	8,986,800
Cash and cash equivalents — end of year	$ 2,207,260	$ 10,881,176	$ 9,508,993

19. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The operating expenses within both natural and functional classifications for the years ended June 30, 2008 and 2007, are as follows:

2008

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Other Operating Expense	Fees Assessed by the Commission	Total
Instruction	$ 54,492,909	$ 17,410,204	$ 10,095,379	$ 159	$ -	$ -	$ -	$ -	$ 81,998,651
Research	7,370,110	2,566,928	8,121,792	181,656					18,240,486
Public service	9,084,282	2,732,390	4,468,435	158,282					16,443,389
Academic support	10,537,928	3,229,431	4,662,618	84					18,430,061
Student services	5,973,533	2,320,887	3,413,258	2,318					11,709,996
General institutional support	11,874,566	3,923,292	3,422,181	6,921					19,226,960
Operations and maintenance of plant	3,983,434	1,915,666	3,656,410	5,226,242					14,781,752
Student financial aid					17,738,970				17,738,970
Auxiliary enterprises	7,869,826	3,473,930	13,375,096	2,119,011					26,837,863
Depreciation						14,267,589			14,267,589
Other							182,657	689,970	872,627
Total	$ 111,186,588	$ 37,572,728	$ 51,215,169	$ 7,694,673	$ 17,738,970	$ 14,267,589	$ 182,657	$ 689,970	$ 240,548,344

2007

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Other Operating Expense	Fees Assessed by the Commission	Total
Instruction	$ 52,248,600	$ 14,634,679	$ 9,650,639	$ 117	$ -	$ -	$ -	$ -	$ 76,534,035
Research	6,826,825	2,628,383	8,893,983	346,532					18,695,723
Public service	8,758,782	2,876,577	5,080,297	209,666					16,925,322
Academic support	10,384,265	2,842,277	6,473,760	2,848					19,703,150
Student services	6,033,054	2,196,847	3,259,627	1,306					11,490,834
General institutional support	11,182,571	3,451,759	3,874,222	100,059					18,608,611
Operations and maintenance of plant	3,856,695	1,463,687	1,952,145	4,264,958					11,537,485
Student financial aid					16,839,770				16,839,770
Auxiliary enterprises	7,764,339	3,096,118	11,742,878	1,913,902					24,517,237
Depreciation						14,001,212			14,001,212
Other							56,701	697,748	754,449
Total	$ 107,055,131	$ 33,190,327	$ 50,927,551	$ 6,839,388	$ 16,839,770	$ 14,001,212	$ 56,701	$ 697,748	$ 229,607,828

20. COMPONENT UNIT'S DISCLOSURES — FOUNDATION

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

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 management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those 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. The majority of the 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.

OTHER ASSETS
Other assets consist of donated works of art and have been recorded at their estimated fair values at the date of donation.

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.

ADVERTISING COSTS
Advertising costs totaling $70,036 and $48,996 for 2008 and 2007, respectively are charged to operations when incurred.

RECENT ACCOUNTING PRONOUNCEMENTS
On August 6, 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds.* This FASB Staff Position (FSP) provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations which are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). This FSP also requires enhanced disclosures about an organization's endowment funds, whether or not the organization is subject to UPMIFA, to enable users of financial statements to understand the net asset classification, net asset composition, changes in net asset composition, spending policies, and related investment policies of the organization's endowment funds. The Foundation intends to adopt the provisions of this FSP for the year ending June 30, 2009.

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2008 and 2007 are comprised of the following:

	2008	2007
Cash and overnight repurchase agreements	$ 3,243,398	$ 1,180,480
Short-term investments	5,604,312	4,332,894
TOTAL	$ 8,847,710	$ 5,513,374

NOTE 3 - NOTES RECEIVABLE

Notes receivable at June 30, 2008 and 2007 consist of the following:

	2008	2007
$500,000 - original face, receivable in 40 quarterly installments of $15,355 inclusive of interest at 5%, unsecured, due September 30, 2012.	$ 153,423	$ 251,278
Total	$ 153,423	$ 251,278

NOTE 4 - INVESTMENTS

Investments as of June 30, 2008 and 2007 are summarized as follows:

	2008		
	Book Value	Fair Value	Unrealized Gain/(Loss)
Bonds	$ 22,210,092	$ 22,854,907	$ 644,815
Stocks	38,074,472	46,829,899	8,755,427
Other	20,556,290	23,943,236	3,386,946
TOTAL	$ 80,840,854	$ 93,628,042	$ 12,787,188

	2007		
	Book Value	Fair Value	Unrealized Gain/(Loss)
Bonds	$ 26,420,877	$ 27,022,195	$ 601,318
Stocks	35,384,421	50,410,195	15,025,774
Other	19,989,857	22,235,017	2,245,160
TOTAL	$ 81,795,155	$ 99,667,407	$ 17,872,252

The book value of investments as of June 30, 2007 has been increased by $6,217,148 in the above presentation over amounts reported in the previously issued financial statements, based on the subsequent availability of improved cost information. This change had no effect on the change in net assets for 2007.

The following summarizes the investment income for the years ended June 30, 2008 and 2007 inclusive of income on cash equivalents, perpetual trusts, and the investments described above:

	2008	2007
Interest and dividends	$ 2,616,279	$ 2,506,201
Realized gain	3,793,886	6,521,025
Unrealized (loss)gain	(6,018,006)	4,703,357
Investment fees	(156,118)	(154,278)
Net investment return	$ 236,041	$ 13,576,305

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

As of June 30, 2008 and 2007, there were no donor-restricted endowment funds for which the fair value of the investments is less than the level required by donor stipulation or law.

NOTE 5 - DIRECT FINANCING LEASES AND BONDS PAYABLE

On February 29, 2008, the Foundation acquired certain assets and assumed certain liabilities of the Marshall University Graduate College Foundation, Inc. (MUGCFI) consisting principally of the investment in direct financing leases and bonds payable described below.

The MUGCFI had borrowed funds in the form of two separate bond issues and utilized the funds to construct buildings on properties that had been donated to MUGCFI in previous years. The facilities and land are leased to the State of West Virginia, and the bonds are to be liquidated by pass-through lease payments from the State of West Virginia in amounts exactly equal to the debt requirements. The lease agreements provide that, upon retirement of the bonds, title to the leased property passes to the State of West Virginia. Although the State of West Virginia can cancel the lease, the intent is that all other requirements of payment will be honored. Therefore, the leases have been capitalized and the transactions recorded as though the properties had been sold and transferred.

Investment in direct financing leases

At June 30, 2008, the Foundation's net investment in direct financing leases is summarized as follows:

Future minimum lease payments to be received in years ending June 30:

2009	$ 604,969
2010	630,377
2011	630,369
2012	630,381
2013	630,378
Total minimum lease payments due in next five years	3,126,474
Minimum lease payments due in later years	2,273,303
Gross investment in direct financing leases	5,399,777
Less unearned income	(901,772)
Net investment in direct financing leases	$ 4,498,005

The two lease agreements expire in February, 2016 and September, 2017.

Bonds payable

Bonds payable are as follows at June 30, 2008:

City of South Charleston, West Virginia Commercial Development Refunding Revenue Bonds, Series 1998, original principal amount $3,630,470, interest at 4.60%, payable in monthly installments of principal and interest of approximately $25,610 through February 1, 2016, secured by real property.	$ 1,982,220
City of South Charleston, West Virginia Commercial Development Refunding Revenue Bonds, Series 2005, original principal amount $3,177,495, interest at 3.99%, payable in semi-annual installments of principal and interest of $161,535 through September 1, 2017, secured by real property.	2,533,795
Total bonds payable	$ 4,516,015

Scheduled bond principal and interest payments are as follows at June 30, 2008:

Year ending June 30,	Principal	Interest	Total
2009	$ 444,927	$ 185,650	$ 630,577
2010	464,331	166,046	630,377
2011	484,579	145,790	630,369
2012	505,736	124,645	630,381
2013	527,807	102,571	630,378
Total due in next five years	2,427,380	724,702	3,152,082
Amounts due in later years	2,088,635	184,668	2,273,303
Total bonds payable	$ 4,516,015	$ 909,370	$ 5,425,385

Interest expense was as follows for the years ended June 30, 2008 and 2007:

	2008	2007
Interest on bonds payable	$ 23,207	$ -0-
Interest on other debt liquidated within the year	-0-	19,000
Interest expense	$ 23,207	$ 19,000

NOTE 6 - PROMISES TO GIVE

Unconditional promises to give at June 30, 2008 and 2007 are as follows:

	2008	2007
Receivable in less than one year	$ 1,957,332	$ 3,848,617
Receivable in one to five years	3,014,582	2,424,938
Receivable in more than five years	1,193,494	141,354
Total unconditional promises to give	6,165,408	6,414,909
Less discounts to net present value	(741,095)	(553,206)
Less allowance for uncollectible promises	(145,785)	(280,033)
Net unconditional promises to give	$ 5,278,528	$ 5,581,670

Discount rates used on long-term promises to give ranged from 4.00% to 9.5% for fiscal years ended June 30, 2008 and 2007.

NOTE 7 - PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at June 30, 2008 and 2007:

	2008	2007
Land	$ 1,567,000	$ 1,510,000
Buildings	595,000	595,000
Office equipment	207,842	240,159
Construction in progress	745,904	-0-
	3,115,746	2,345,159
Less: Accumulated depreciation	(382,940)	(383,200)
	$ 2,732,806	$ 1,961,959

Depreciation expense charged to operations was $44,576 and $50,520 for the years ended June 30, 2008 and 2007, 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 $1,656,484 and $1,324,926 at June 30, 2008 and 2007, 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, 2008 and 2007 totaled $-0-.

NOTE 10 - OTHER CONTRIBUTIONS RECEIVABLE

Other contributions receivable at June 30, 2008 and 2007 were as follows:

	2008	2007
Amounts to be received from estate of deceased donors pending completion of probate processes	$ 141,805	$ -0-

NOTE 11 - CHARITABLE GIFT ANNUITIES

As of June 30, 2008 and 2007, 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, 2008), the present value of future liabilities expected to be paid by the Foundation to the beneficiaries totaled $561,924 and $648,037 as of June 30, 2008 and 2007, respectively.

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. 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 $15,108 and ($69,330) for the years ended June 30, 2008 and 2007, respectively.

NOTE 12 - CHARITABLE REMAINDER TRUSTS

The Foundation is named as the residual beneficiary of five 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, 2008. At June 30, 2008 and 2007, the contribution receivable from the remainder trusts totaled $760,868 and $964,151, respectively.

Contribution revenue net of change in valuation of charitable remainder trusts totaled ($203,283) and $258,186 for the years ended June 30, 2008 and 2007, respectively.

NOTE 13 - PERPETUAL TRUSTS HELD BY THIRD PARTIES

The Foundation is the beneficiary of numerous perpetual trusts. The assets of the perpetual trusts are held by third parties. The Foundation has an irrevocable right to receive the income earned from the trusts' assets in perpetuity.

The Foundation records its beneficial interest in the perpetual trust assets at fair market value with a corresponding entry to permanently restricted contribution revenue. At June 30, 2008 and 2007, the beneficial interest in perpetual trusts totaled $7,381,412 and $8,130,467, respectively.

The change in the fair market value of the beneficial interest in perpetual trusts assets is recorded in permanently restricted other income in the accompanying financial statements and totaled ($749,055) and $680,118 for the years ended June 30, 2008 and 2007, respectively.

NOTE 14 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2008 and 2007 are available for the following purposes or periods:

Periods after June 30,	2008	2007
Program activities		
Academic assistance	$ 21,971,464	$ 18,609,380
Student assistance	11,621,533	2,011,726
Unrealized gain on investments - unallocated	-0-	20,228,038
Unconditional promises to give, net - unallocated	-0-	(628,448)
Total temporarily restricted net assets	$ 33,592,997	$ 40,220,696

Beginning in 2008, the Foundation adopted procedures to allocate the unrealized gains and unconditional promises to give to the various program activities.

Net assets were released from donor restrictions during the years ended June 30, 2008 and 2007 by incurring expenses satisfying the purpose specified by donors as follows:

Purpose restrictions accomplished:	2008	2007
Academic assistance	$ 6,058,588	$ 5,418,208
Student assistance	2,359,511	761,201
Fundraising	268,218	111,287
Total restrictions released	$ 8,686,317	$ 6,290,696

NOTE 15 - PERMANENTLY RESTRICTED NET ASSETS

Net assets were permanently restricted for the following purposes at June 30, 2008 and 2007:

	2008	2007
Academic assistance	$ 24,788,560	$ 18,107,978
Student assistance	38,617,952	42,902,550
Unrealized gain on investments - unallocated	-0-	195,159
Unconditional promises to give, net - unallocated	-0-	(168,328)
Total permanently restricted net assets	$ 63,406,512	$ 61,037,359

Beginning in 2008, the Foundation adopted procedures to allocate the unrealized gains and unconditional promises to give to the various program activities.

NOTE 16 - 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 $145,785 and $280,033 at June 30, 2008 and 2007, respectively.

The Foundation maintains substantially all of its cash balances with three 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 $373,137 at two of these financial institutions at June 30, 2007.

NOTE 17 - 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, 2008 and 2007 was $59,156 and $32,978, respectively.

NOTE 18 - 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 19 - 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 20 - COMMITMENTS

At June 30, 2008, the Foundation had incurred costs totaling $745,904 for construction of new office facilities and an alumni center. Remaining contract costs to complete the project totaled $9,385,473 at June 30, 2008.

In connection with the purchase of property from Marshall University, the Foundation has agreed to demolish the building on one of its current properties and transfer ownership of the property to Marshall University. The book value of the property to be transferred totaled approximately $183,000 as of June 30, 2008.

At June 30, 2008, the Foundation had an unused available $10 million line of credit with a local bank to be drawn upon when needed with a variable interest rate of 0.55% above the LIBOR rate.

NOTE 21 - PRIOR PERIOD ADJUSTMENT

The accompanying financial statements for 2007 have been restated for the omission of deposits in transit at June 30, 2007. The effect of the restatement was to increase the change in net assets by $47,096.

NOTE 22 - RECLASSIFICATIONS

Certain amounts in the 2007 financial statements have been reclassified for comparative purposes. Additionally, realized gains have been increased by $6,217,148 and unrealized gains have been decreased $6,217,148 for 2007 based on revised investment cost information as described in Note 4.

NOTE 23 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial condition. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Statement No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Organization.

The following methods and assumptions were used by the Organization in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amount reported in the statements of financial position for cash and cash equivalents approximate those assets' fair values.

Notes receivable: It is not practicable to estimate the fair value of notes receivable due to the lack of available software capable of calculating fair value.

Unconditional promises to give: It is not practicable to estimate the fair value of unconditional promises to give due to the lack of available software capable of calculating fair value.

Contributions receivable from Remainder Trusts - the carrying amount reported in the statement of financial position for contributions receivable from remainder trusts approximates those assets' fair value.

Other contributions receivable - the carrying amount reported in the statement of financial position for other contributions receivable approximates those assets' fair value.

Beneficial Interest in Perpetual Trusts - the carrying amount reported in the statement of financial position for beneficial interest in perpetual trusts approximate those assets' fair values.

Investments - fair value for investments are based on quoted market prices, where available. If quoted market prices are not available, fair value is based on quoted market prices of comparable instruments.

Cash surrender value - life insurance, net of policy loans - the carrying amount reported in the statements of financial position for cash surrender value - life insurance, net of policy loans approximate those assets' fair values.

Accounts payable - the carrying amount reported in the statement of financial position for accounts payable approximates those liabilities' fair values.

Bonds payable - it is not practicable to estimate the fair value of bonds payable due to the lack of available software capable of calculating fair value.

Annuity payment liability - it is not practicable to estimate the fair value of annuity payment liability due to the lack of available software capable of calculating fair value.

Deferred revenue - the carrying amount reported in the statement of financial position for deferred revenue approximates those liabilities' fair values.

The estimated fair values of the Organization's financial instruments at June 30, 2008 and 2007 are as follows:

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	$ 8,847,710	$ 8,847,710	$ 5,513,374	$ 5,513,374
Notes receivable	153,423	Not Practicable	251,278	Not Practicable
Unconditional promises to give, net	5,278,528	Not Practicable	5,581,670	Not Practicable
Contribution receivable from Remainder Trusts	760,868	760,868	964,151	964,151
Other contributions receivable	141,805	141,805	-0-	-0-
Beneficial interest in Perpetual Trusts	7,381,412	7,381,412	8,130,467	8,130,467
Investments	93,628,042	93,628,042	99,667,407	99,667,407
Cash surrender value - life insurance, net	277,395	277,395	239,926	239,926
Financial Liabilities:				
Accounts payable	543,984	543,984	-0-	-0-
Bonds payable	4,516,015	Not Practicable	-0-	-0-
Annuity payable liability	561,924	Not Practicable	648,037	Not Practicable
Deferred revenue	96,435	96,435	-0-	-0-

21. COMPONENT UNIT'S DISCLOSURES — MSH – MARSHALL

The notes taken directly from the audited financial statements of MSH – Marshall are as follows:

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

MSH - Marshall, L.L.C. (the "Organization") is a Delaware single member limited liability company whose sole member is Mustard Seed Housing, Inc. (the "Corporation"). The Organization was formed for the purpose of acquiring and financing the Series 2007 Project. The Series 2007 Project consists of an 812 bed housing facility and a 123,850 square foot student recreation/wellness center located on the campus of Marshall University (the "University") in the City of Huntington, West Virginia. The Organization intends to engage Capstone On-Campus Management, LLC (the "Housing Manager") and

Centers, LLC (the "Wellness Center Manger") to manage and maintain the Series 2007 Project under Management Agreements. The accompanying statements include only the accounts of the Organization.

The Corporation is a non-profit corporation formed in 2000 under the laws of the State of California. The Corporation was organized and is operated for the purposes of (i) providing affordable student housing; (ii) providing affordable housing in mixed income communities; and (iii) providing transitional housing and personal skill development and support for very low to low income families and is operated exclusively for charitable purposes. The Corporation will have no obligation with respect to the Series 2007 Bonds. The Corporation is also an organization which is exempt from federal income tax pursuant to Code Section 501(c)(3) of the Internal Revenue Code.

The housing facility was completed in August 2008 and the recreation/wellness center is scheduled to be completed in February 2009.

Series 2007 bonds

In 2007, the Organization participated in a bond issuance by borrowing money from a public authority that can issue tax-exempt debt. The underlying property on which the housing project is located is leased by the Marshall University Board of Governors to MSH - Marshall, LLC through a ground lease agreement. The facility is constructed using proceeds from primarily tax-exempt bonds and is mortgaged as security for the financing.

Cabell County, West Virginia, by and through the County Commission of Cabell County, West Virginia (the "Issuer") has issued $81,065,000 in revenue bonds which will be payable solely from revenues from the Organization. In addition, the Issuer has issued $9,000,000 in subordinate revenue bonds which will be payable solely from moneys on deposit in the Surplus Fund as provided in the Trust Indenture. The proceeds of the Series 2007 Bonds were loaned to the Organization pursuant to a Loan Agreement dated as of October 1, 2007 between the Issuer and the Organization.

Basis of accounting

The accompanying financial statements are prepared using the accrual basis of accounting.

Unrestricted net assets

None of the Project's net assets are subject to donor-imposed restrictions. Accordingly, all net assets are accounted for as unrestricted net assets in accordance with Statement of Financial Accounting Standards No. 117, *Financial Statements for Not-For-Profit Organizations.*

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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 these estimates; however, in the opinion of management such differences will not be material to the financial statements.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and temporary investments purchased with an initial maturity of three months or less, except for Treasury bills, commercial paper, and other short-term financial instruments included in the Organization's investment account which are primarily held for investment in long-term assets. The carrying amount of cash and cash equivalents approximates fair value due to the short maturity of these financial instruments.

Construction in progress

Construction in progress consists of development costs, direct and indirect construction costs and capitalized interest. The costs are accounted for as construction in progress until such time as the project is complete and the assets are placed into service. The assets are then classified as capital assets and depreciated accordingly. Construction in progress amounted to $49,157,235 at June 30, 2008.

Capitalized interest is recorded by the Organization based upon interest expense incurred on the Organization's borrowings, offset by the investment income earned on the related bond proceeds. The net amount of capitalized interest at June 30, 2008 was $675,057.

Debt issuance costs

Costs incurred in connection with the issuance of the bonds are amortized using the straight-line method over the lives of the associated bonds. These costs are shown net of accumulated amortization of $56,507 at June 30, 2008. The amortization of these costs is generally reflected as part of the overall construction cost of the Organization, until the related assets are placed in service.

Income taxes

The Organization, a single-member limited liability company whose sole member is the Corporation, has elected to be disregarded as a separate entity for income tax purposes. As such, the activities are reported on the return of its sole member, the Corporation. The Corporation is a non-profit organization exempt from federal income taxes under Internal Revenue Code Section 501(c)(3).

NOTE 2– CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances with creditworthy, high quality, financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $100,000. Periodically, the Organization maintains deposits in excess of federally insured limits. Management monitors the soundness of these financial institutions and feels the Organization's risk is not significant. The balances in investment – bond reserves are invested according to bond documents, which work to mitigate the credit risk of those investments.

NOTE 3– INVESTMENTS-BOND FUNDS AND RESERVES

The funds held by the Bond Trustees consist of cash and investments. The investments are stated at fair market value.

Under the terms of the Trust Indenture and Loan Agreement, various funds such as the Capitalized Interest, Construction, Cost of Issuance, Redemption, Replacement and Debt Service must be established and maintained for the project. These documents govern the types of investments and requirements for collateralization.

The bond indentures contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds, and minimum bond coverages.

During the construction period, investment income is used to offset capitalized interest for the project. Once the project becomes operational, investment income is reported as a change in net assets. Information necessary to report the proceeds of sales and purchases of investments for the statement of cash flows is not meaningful due to the nature of the investments and the large volume of transactions.

Investment reserves, at fair value, consist of the following at June 30, 2008:

Investment - bond funds		
MBIA Investment Agreement with an expiration date of March 2, 2009; rate 4.315%	$	34,033,589
Federated Treasury Obligations		49,178
	$	34,082,767
Investment - debt service reserves		
Morgan Stanley Investment Agreement with an expiration date of December 1, 2017; rate 4.373%	$	4,884,124
Federated Treasury Obligation		121,147
	$	5,005,271

The Trustee entered into a Flexible Draw Investment Agreement (the "FD Agreement") with MBIA, Inc. upon the authorization of the Organization and pursuant to the Indenture to invest bond reserve funds. The FD Agreement requires MBIA to deliver collateral to the Trustee equal to balances in the respective bond reserve accounts. The agreement stipulates a fixed interest rate of 4.315% with a termination date of March 2, 2009. The underlying investment in the FD Agreement is valued at cost, which approximates market due to its short-term maturity.

The Trustee entered into an Unsecured Investment Agreement (the "Invest Agreement") with Morgan Stanley Flexible Agreements, Inc. ("INC") upon the authorization of the Organization and pursuant to the Indenture to invest the debt service reserve funds. The obligation of INC is evidenced by an unsecured Promissory Note issued to the Trustee. The note stipulates a fixed interest rate of 4.373% with a maturity date of December 1, 2017. The Invest Agreement provides for collateral to be provided if INC's rating is downgraded below a Standard & Poor's Ratings Group of A- or a Moody's Investors Services rating below A3. The underlying investment in the Invest Agreement is valued at fair market value which is based on the discounted cash flow methodology.

NOTE 4– LONG-TERM DEBT

Bonds payable

Certain series of taxable and non-taxable bonds have been issued by Cabell County, West Virginia by and through the County Commission of Cabell County, West Virginia as registered bonds pursuant to an Indenture of Trust between the Issuer and Trustee. The issuance of both tax-exempt and taxable bonds was due to the percentage limitation on the amount of tax-exempt bond proceeds that can be used to pay transaction expenses and still maintain a tax-exempt status.

Pursuant to loan agreements between the Issuer and the Organization, the Issuer has loaned the proceeds of the Bonds to the Organization. The proceeds were used to finance the construction of the housing facility and related facilities owned by the Organization, fund interest and Swap Payments on the bonds during the construction period, fund the cost of marketing the Series 2007 Project, to provide working capital for the Series 2007 Project, to fund a Debt Service Reserve Fund and to fund the cost of issuing the bonds.

Pursuant to security agreements, leasehold deeds to secure debt, assignment of contract documents and assignment of rents between the Organization and the Trustees, the Organization grants to the Trustees first lien security title in the leasehold estates created by the ground leases and a security interest in the revenues and accounts generated by the operations of the Organization. The Organization also assigned to the Trustees its rights under various agreements and contracts. Pursuant to the Indenture, the Issuers assigned all of their interest in the loan agreements to the Trustees to secure the Bonds.

Long-term debt consists of the following at June 30, 2008:

Tax-exempt variable rate bonds payable dated October 25, 2007; due at various intervals through July 1, 2039; payable in monthly installments of interest and annual installments of principal; average coupon rate of 3.728%; secured by leasehold deed and assignment of rents.	$ 80,745,000
Taxable fixed rated bonds payable dated October 25, 2007; due at various intervals through July 1, 2011; payable in monthly installments of interest and annual installments of principal; average coupon rate of 5.498%; secured by deed and assignment of rents.	$ 320,000
Subordinate fixed rate bonds payable dated December 12, 2007; coupon rate of 7.5%; secured by leasehold deed and assignment of rents.	$ 2,700,000

Maturities of long-term debt at June 30, 2008 are as follows:

	Tax-exempt	Taxable	Subordinate
Years ending June 30			
2009	$ -	$ -	$ -
2010	-	145,000	-
2011	250,000	175,000	-
2012	590,000	-	-
2013	795,000	-	-
2014 and thereafter	79,110,000	-	2,700,000
	$ 80,745,000	$ 320,000	$ 2,700,000

NOTE 5-DEVELOPER BONDS PAYABLE

The indebtedness of the Subordinate Bonds Payable, in the aggregate principal amount of $9,000,000, is subject to the redemption of the Series 2007C Bonds as outlined in the Trust Indenture. The Series 2007C Bonds were issued in favor of Capstone Development Corp. (the "Developer") to pay a portion of the development fee due under the Development Agreement pursuant to which the Developer has agreed to develop the Project. The principal of the Subordinate Bonds will be advanced in increments at certain milestones in the development of the Project. The Developer was issued $2,700,000 on December 12, 2007. The second issuance was made on August 1, 2008 in the amount of $3,600,000. The final issuance in the amount of $2,700,000 is anticipated to be made in February 2009 upon completion of the Project. So long as the Senior Bonds are outstanding, the principal of and interest on the Series 2007C Bonds will be payable solely from moneys, if any, on deposit in the Surplus Fund established under the Indenture, but only upon the satisfaction of certain requirements set forth in the Indenture and after other payments required therein have been made.

NOTE 6- GROUND LEASE PAYABLE

The underlying property on which the Project is located is owned by The Board of Governors of Marshall University (Lessor), a political subdivision of the State of West Virginia and is leased to MSH - Marshall, LLC (Lessee) through a ground lease agreement dated October 1, 2007. The ground lease payments of $1.00 will become due at the end of the first year the Project is in operation.

Lessor shall cause to be paid additional rent of one-half of the Cost Savings Compensation as provided in the Development Agreement. Lessor will direct the additional rent be paid directly to Trustee for deposit into the Redemption Fund and direct the Trustee to redeem the greatest number of 2007A Bonds at the earliest possible date pursuant to Indenture Agreement.

NOTE 7- PROJECT MANAGEMENT

The management and daily operations of the Organization's student housing facility will be conducted by the Housing Manager pursuant to a Management Agreement dated October 1, 2007, between the Organization and the Housing Manager. The management of the student housing facility includes collection of rents, payment of indebtedness and expenses, repairs, maintenance and administrative services. All employees necessary or appropriate to manage the student housing facility will be under the control and supervision of Capstone On-Campus Management, LLC.

The management and daily operations of the Organization's wellness center will be conducted by the Wellness Center Manager pursuant to a Management Agreement dated October 1, 2007, between the Organization and the Wellness Center Manager. The management of the wellness center includes revenue generation, payment of indebtedness and expenses. All employees necessary or appropriate to manage the wellness center will be under the control and supervision of Centers, LLC.

NOTE 8– INTEREST RATE SWAP AGREEMENT

The Organization has an interest rate swap agreement that was entered into as a hedge against the risk of increases in the variable rate of interest borne by the Series 2007A Bonds. The differential interest required to be paid or that will be received under this agreement is accrued consistent with the terms of the agreement and is recognized in interest expense as accrued. Terms of the swap agreement require the differential interest to be paid or received monthly.

Generally accepted accounting principles require derivative instruments, such as interest rate swap agreements, to be recognized at fair value as either assets or liabilities in the statement of financial position. Accordingly, the negative $3,211,653 value of the swap agreement at June 30, 2008, is reported as a liability in the statement of financial position and included in construction in progress. Value has been measured based on estimates of the amount needed to settle the agreement as calculated by the counterparty to the swap agreement. Such calculations were based on changes in market conditions and/or assumptions underlying valuation models.

The notional principal amount of the swap agreement is $80,745,000. The agreement effectively fixes the Organization’s interest rate exposure at 3.728%. Interest expense on the underlying bonds totaled $2,095,828 for the nine months ended June 30, 2008. Included in this amount is $683,437 of additional interest required to be paid under the swap agreement.

NOTE 9– LETTER OF CREDIT

The payment of principal and interest on the Series 2007A and 2007B bonds is supported by a letter of credit issued by the Letter of Credit Bank. The letter of credit was issued in the amount of $81,997,803 with an annual fee of 1.00%. The letter of credit will expire on the first to occur; expiration date of November 1, 2010, conversion of the interest mode on the bonds to an interest mode other that a weekly mode or the date in which the principal and interest have been paid in full. Letter of credit fees for the nine months ending June 30, 2008 were $813,145, of this amount $608,151 is included in the debt issuance costs and $204,994 is included in construction in progress.

NOTE 10– REMARKETING

The Organization has entered into a Remarketing Agreement with a brokerage company to act as the exclusive remarketing agent in connection with the offering and sale from time to time of the Series 2007 bonds. The Remarketing Agreement requires a quarterly fee of one-tenth of one percent (1/10%) of the aggregate principal amount of the Series 2007 bonds outstanding. Remarketing fees for the nine months ending June 30, 2008 were $55,413 and are included in the construction in progress.

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ADDITIONAL INFORMATION

MARSHALL UNIVERSITY

ADDITIONAL INFORMATION — COMPONENT FINANCIAL DATA
SCHEDULE OF NET ASSETS INFORMATION
AS OF JUNE 30, 2008

ASSETS	Community and Technical College	Four-Year and Other Components	Combined Institution
CURRENT ASSETS:			
Cash and cash equivalents	$ 9,397,663	$ 66,720,013	$ 76,117,676
Accounts receivable — net	65,107	12,380,264	12,445,371
Loans receivable	12,802	764,283	777,085
Inventories		754,195	754,195
Other current assets		359,459	359,459
Total current assets	9,475,572	80,978,214	90,453,786
NONCURRENT ASSETS:			
Cash and cash equivalents		7,924,835	7,924,835
Investments		10,301,590	10,301,590
Accounts receivable		4,322,083	4,322,083
Loans receivable	61,335	6,319,053	6,380,388
Other assets		1,138,894	1,138,894
Capital assets — net	4,546,619	319,047,966	323,594,585
Total noncurrent assets	4,607,954	349,054,421	353,662,375
TOTAL	$14,083,526	$430,032,635	$444,116,161

(Continued)

MARSHALL UNIVERSITY

ADDITIONAL INFORMATION — COMPONENT FINANCIAL DATA
SCHEDULE OF NET ASSETS INFORMATION
AS OF JUNE 30, 2008

LIABILITIES AND NET ASSETS	Community and Technical College	Four-Year and Other Components	Combined Institution
CURRENT LIABILITIES:			
Accounts payable	$ 448,769	$ 4,417,435	$ 4,866,204
Due to the Commission		1,654	1,654
Accrued liabilities	286,651	6,354,384	6,641,035
Deferred revenue	795,504	6,975,087	7,770,591
Deposits		708,983	708,983
Compensated absences — current portion	108,108	5,319,179	5,427,287
Debt obligation to the Commission — current portion		3,206,000	3,206,000
Capital lease obligations — current portion	1,694	1,012,667	1,014,361
Bonds payable — current portion		1,045,000	1,045,000
Total current liabilities	1,640,726	29,040,389	30,681,115
NONCURRENT LIABILITIES:			
Notes payable	38,297	3,009,660	3,047,957
Advances from federal sponsors	151,351	6,318,460	6,469,811
Other noncurrent liability		5,735,000	5,735,000
Compensated absences	82,709	2,701,783	2,784,492
OPEB liability	59,106	1,314,180	1,373,286
Debt obligation to the Commission		29,947,400	29,947,400
Capital lease obligations		9,832,934	9,832,934
Bonds payable		41,775,000	41,775,000
Total noncurrent liabilities	331,463	100,634,417	100,965,880
Total liabilities	1,972,189	129,674,806	131,646,995
NET ASSETS:			
Invested in capital assets — net of related debt	4,544,925	236,491,706	241,036,631
Restricted for:			
Nonexpendable		176,000	176,000
Expendable:			
Scholarships	11,729	68,074	79,803
Sponsored projects		17,053,091	17,053,091
Loans		2,551,552	2,551,552
Capital projects		1,473	1,473
Debt service		82,688	82,688
Total restricted expendable	11,729	19,756,878	19,768,607
Unrestricted	7,554,683	43,933,245	51,487,928
Total net assets	12,111,337	300,357,829	312,469,166
TOTAL	$14,083,526	$430,032,635	$444,116,161

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, 2008

	Community and Technical College	Four-Year and Other Components	Combined Institution
OPERATING REVENUES:			
Student tuition and fees (net of scholarship allowance of $2,050,146, $17,908,244, and $19,958,390, respectively)	$ 3,121,671	$ 54,512,428	$ 57,634,099
Contracts and grants:			
Federal	2,689,334	39,189,138	41,878,472
State	1,403,726	21,516,516	22,920,242
Local	8,000	813,529	821,529
Private	41,146	12,977,087	13,018,233
Interest on loans receivable	1,485	128,851	130,336
Sales and services of educational activities	77,072	232,333	309,405
Auxiliary enterprise revenue (net of scholarship allowance of $0, $3,767,298, and $3,767,298, respectively)	248,819	28,166,099	28,414,918
Other operating revenues	374,845	7,428,886	7,803,731
Total operating revenues	7,966,098	164,964,867	172,930,965
OPERATING EXPENSES:			
Salaries and wages	4,518,076	106,668,512	111,186,588
Benefits	1,173,610	36,399,118	37,572,728
Supplies and other services	6,181,673	45,033,496	51,215,169
Utilities	10,234	7,684,439	7,694,673
Student financial aid — scholarships and fellowships	2,121,028	15,617,942	17,738,970
Depreciation	186,093	14,081,496	14,267,589
Other operating expenses		182,657	182,657
Fees assessed by the Commission for operations	57,390	632,580	689,970
Total operating expenses	14,248,104	226,300,240	240,548,344
OPERATING LOSS	(6,282,006)	(61,335,373)	(67,617,379)

(Continued)

MARSHALL UNIVERSITY

ADDITIONAL INFORMATION — COMPONENT FINANCIAL DATA
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2008

	Community and Technical College	Four-Year and Other Components	Combined Institution
NONOPERATING REVENUES (EXPENSES):			
State appropriations	$ 5,800,275	$ 65,984,092	$ 71,784,367
Payments on behalf of Marshall University	103,438	2,684,408	2,787,846
Gifts		1,120,679	1,120,679
Investment income	329,798	1,994,691	2,324,489
Interest on indebtedness	(211)	(2,694,731)	(2,694,942)
Fees assessed by the Commission for debt service		(1,645,777)	(1,645,777)
Other nonoperating expenses — net	(7,081)	(156,865)	(163,946)
Net nonoperating revenues	6,226,219	67,286,497	73,512,716
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(55,787)	5,951,124	5,895,337
CAPITAL GRANTS AND GIFTS		7,679,332	7,679,332
CAPITAL BOND PROCEEDS FROM THE COMMISSION	1,789,782	1,373,306	3,163,088
INCREASE IN NET ASSETS BEFORE TRANSFERS	1,733,995	15,003,762	16,737,757
TRANSFERS — Including debt	(724,003)	724,003	
INCREASE IN NET ASSETS BEFORE CUMULATIVE EFFECT	1,009,992	15,727,765	16,737,757
CUMULATIVE EFFECT OF ADOPTION OF ACCOUNTING PRINCIPLE	224,648	8,975,136	9,199,784
INCREASE IN NET ASSETS	1,234,640	24,702,901	25,937,541
NET ASSETS — Beginning of year	10,876,697	275,654,928	286,531,625
NET ASSETS — End of year	$ 12,111,337	$ 300,357,829	$ 312,469,166

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, 2008

	Community and Technical College	Four Year and Other Components	Combined Institution
CASH FLOWS FROM OPERATING ACTIVITIES:			
Student tuition and fees	$ 3,117,256	$ 54,789,968	$ 57,907,224
Contracts and grants	4,538,311	72,455,040	76,993,351
Payments to and on behalf of employees	(5,483,579)	(138,317,911)	(143,801,490)
Payments to suppliers	(5,592,663)	(44,107,414)	(49,700,077)
Payments to utilities	(10,234)	(7,684,439)	(7,694,673)
Payments for scholarships and fellowships	(2,121,028)	(15,617,942)	(17,738,970)
Loans issued		(1,253,653)	(1,253,653)
Collection of loans	13,698	836,485	850,183
Transfer of loans	(46,063)		(46,063)
Sales and service of educational activities	77,072	232,333	309,405
Auxiliary enterprise charges	248,819	27,373,521	27,622,340
Fees assessed by the Commission	(57,390)	(632,580)	(689,970)
Other receipts — net	369,940	7,843,905	8,213,845
Net cash used in operating activities	(4,945,861)	(44,082,687)	(49,028,548)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
State appropriations	5,888,235	64,970,827	70,859,062
Proceeds from notes payable	2,225	4,099	6,324
Gift receipts		1,120,679	1,120,679
Other nonoperating revenues (expenses)	(135)	135	
Agency fund receipts		353,880	353,880
Agency fund payments		(343,080)	(343,080)
William D. Ford direct lending receipts	5,262,285	49,236,468	54,498,753
William D. Ford direct lending payments	(5,262,324)	(49,236,973)	(54,499,297)
Net cash provided by noncapital financing activities	5,890,286	66,106,035	71,996,321
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:			
Capital grants and gifts received		7,679,332	7,679,332
Capital projects and bond proceeds from the Commission	1,792,068	2,339,174	4,131,242
Proceeds from notes payable		3,000,000	3,000,000
Purchases of capital assets	(1,829,321)	(15,108,634)	(16,937,955)
Principal paid on bonds and leases	(4,240)	(2,532,157)	(2,536,397)
Interest paid on bonds and leases	(261)	(2,701,859)	(2,702,120)
Proceeds from sale of capital assets		129,162	129,162
Principal payment on debt obligation due to the Commission		(3,097,400)	(3,097,400)
Fees assessed by the Commission		(1,645,777)	(1,645,777)
Transfers — including debt	(724,003)	724,003	
Increase in noncurrent cash and cash equivalents		(3,086,774)	(3,086,774)
Net cash used in capital financing activities	(765,757)	(14,300,930)	(15,066,687)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments		(200,808)	(200,808)
Sale/maturity of investments		812,596	812,596
Investment income	347,892	2,504,992	2,852,884
Lease receipts		32,005	32,005
Net cash provided by investing activities	347,892	3,148,785	3,496,677
INCREASE IN CURRENT CASH AND CASH EQUIVALENTS	526,560	10,871,203	11,397,763
CURRENT CASH AND CASH EQUIVALENTS — Beginning of year	8,871,103	55,848,810	64,719,913
CURRENT CASH AND CASH EQUIVALENTS — End of year	$ 9,397,663	$ 66,720,013	$ 76,117,676

(Continued)

MARSHALL UNIVERSITY

ADDITIONAL INFORMATION — COMPONENT FINANCIAL DATA
SCHEDULE OF CASH FLOW INFORMATION
FOR THE YEAR ENDED JUNE 30, 2008

	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	$(6,282,005)	$ (61,335,374)	$ (67,617,379)
Adjustments to reconcile net operating loss to net cash used in operating activities:			
Depreciation expense	186,093	14,081,496	14,267,589
OPEB expense paid on behalf of Marshall	103,438	2,684,408	2,787,846
Changes in assets and liabilities:			
Accounts receivable — net	25,004	(1,312,717)	(1,287,713)
Loans receivable — net	107,702	(234,509)	(126,807)
Prepaid expenses		27,417	27,417
Inventories	329,696	(271,194)	58,502
Accounts payable	259,314	93,372	352,686
Accrued liabilities	79,884	2,956,804	3,036,688
Compensated absences	16,506	218,880	235,386
Deferred revenue	368,574	(1,071,594)	(703,020)
Deposits held in custody for others		72,400	72,400
Advances from federal sponsors	(140,067)	7,924	(132,143)
NET CASH USED IN OPERATING ACTIVITIES	$(4,945,861)	$ (44,082,687)	$ (49,028,548)
NONCASH TRANSACTIONS:			
Cumulative effect of adoption of accounting principle	$ 224,648	$ 8,975,136	$ 9,199,784
Capital lease obligation incurred for equipment and buildings	$ -	$ 1,064,748	$ 1,064,748
Donated capital assets	$ -	$ 6,559,108	$ 6,559,108
Loss on disposal of assets	$ 6,946	$ 157,000	$ 163,946
Construction in progress additions in accounts payable	$ -	$ 542,736	$ 542,736

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, 2008

	Community and Technical College								
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Other Operating Expenses	Fees Assessed by Commission	Total
Instruction	$ 3,795,842	$ 982,877	$ 1,213,684	$ -	$ -	$ -	$ -	$ -	$ 5,992,403
Public service	2,493	(1,483)	230,035	1,189					232,234
Academic support	191,632	52,842	801,821						1,046,295
Student services	2,922		1,002,776						1,005,698
General institutional support	525,187	139,374	1,321,943						1,986,504
Operations and maintenance of plant			1,362,595	9,045					1,371,640
Student financial aid					2,121,028				2,121,028
Auxiliary enterprises			248,819						248,819
Depreciation						186,093			186,093
Other								57,390	57,390
Total	$ 4,518,076	$ 1,173,610	$ 6,181,673	$ 10,234	$ 2,121,028	$ 186,093	$ -	$ 57,390	$ 14,248,104

	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	Total
Instruction	$ 50,697,067	$ 16,427,327	$ 8,881,695	$ 159	$ -	$ -	$ -	$ -	$ 76,006,248
Research	7,370,110	2,566,928	8,121,792	181,656					18,240,486
Public service	9,081,789	2,733,873	4,238,400	157,093					16,211,155
Academic support	10,346,296	3,176,589	3,860,797	84					17,383,766
Student services	5,970,611	2,320,887	2,410,482	2,318					10,704,298
General institutional support	11,349,379	3,783,918	2,100,238	6,921					17,240,456
Operations and maintenance of plant	3,983,434	1,915,666	2,293,815	5,217,197					13,410,112
Student financial aid					15,617,942				15,617,942
Auxiliary enterprises	7,869,826	3,473,930	13,126,277	2,119,011					26,589,044
Depreciation						14,081,496			14,081,496
Other							182,657	632,580	815,237
Total	$ 106,668,512	$ 36,399,118	$ 45,033,496	$ 7,684,439	$ 15,617,942	$ 14,081,496	$ 182,657	$ 632,580	$ 226,300,240

See note to additional information — component financial data.

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. Payments to the University for services provided to the CTC are recorded as an operating expense for CTC and a reduction of operating expense 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 AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Governing Board of
Marshall University:

We have audited the combined financial statements of Marshall University (the "University") as of and for the year ended June 30, 2008, and have issued our report thereon dated September 26, 2008, which states reliance on other auditors for the discretely presented component units. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The audits of the University's discretely presented component units were 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's combined financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the combined financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of combined 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

September 26, 2008