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Marshall!

♦ MARSHALL UNIVERSITY ♦

Financial Report

For year ending
June 30, 2006

MARSHALL UNIVERSITY

One John Marshall Drive
Huntington, WV 25755

CONTINUING STEWARDSHIP

This binder contains the complete financial statements and the independent auditors' report pertaining to the fiscal year concluding on June 30, 2006 for Marshall University. The information contained in this report affirms our continuing dedication to effective and prudent stewardship of University resources.

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

Sincerely,

Stephen J. Kopp

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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, 2006 and 2005, and the combined related 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 financial statements based on our audits. We did not audit the discretely presented financial statements of The Marshall University Foundation, Inc. (a component unit of the University). Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the discretely presented financial statements of The Marshall University Foundation, Inc., is based solely on the report of such other auditors.

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

In our opinion, based on our audits and the report of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of the University and the discretely presented component unit of the University as of June 30, 2006 and 2005, and the respective changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audits were conducted for the purpose of forming an opinion on the University's basic 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 28, 2006, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should considered in assessing the results of our audit.

As discussed in Note 19, the accompanying 2005 financial statements of The Marshall University Foundation Inc. (a component unit of the University) have been restated.

Deloitte & Touche LLP

September 28, 2006

Marshall University
Management Discussion and Analysis
Fiscal Year 2006

About Marshall University

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

Marshall University is governed by a 16-member Board of Governors (the "Board") that determines, controls, supervises and manages the financial, business and educational policies and affairs of the Institution. The Board of Governors also develops a master plan, approves the Institution's budget request, reviews all academic programs offered at the Institution, and fixes tuition and other fees for the different classes or categories of students enrolled.

The University, including MCTC and SOM, has more than 16,000 students, 763 faculty and 831 staff members. The Institution currently operates 13 colleges and schools, offering 25 associate degree programs, 45 baccalaureate degree programs, 41 master's degree programs, 5 doctoral programs and a doctorate of medicine.

Overview of the Financial Statements and Financial Analysis

The emphasis of discussions about these Statements will be on FY 2006 data explaining significant changes from the financial statements presented for the year ended June 30, 2005. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and, the Statement of Cash Flows. The Governmental Accounting Standards Board (GASB) issues directives for presentation of college and university financial statements. The reporting format prior to FY 2002 presented financial balances and activities by fund groups. The current reporting format places emphasis on the overall economic resources of the University. Direct comparison with financial statements issued for periods prior to FY 2002 will not always be consistent. The GASB Statement No. 39 "Determining Whether Certain Organizations are Component Units" became effective for financial statement periods beginning after June 15, 2003. Detailed financial information of the Marshall University Foundation, which is controlled and managed by an independent 501(c) (3) corporation with a separate independent Board of Directors, is included. The University does not control these resources.

Statement of Net Assets

A Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. A Statement of Net Assets is a point in time financial statement and provides a fiscal snapshot of Marshall University. A Statement of Net Assets presents end-of-year data concerning assets (current and non-current), liabilities (current and non-current), and net assets (assets minus liabilities). Current assets and liabilities are typically associated with resources or obligations that will be used within the fiscal year. Non-current assets and liabilities are not typically used within the fiscal year. From the data presented, readers of a Statement of Net Assets are able to determine the assets available to continue the operations of the Institution. They are also able to determine how much the Institution owes vendors, employees, lenders and others. Finally, a Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the Institution.

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the Institution's equity in or ownership of property, plant and equipment. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. Nonexpendable restricted net assets include endowments. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the Institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of these assets. The final category is unrestricted net assets. Unrestricted net assets are available for general use by the Institution.

Net Assets
(In thousands of dollars)

							Percentage Difference	
		FY 2006		FY 2005		FY 2004	FY 05 to 06	FY 04 to 05
Assets:								
Current assets	$	77,454	$	80,979	$	74,852	4.4%	8.2%
Other noncurrent assets		26,786		18,442		16,587	45.2%	11.2%
Capital assets, net		302,277		258,715		236,577	16.8%	9.4%
Total Assets	$	406,517	$	358,136	$	328,016	13.5%	9.2%
Liabilities								
Current liabilities	$	33,119	$	30,225	$	27,674	9.6%	9.2%
Noncurrent liabilities		110,223		108,841		114,048	1.3%	4.6%
Total Liabilities	$	143,342	$	139,066	$	141,722	3.1%	1.9%
Net Assets								
Invested in capital assets, net of debt	$	213,613	$	166,923	$	141,113	28.0%	18.3%
Restricted - nonexpendable		176		176		176	0.0%	0.0%
Restricted - expendable		12,504		13,130		9,178	4.8%	43.1%
Unrestricted		36,882		38,841		35,827	5.0%	8.4%
Total Net Assets	$	263,175	$	219,070	$	186,294	20.1%	17.6%

Changes to Total Assets

Total assets of the Institution increased by $48.4 million in FY 2006 compared to an increase of $30.1 million in FY 2005. The increase of $48.4 million in total assets in FY 2006 is primarily related to increases in accounts receivable, investments, other assets, and capital assets, and a decrease in cash.

Total current and non-current cash and cash equivalents of the University excluding MURC decreased $7.6 million. $6 million of this decrease in cash is attributed to the general University's portion of long term investments.

Accounts receivable of the University excluding MURC increased approximately $2.9 million. $1.6 million of this increase is attributed to reimbursements from the Higher Education Policy Commission (the "Commission" or "HEPC") associated with projects funded by Lottery Bond proceeds. Amounts receivable from other state agencies increased approximately $250,000 due to an increase in contract receivables and a decrease in state appropriations receivable. A new agreement with University Physicians & Surgeons (UP&S) increased noncurrent receivables $1.7 million to cover estimated malpractice liabilities and a change in the Mid Ohio Valley Center (MOVC) sublease decreased receivables $825,000. (See notes 2 & 9 to the financial statements for more information on these changes)

Investments increased approximately $7 million due to new long term investments made by the University including SOM as permitted by Senate Bill 603. It should be noted that there is an additional $9 million in short term investments which are included in cash and cash equivalents that is also part of the Senate Bill 603 activity.

Other assets increased $2.5 million primarily due to funding made available by the Mason County Commission as part of the new lease for the MOVC for the construction of an addition to the facility.

Increases of approximately $39 million in Capital Assets of the University excluding MURC included $19.9 million for the construction of the Biotechnology Science Center and approximately $11 million for the Clinical Outreach Facility. Total assets of MURC increased $4.3 million.

Changes to Total Liabilities

Total liabilities increased by $4.3 million in FY 2006 as compared to a decrease of $2.7 million in FY 2005. The primary changes to liabilities in FY 2006 are related to accrued liabilities, accounts payable, long term debt (bonds payable, capital lease obligations, debt to commission), compensated absences and MURC.

Total accrued liabilities of the University not including MURC increased $3.2 million. The SOM entered into an agreement with the Board of Risk and Insurance Management (BRIM) to establish a deductible program and lower the malpractice insurance premiums. Under this agreement the University pays the first $250,000 of all claims. Accrued liabilities increased $2.2 million in FY 2006 as a result of this agreement. Other accrued liabilities related to payroll increased approximately $1 million due to new employees being paid in arrears, employees working 9 months paid over 12 months, and faculty members now receiving the annual increment pay. Accounts payable for the University increased $1.4 million due to amounts payable to construction contractors.

Long term debt of the University decreased by $1.6 million. Continued repayment of the University's portion of system wide bond obligations of the Commission reduced liabilities by $2.7 million. New capital lease obligations including an addition and refinancing of the Mid-Ohio Valley Center building, increased liabilities by $3.4 million, offset by total principal payments on capital leases of $1.2 million. Principal payments of $1.1 million on bonds issued by the University further reduced the total liabilities outstanding.

Compensated absences are a combination of annual leave accumulations and sick leave accumulations that may convert to pay insurance benefits upon retirement as further described in Note 2 of the financial statements. This liability can fluctuate from year to year based on annual and sick leave used and changes to salaries and insurance premium rates. In FY 2006, the University's annual leave liability increased $363,000 and sick leave estimated to convert to pay health insurance premiums increased $1.2 million.

Total liabilities of MURC decreased approximately $120,000.

Changes to Net Assets

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

The net asset category "Invested in capital assets, net of debt" reflects overall changes to the buildings, equipment and other capital assets net of depreciation and net of the liabilities associated with those assets. Investment in capital assets net of related debt increased $46.7 million in FY 2006. For the University, this amount consists of land, buildings, equipment, and similar assets with a total net increase of approximately $51 million, reduced by the addition to accumulated depreciation of $10.5 million and increased by $1.6 million by the net decrease of debt liability related to these assets. The net assets-invested in capital assets of MURC increased $4.3 million, consisting of equipment and buildings less accumulated depreciation. During FY 2005, the invested in capital assets-net of related debt for the institution increased by $25.8 million.

Total restricted net assets decreased approximately $626,000. Sponsored projects of the University remained relatively constant but net assets "restricted – expendable" of MURC decreased by $695,589. Endowments are recorded as restricted nonexpendable net assets.

The unrestricted net asset balance of $36.9 million in FY 2006 represents an approximate $2 million decrease from FY 2005.

The MURC Unrestricted Net Assets increased approximately $781,000.

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

	FY 2006	FY 2005	FY 2004	Percentage Difference FY 05 to 06	Percentage Difference FY 04 to 05
Operating revenues	$ 157,451	$ 148,347	$ 129,792	6.1%	14.3%
Operating expenses	(215,182)	(197,475)	(182,070)	9.0%	8.5%
Operating loss	(57,731)	(49,128)	(52,278)	17.5%	6.0%
Nonoperating revenues	65,793	63,595	64,767	3.5%	1.8%
Nonoperating expenses	(4,985)	(5,564)	(5,123)	10.4%	8.6%
Income before other revenues, expenses, gains or losses	3,077	8,903	7,366	65.4%	20.9%
Other revenues, expenses, gains or losses	41,028	24,123	4,564	70.1%	428.5%
Increase (decrease) in Net Assets before Transfers	44,105	33,026	11,930	33.5%	176.8%
Transfer of asset (liability) from Policy Commission	-	(250)	142	100.0%	276.1%
Increase in Net Assets	$ 44,105	$ 32,776	$ 12,072	34.6%	171.5%

Statement of Revenues, Expenses and Changes in Net Assets

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

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the Institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the Institution. Revenues received for which goods and services are not provided are reported as non-operating revenues. For example, appropriations from the State of West Virginia (the “State”) are non-operating because they are provided by the West Virginia Legislature to the Institution without the Legislature directly receiving commensurate goods and services for those revenues.

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

Operating Revenues

Operating revenues increased to $157.5 million in FY 2006 for an increase of $9.1 million or 6.1% from FY 2005. Operating revenues increased approximately $18.5 million or 14.3% in FY 2005. These increases are primarily from tuition and fee revenue, revenue from grants and contracts, auxiliary revenue and other operating revenue. Tuition and fee revenue in FY 2006 was $51.5 million for an increase of $3.9 million as compared to an increase in FY 2005 of approximately $4.2 million. Tuition and fees accounted for 23.1% of the revenue received by the University in FY 2006 and 22.5% in FY 2005. Charges for tuition and fees increased an average of 3.15% in FY 2006, 11% in FY 2005 and 9.25% in FY 2004. E-course fees increased $1.4 million with an increase of $500,000 in other miscellaneous fees.

Grants and contracts increased to $70 million in FY 2006 compared to $68.3 million in FY 2005. This area of revenue accounts for 44% of the revenue in FY 2006, and 46% of the revenue in FY 2005. Fluctuations from one year to the next within the various grant sources are expected and do not significantly influence changes to the operating gain or loss since most revenue received will be expended in the current year. The $1.7 million increase in FY 2006 is attributed to: University grants and contracts increased approximately $240,000 with a $916,000 decrease in federal, a $1.6 million increase in State, primarily due to PROMISE and HEAPS scholarships increasing a total of $1.2 million, and a $478,000 decrease in combined local and private grants and contracts. MURC grants and contracts, net of eliminations increased $1.5 million in FY 2006.

Auxiliary revenue increased $1 million in FY 2006 compared to a $2.7 million increase in 2005 primarily due to a 3.5% increase in housing rates in 2006 and collection of $1.5 million in Equity Fees in 2005.

Operating Expenses

Operating expenses increased to $215.2 million in FY 2006 as compared to $197.5 million in FY 2005 for an increase of $17.7 million or 9.0%. In 2005, the increase was $15.4 million or 8.5%.

Expenditures for personal services including salaries, wages and fringe benefits were $133.5 million in FY 2006 for an increase of $11.1 million or 9.1%. There were salary increases in July, November and January during the year. Faculty received an average $3,500 (6.5%) salary increase, classified staff received an average $1,400 (5%) increase and non-classified staff received an average $2,400 (4%) salary increase. In addition to these increases, changes were made to State code to allow faculty to receive the annual experience increment, the increase for this change totaled $430,000. The balance of the increase is associated with a combination of increased insurance premiums, estimated post retirement benefits and other changes to staffing during the year. Personal services expenses at MURC increased $1.2 million in FY 2006. Personal services accounted for 62.0% of total operating expenses in FY 2006 compared to 61.9% in FY 2005.

Supplies and other services increased to $46.5 million for an increase of $4.2 million or 9.9%. The net increase for the University was $2.2 million, including a $0.5 million increase in the SOM for increased expenses related to the new malpractice agreement, a $1.3 million increase in auxiliary expenditures primarily due to increased Athletics cost related to the move to Conference USA, and approximately $370,000 increase in the MCTC related to increased advertising and new programs. MURC supplies and other services net of eliminating entries increased $2 million.

Utilities in FY 2006 increased to $6.5 million for a 12.9% increase or $742,000. Gas, electric and water expenses for the University increased $266,000, $193,000, and $145,000 respectively with other utility expenses increasing $61,000. MURC utility expenses increased $76,000.

Student financial aid increased to $15 million in FY 2006 for an increase of approximately $800,000 primarily attributed to increases in Promise, HEAPS and institutional scholarships offset by reductions in PELL and SEOG.

Non-operating Revenues and Expenses

Non-operating revenues for FY 2006 were $65.8 million which was an increase of $2.2 million or 3.5% from FY 2005. The most significant changes to the non-operating revenue relate to increases in State appropriations and investment income.

One of the largest source of revenue to the University is an appropriation from the State that is reflected as non-operating revenue under GASB requirements. Actual State appropriations increased by approximately $1.7 million or 2.7% in FY 2006, this is a change from the downward trend for state appropriations in recent years. The indirect appropriation to the University through the West Virginia Department of Health and Human Services remained at approximately $4 million. The direct State appropriation of $58.9 million and indirect State appropriation of approximately $4 million results in the total amount of State appropriations of $62.9 million for FY 2006. State Appropriations in FY 2005 were $61.2 million in total which consisted of $57.2 million direct and approximately $4 million indirect.

State appropriations accounted for 28.2% of the budget in FY 2006 and 28.9% of the budget in FY 2005. State appropriations increased for the first time in several years in 2006. Reductions in State appropriation were ordered for all State agencies, including higher education, for both FY 2005 and FY 2004.

Gift revenue in FY 2006 was $656,000. This was a decrease of $353,000 from the $1,009,000 in FY 2005. In FY 2005, there was a $400,000 gift from the MU Foundation related to the stadium turf replacement.

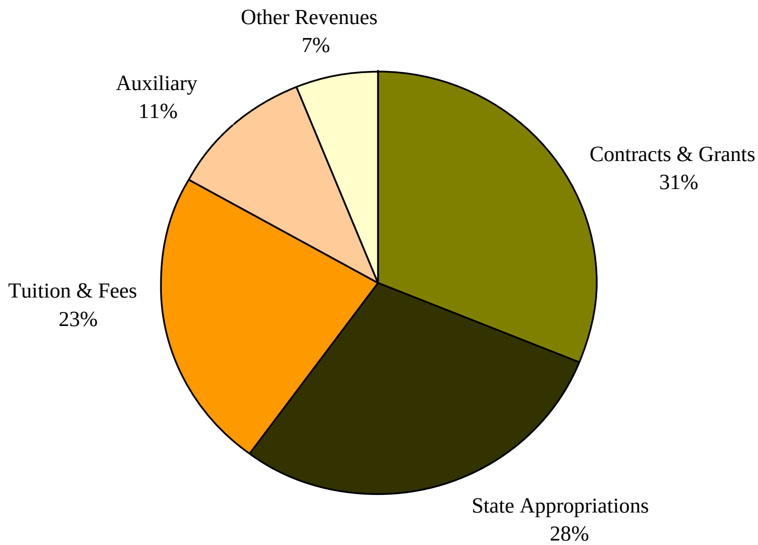
Investment income was up approximately $880,000 to $2.3 million in FY 2006. The University started investing in both short term and long term investments in January 2006 resulting in a net increase of approximately $135,000. Interest distributions associated with the State's investment pool increased approximately $520,000. Information on the investment pool of the State is discussed further in Notes 2 and 3 to the financial statements. Investment income for MURC increased $180,000.

Non-operating expenditures for FY 2006 were $5.0 million which was a decrease of $579,000 or 10.4% from FY 2005.

Total operating and non-operating revenue for the Institution was $223.2 million in FY 2006 as compared to approximately $211.9 million in FY 2005.

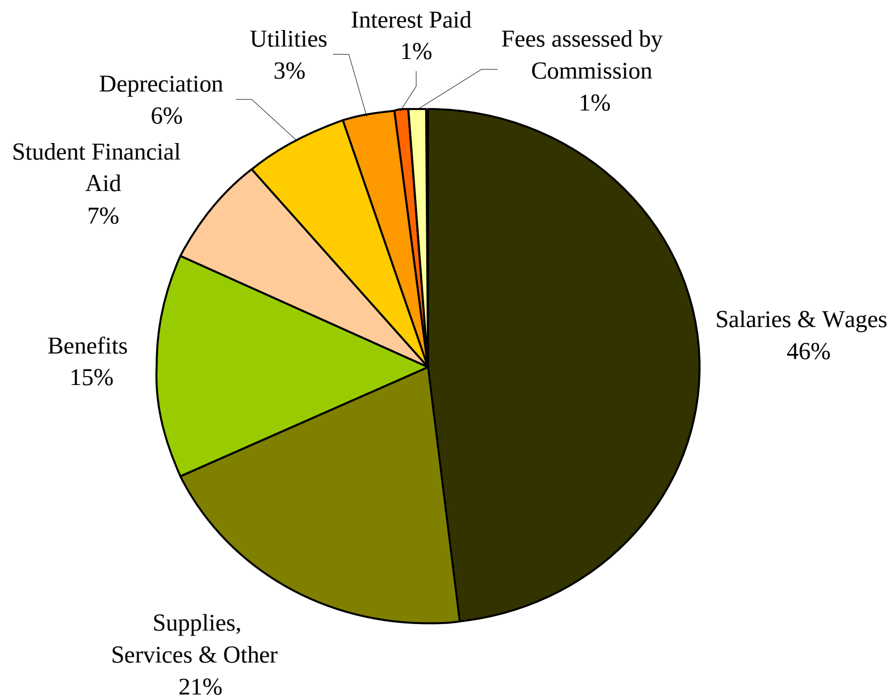
Total operating and non-operating expenditures of the Institution amounted to $220.2 million in FY 2006 as compared to $203.0 million in FY 2005. Expenditures are shown by primary object of expenditure and by functional classifications. Salaries, wages, and benefits account for more than 61% of the total budgeted expenditures of the Institution. Of the total expenditures, 34.1% are used for instruction. Interest payments on system-wide debt of approximately $2 million are included in the fees assessed by the Commission.

FY 2006 Total Operating and Non-operating Revenues

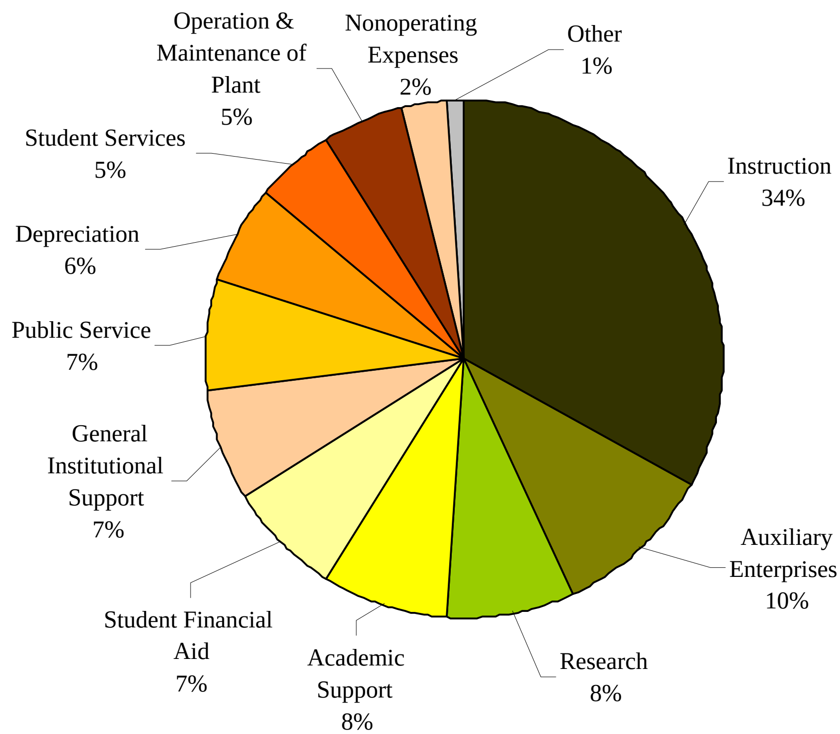


FY 2006 Total Operating and Non-operating Expenses

By Object



By Function



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 2006, the income was $3.1 million for the Institution. Of this total, the University, including MCTC and SOM, had a loss of $1.4 million in FY 2006 and income of $4.2 million in FY 2005. MURC, net of eliminations, had income of $4.5 million and $4.7 million for FY 2006 and 2005, respectively.

Changes to Net Assets

The increase in net assets of $44.1 million reflects improvement in the Institution's general financial condition. $41 million of this increase is from capital grants and gifts of $28.5 million and $12.5 million in Lottery bond proceeds received from the Higher Education Policy Commission. These funding sources allow the University to construct or purchase capital assets without increasing debt obligations. Increased tuition and fees, contracts and grants, state appropriations and investment earnings helped to offset increases in expenditures. Specific net asset category changes from FY 2005 were discussed under the "Statement of Net Assets" section.

The $142,100 in FY 2004 is the reduction in liability attributable to the Commission bond refinancing in FY 2004. The $250,000 in FY 2005 is the increase in liability attributable to the Commission refinancing in FY 2005. There was not any similar activity in FY 2006.

Cash Flows
(In thousands of dollars)

				Percentage Difference	
	FY 2006	**FY 2005**	**FY 2004**	**FY 05 to 06**	**FY 04 to 05**
Cash provided (used) by:					
Operating activities	$ (45,688)	$ (39,258)	$ (37,767)	16.4%	3.9%
Noncapital financing activities	64,583	61,513	63,384	5.0%	3.0%
Capital and related financing activities	(21,936)	(21,459)	(18,710)	2.2%	14.7%
Investing activities	(4,702)	1,312	(2,572)	458.4%	151.0%
Net Change in current cash	(7,743)	2,108	4,335	467.3%	51.4%
Current cash, beginning of year	64,940	62,832	58,497	3.4%	7.4%
Current cash, end of year	$ 57,197	$ 64,940	$ 62,832	11.9%	3.4%

Statement of Cash Flows

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

The change in "Operating activities" reflects increases to cash collections for tuition and fees, auxiliaries, and other operating revenues, offset by increased cash disbursements for operating expenditures. Although operating revenues increased, the increase in accounts receivable in FY 2006 represents a reduction in cash received increasing the cash used by operating activities. Reflected in the "Noncapital financing activities" is the increase in State appropriations. The category of "Capital and related financing activities" reflects the change in cash available as the Biotechnology Science Center and other construction projects are completed and increased payments on bonds and leases. The final category “Investing activities” was primarily impacted by increased earnings on the State investment pool and the initial purchase of investments by the University in FY 2006.

Capital Asset and Debt Administration

The University continues to expand its facilities. In addition to ongoing maintenance of existing facilities, the addition of new facilities reflects the continued growth of the University. The Robert C. Byrd Biotechnology Science Center on 3rd Avenue in Huntington will open in spring 2007. The total project cost for this facility is approximately $48 million funded primarily by federal and state grants. The Clinical Outreach Center is expected to be completed in early 2007 and will allow the SOM to expand its enrollment. The total cost for this facility is approximately $22 million funded primarily by a federal grant.

The University is also participating in a system-wide bond issue of HEPC. West Virginia Lottery Commission revenues will be used to pay the debt service of this issue. Bond proceeds of $30.5 million available to the University will be used for biotechnology facilities, student health and wellness center, community college facilities, other facilities and major improvements to existing facilities. The University has recognized $14 million of this available amount as of June 30, 2006.

The University has utilized two separate bonding mechanisms in the past for financing major campus improvements. The first method pledges specific revenue sources of the University to repayment of the bonds. The second method pledges specific revenue sources of the entire West Virginia Higher Education System toward repayment of the bond debt with a portion of that debt attributed to each institution within the West Virginia Higher Education System.

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

In addition to these specific bond issues, the University has participated in other bond issues of the West Virginia Higher Education System currently managed by the HEPC. Fees of the entire system are pledged to repayment of these system-wide bond issues and the obligation for repayment of these bonds rests with the HEPC. Since 1992, all public colleges and universities within the West Virginia Higher Education System maintain a separate payment schedule for any projects of that campus even if consolidated with other projects for a combined bond issue. Principal payments to the HEPC of $2.7 million, interest assessed by HEPC of approximately $2 million, and fees assessed for debt service reserve and other bond costs of $123,000 resulted in a total payment of $4.9 million related to system-wide bonds. Total principal and interest payments were distributed to the following bond issues:

- West Virginia Higher Education System bonds of 2003 (Series A) in which the University participated were the result of refinancing of bonds originally issued in 1992. Through prior agreement under the University System of West Virginia (predecessor to the HEPC), the University’s portion of these bonds approximated 24%. The annual amount paid for this bond issue is $2.1 million. These bonds will be retired through 2012.
- The University through the University System of West Virginia arranged for issuance of bonds in 1996 for construction of the Drinko Library. A portion of these bonds was refinanced in August 2004 as part of another system-wide bond issue of HEPC. These system-wide bonds will be retired through 2016 and the annual payment is $1.2 million.
- In 1997, the University participated in another system-wide bond issue through the University System of West Virginia for various projects, including construction of the Jomie Jazz Center, improvements to Henderson Center, and Old Main renovations. These bonds are being retired through 2027 for annual payments of approximately $840,000.
- In 2000, the University issued system-wide bonds through the University System of West Virginia for purchase of facilities located at Cabell Huntington Hospital and associated with the University’s School of Medicine. Payment on these bonds is approximately $700,000 per year through 2025 and payment on these bonds is made from rental income from University Physicians and Surgeons, Inc., the practice plan associated with the University’s School of Medicine.

- During FY 2005 the University participated in a system-wide bond issue of HEPC. Repayment of these bonds is through lottery sales of the State of West Virginia. Tuition and fees of all public colleges and universities in West Virginia have been pledged to the retirement of these bonds in the event lottery sales are insufficient to meet bond payments. No liability from this bond issue is expected to be assessed to the University by HEPC, but $30.5 million of these bond proceeds are dedicated to projects at the University.

Economic Outlook

The number of high school graduates in the State continues a general decline but the University is well positioned in a major metropolitan region to attract and maintain non-traditional students to replace losses of traditional college-age students. The University is placing additional emphasis on retention of all students and for recruitment of out-of-state students. An increase in non-resident student headcount of 7.5% over FY 2005 is viewed as positive related to the image of the University. Improved facilities and favorable comparison of fee structures with peer institutions along with the growth of non-resident enrollment numbers indicate that the University will be able to remain competitive for new and returning students.

Electronic courses are another primary source of revenue for the University, with annual revenue increasing from $1.9 million to $4.7 million in the past three years. It is anticipated this revenue stream will continue to grow as the University expands its ability to reach students wherever Internet service is available.

A significant percentage of the University's operations are funded by State appropriations so the University may be vulnerable to significant downturns in the State's economy.

A significant portion of University resources is expended on salaries and fringe benefits associated with a labor-intensive organization. The increased costs of health insurance and post employment benefits place economic pressure on the University to continue to keep up with these expenses. The ability to adequately compensate personnel to recruit and maintain quality faculty and staff is an ongoing challenge with tight budgets and uncertain future economic conditions. The University granted raises in FY2006 ranging from 4% to 6.5% on average, in an effort to address salary competitiveness.

The opening of the Robert C. Byrd Biotechnology Science Center at Marshall University provides state-of-the art facilities for the university's biomedical research programs, medical education, and the College of Science. Bringing the facilities and students of these programs together in a central location will enhance educational and research activities of the University, and will serve as a catalyst for economic development in West Virginia and the surrounding region.

In December 2005, the University completed a five year, $100 million capital campaign surpassing its goal by $10 million.

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 will take the necessary action required should State economic conditions negatively impact the Institution's budget.

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS AS OF JUNE 30, 2006 AND 2005

	2006	2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 57,197,222	$ 64,939,675
Accounts receivable—net	17,708,952	13,580,750
Loans receivable	801,851	779,835
Inventories	781,212	788,393
Other current assets	965,111	890,647
Total current assets	77,454,348	80,979,300
NONCURRENT ASSETS:		
Cash and cash equivalents	4,273,503	6,429,490
Accounts receivable	1,732,641	849,871
Loans receivable, net of allowance of $1,646,793 and $1,472,907 in 2006 and 2005, respectively	6,373,190	6,196,894
Investments	10,818,565	3,818,034
Other assets	3,587,913	1,147,270
Capital assets—net	302,276,860	258,715,530
Total noncurrent assets	329,062,672	277,157,089
TOTAL	$ 406,517,020	$ 358,136,389

(Continued)

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2006 AND 2005

	2006	2005
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 8,400,397	$ 8,792,705
Due to Commission	26,167	51,769
Accrued liabilities	5,544,703	4,364,789
Deferred revenue	7,319,062	6,304,134
Deposits	546,683	510,683
Compensated absences—current portion	5,976,778	5,395,417
Debt obligation to Commission—current portion	2,852,475	2,725,000
Capital lease obligations—current portion	1,293,092	966,109
Bonds payable—current portion	1,160,000	1,115,000
Total current liabilities	33,119,357	30,225,606
NONCURRENT LIABILITIES:		
Notes payable	47,715	41,594
Advances from federal sponsors	6,681,917	6,689,000
Other noncurrent liability	2,200,976	
Compensated absences	10,846,839	9,797,436
Debt obligation to Commission	35,415,800	38,268,275
Capital lease obligations	10,789,802	8,644,711
Bonds payable	44,240,000	45,400,000
Total noncurrent liabilities	110,223,049	108,841,016
Total liabilities	143,342,406	139,066,622
NET ASSETS:		
Invested in capital assets—net of related debt	213,613,286	166,922,564
Restricted for:		
Nonexpendable	176,000	176,000
Expendable:		
Scholarships	45,418	67,315
Sponsored projects	9,520,722	10,169,607
Loans	2,184,830	2,132,746
Capital projects	210,100	211,241
Debt service	542,293	549,248
Total restricted expendable	12,503,363	13,130,157
Unrestricted	36,881,965	38,841,046
Total net assets	263,174,614	219,069,767
TOTAL	$ 406,517,020	$ 358,136,389

See notes to combined financial statements. (Concluded)

MARSHALL UNIVERSITY

THE MARSHALL UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2006 AND 2005

	2006	2005
ASSETS		
Cash and cash equivalents	$ 6,398,321	$ 3,009,990
Interest receivable		3,583
Notes receivable	423,496	669,489
Unconditional promises to give, less allowance for uncollectible promises of $391,206 and $657,935 in 2006 and 2005, respectively	6,176,250	5,056,683
Contributions receivable from Remainder Trusts	705,965	728,605
Beneficial Interest in Perpetual Trusts	7,450,349	7,244,346
Investments	87,049,044	76,363,508
Net investment in direct financing leases	57,058	337,559
Property and equipment—net	1,075,462	1,116,447
Property on operating lease	240,000	412,500
Cash surrender value—life insurance, net of policy loans	267,951	146,867
Total assets	$ 109,843,896	$ 95,089,577
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	$ 175,241	$ 188,694
Notes payable	486,331	689,050
Annuity payment liability	675,018	381,477
Total liabilities	1,336,590	1,259,221
NET ASSETS:		
Unrestricted	22,532,310	15,249,237
Temporarily restricted	29,053,171	27,089,912
Permanently restricted	56,921,825	51,491,207
Total net assets	108,507,306	93,830,356
Total liabilities and net assets	$ 109,843,896	$ 95,089,577

The accompanying notes are an integral part of the financial statements

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
OPERATING REVENUES:		
Student tuition and fees, net of scholarship allowance of $18,123,054 and $17,771,162 in 2006 and 2005, respectively	$ 51,538,957	$ 47,648,262
Contracts and grants:		
Federal	37,457,034	39,070,859
State	17,714,246	14,106,552
Local	838,260	767,453
Private	14,013,160	14,373,287
Interest on student loans receivable	108,919	115,234
Sales and services of educational activities	369,934	309,048
Auxiliary enterprise revenue, net of scholarship allowance of $3,367,307 and $2,618,449 in 2006 and 2005, respectively	24,092,665	23,058,753
Other operating revenues	11,317,580	8,897,597
Total operating revenues	157,450,755	148,347,045
OPERATING EXPENSES:		
Salaries and wages	101,606,852	95,307,563
Benefits	31,904,830	27,090,727
Supplies and other services	46,510,703	42,297,503
Utilities	6,497,338	5,755,629
Student financial aid—scholarships and fellowships	14,997,857	14,217,065
Depreciation	12,662,961	12,077,349
Other operating expenses	318,754	41,343
Fees assessed by the Commission for operations	683,109	687,912
Total operating expenses	215,182,404	197,475,091
OPERATING LOSS	(57,731,649)	(49,128,046)

(Continued)

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
NONOPERATING REVENUES (EXPENSES):		
State appropriations	$ 62,864,336	$ 61,191,375
Gifts	655,505	1,008,645
Investment income	2,273,406	1,394,620
Interest on indebtedness	(2,805,110)	(2,786,451)
Fees assessed by the Commission for debt service	(2,159,902)	(2,118,840)
Other nonoperating expenses—net	(19,518)	(658,443)
Net nonoperating revenues	60,808,717	58,030,906
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	3,077,068	8,902,860
CAPITAL GRANTS AND GIFTS	28,526,238	22,648,396
CAPITAL BOND PROCEEDS FROM THE COMMISSION	12,501,541	1,474,466
INCREASE IN NET ASSETS BEFORE TRANSFERS	44,104,847	33,025,722
TRANSFER OF LIABILITY FROM THE COMMISSION		(250,000)
INCREASE IN NET ASSETS	44,104,847	32,775,722
NET ASSETS—Beginning of year	219,069,767	186,294,045
NET ASSETS—End of year	$263,174,614	$219,069,767

See notes to combined financial statements. (Concluded)

THE MARSHALL UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT, REVENUES, AND RECLASSIFICATIONS:				
Gifts, contributions, and other	$ 1,005,189	$ 7,428,648	$ 5,906,966	$ 14,340,803
Investment income	6,288,573	290,867	906,282	7,485,722
Net assets released from restrictions				
Satisfaction of program restrictions	4,581,494	(4,581,494)		-
Total public support, revenues, and reclassifications	11,875,256	3,138,021	6,813,248	21,826,525
EXPENSES:				
Program services:				
Academic assistance	4,671,137			4,671,137
Student assistance	568,923			568,923
Total program services	5,240,060	-	-	5,240,060
Supporting services:				
Management and general	1,320,147			1,320,147
Fundraising	589,368			589,368
Total supporting services	1,909,515	-	-	1,909,515
Total expenses	7,149,575	-	-	7,149,575
CHANGE IN NET ASSETS	4,725,681	3,138,021	6,813,248	14,676,950
NET ASSETS—Beginning of year—as restated	15,249,237	27,089,912	51,491,207	93,830,356
TRANSFERS	2,557,392	(1,174,762)	(1,382,630)	-
NET ASSETS—End of year	$ 22,532,310	$ 29,053,171	$ 56,921,825	$ 108,507,306

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, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT, REVENUES, AND RECLASSIFICATIONS:				
Gifts, contributions, and other	$ 630,149	$ 7,516,099	$ 1,439,637	$ 9,585,885
Investment income	4,704,681	2,380,948	16,785	7,102,414
Net assets released from restrictions				
Satisfaction of program restrictions	6,877,337	(6,877,337)		-
Total public support, revenues, and reclassifications	12,212,167	3,019,710	1,456,422	16,688,299
EXPENSES:				
Program services:				
Academic assistance	6,917,477			6,917,477
Student assistance	1,210,466			1,210,466
Total program services	8,127,943	-	-	8,127,943
Supporting services:				
Management and general	937,398			937,398
Fundraising	581,603			581,603
Total supporting services	1,519,001	-	-	1,519,001
Total expenses	9,646,944	-	-	9,646,944
CHANGE IN NET ASSETS—As restated	2,565,223	3,019,710	1,456,422	7,041,355
NET ASSETS—Beginning of year—as restated	15,439,265	21,542,711	49,807,025	86,789,001
TRANSFERS	(2,755,251)	2,527,491	227,760	-
NET ASSETS—End of year	$ 15,249,237	$ 27,089,912	$ 51,491,207	$ 93,830,356

The accompanying notes are an integral part of the financial statements

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 51,515,227	$ 47,229,909
Contracts and grants	66,929,637	71,079,978
Payments to and on behalf of employees	(130,955,537)	(122,097,522)
Payments to suppliers	(45,958,027)	(47,363,613)
Payments to utilities	(6,497,338)	(5,755,629)
Payments for scholarships and fellowships	(14,997,857)	(14,217,065)
Loans issued	(1,787,326)	(1,474,977)
Collection of loans	1,347,405	1,610,193
Sales and service of educational activities	369,934	309,048
Auxiliary enterprise charges	24,373,106	22,945,050
Fees assessed by Commission	(683,109)	(687,912)
Other receipts—net	10,656,463	9,164,195
Net cash used in operating activities	(45,687,422)	(39,258,345)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	63,907,638	60,473,803
Payments on notes and lease payable	(3,194)	(9,764)
Proceeds from notes payable	9,315	
Gift receipts	655,505	1,008,645
Advance from federal sponsor (nonoperating)		40,000
Agency fund receipts	373,039	
Agency fund payments	(359,314)	
William D. Ford direct lending receipts	48,377,762	45,471,262
William D. Ford direct lending payments	(48,377,400)	(45,471,026)
Net cash provided by noncapital financing activities	64,583,351	61,512,920
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital grants and gifts received	28,397,301	22,691,579
Capital projects and bond proceeds from Commission	9,818,170	850,228
Purchases of capital assets	(49,367,793)	(33,054,129)
Principal paid on bonds and leases	(5,402,723)	(2,025,338)
Interest paid on bonds and leases	(2,767,055)	(2,804,931)
Proceeds from sale of capital assets	114,674	49,269
Principal payment on debt obligation due to Commission	(2,725,000)	(2,781,300)
Fees assessed by Commission	(2,159,902)	(2,118,841)
Lease escrow deposit from (to) restricted cash	2,600,000	(2,600,000)
(Increase) decrease in noncurrent cash and cash equivalents	(444,012)	334,769
Net cash used in capital financing activities	(21,936,340)	(21,458,694)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(7,925,906)	(44,622)
Sale/maturity of investments	773,995	
Investment income	2,387,981	1,282,213
Lease receipts	61,888	74,265
Net cash (used in) provided by investing activities	(4,702,042)	1,311,856
NET (DECREASE) INCREASE IN CURRENT CASH AND CASH EQUIVALENTS	(7,742,453)	2,107,737
CURRENT CASH AND CASH EQUIVALENTS—Beginning of year	64,939,675	62,831,938
CURRENT CASH AND CASH EQUIVALENTS—End of year	$ 57,197,222	$ 64,939,675

(Continued)

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (57,731,649)	$ (49,128,046)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	12,662,961	12,077,349
Changes in assets and liabilities:		
Accounts receivable—net	(4,656,314)	(2,538,516)
Loans receivable—net	(198,312)	605,294
Prepaid expenses	(74,464)	(483,690)
Inventories	7,181	(19,253)
Accounts payable	(1,738,237)	490,847
Accrued liabilities	3,366,804	263,172
Compensated absences	1,630,763	316,952
Deferred revenue	1,014,928	(623,889)
Deposits held in custody for others	36,000	41,003
Advances from federal sponsors	(7,083)	(259,568)
NET CASH USED IN OPERATING ACTIVITIES	$ (45,687,422)	$ (39,258,345)
NONCASH TRANSACTIONS:		
Capital lease obligation incurred for equipment and buildings	$ 6,772,484	$ 507,186
Capital gifts of equipment	$ 69,722	$ 1,870,916
Loss on disposal of assets	$ 19,518	$ 698,443
Construction in progress additions in accounts payable	$ 1,804,774	$ 1,402,254

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 653 ("S.B. 653").

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of the University have been prepared in accordance with generally accepted accounting principles as prescribed by the GASB, including Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for*

Public Colleges and Universities, an Amendment of GASB Statement No. 34. The financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

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

Reporting Entity—The University is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State that are not included in the State's general fund. The University is a separate entity which, along with all State institutions of higher education and the Commission (which includes West Virginia Network for Educational Telecomputing), form the Higher Education Fund of the State. The Higher Education Fund is considered a component unit of the State, and its financial statements are discretely presented in the State's comprehensive annual financial report.

The accompanying combined financial statements present all funds under the authority of the University, including Marshall University Research Corporation ("MURC") and Southern West Virginia Brownfields Assistance Center, Inc. ("Center") for 2006. The basic criteria for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the University's ability to significantly influence operations and accountability for fiscal matters of related entities. Related foundations and other affiliates of the University (see Notes 14 and 15) are not part of the University reporting entity and are not included in the accompanying combined financial statements as the University has no ability to designate management, cannot significantly influence operations of these entities and is not accountable for the fiscal matters of these entities under GASB Statement No. 14, *The Financial Reporting Entity*.

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 for in West Virginia State Code 18B-11-7. As of June 30, 2006, the Center had limited financial activity all of which is included in the accompanying combined financial statements.

GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, as an amendment to GASB Statement No. 14, was adopted by the University as of July 1, 2003. As a result, the audited financial statements of the Foundation are presented here as a discrete component unit with the University combined financial statements for the fiscal years ended June 30, 2006 and 2005. The Foundation is a separate private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundations audited financial information as it is presented herein (See also Note 14).

Financial Statement Presentation—GASB Statement No. 35, as amended by GASB Statements No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures* establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a basis to focus on the University as a whole. Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of University obligations. The University's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt—This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

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

The West Virginia State Legislature ("State Legislature"), as a regulatory body outside the reporting entity, had restricted the use of certain funds by Article 10, *Fees and Other Money Collected at State Institutions of Higher Education* of the West Virginia State Code. House Bill 101 passed in March 2004, simplified the tuition and fee structure and removed the restrictions but included designations associated with auxiliary and capital items. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the State Legislature.

Restricted Net Assets, Nonexpendable—This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted Net Assets—Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the Board to meet current expenses for any purpose.

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

Cash and Cash Equivalents—For purposes of the 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.

Prior to July 2005, cash and cash equivalents balances on deposit with the State of West Virginia Treasurer's Office (the "State Treasurer") were pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Investment Management Board (the "IMB"). Effective July 2005, investment of such funds is overseen and managed 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, 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 for External Investment Pools.* The IMB, and subsequently the BTI, were established by the State Legislature and are 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 and, accordingly, are presented as cash and cash equivalents in the accompanying combined financial statements.

The IMB, and subsequently the BTI, maintain the Consolidated Fund Investment Fund which consists of five investment pools and participant-directed accounts, in which the State and local governmental agencies invest. These pools have been structured as multiparticipant variable net asset funds to reduce risk and offer investment liquidity diversification to the Fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the IMB's and the BTI's investment operations pool can be found in their respective annual reports. A copy of those annual reports can be obtained from the following address: 500 Virginia Street East, Suite 200, Charleston, WV 25301 or http://www.wvimb.org or http://www.wvbti.com.

Investments—The University has investments in two multi-strategy funds at June 30, 2006. One fund is comprised of high-quality bond investments, with the other being comprised of long-term equity investments. MURC held U.S. government securities at June 30, 2006 and 2005. Additionally, MURC invested in an intermediate term fund comprised of high-quality fixed income securities at June 30, 2006 and 2005. The fair value of all investments, other than alternative investments, are based primarily on quoted market prices as of the last business day of the fiscal year.

The alternative investments are carried at estimated fair value as of June 30, 2006. These valuations include assumptions and methods that were reviewed by University management. The University believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2006. Because alternative investments 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 of America, its agencies, and instrumentalities, (U.S. government obligations); corporate debt obligations, including commercial paper, which meet certain ratings; certain money market funds; repurchase agreements; reverse repurchase agreements; asset-backed securities; certificates of deposit; state and local government securities ("SLGS"); 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 legislature, and any other program investments authorized by the 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 which, in the University's judgment, require consideration in estimating doubtful accounts.

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

***Noncurrent Cash and Cash Equivalents*—**Cash, that is (1) externally restricted to make debt service payments, long-term loans to students, or to maintain sinking or reserve funds, (2) to purchase capital or other noncurrent assets, and (3) permanently restricted net assets, is classified as a noncurrent asset in the 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 fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and infrastructure, 15 years for land improvements, 7 years for library books, and 3 to 10 years for furniture and equipment. The University's capitalization threshold is $100,000 for buildings and $1,000 for most other capital assets. During fiscal year 2006, the University implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairments of Capital Assets and for Insurance Recoveries* ("GASB No 42"). The combined financial statements reflect all adjustments required by GASB No. 42 as of June 30, 2006.

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

The University's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1½ sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired July 1, 2001, or later, will no longer receive sick leave credit toward insurance premiums when they retire.

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

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

The estimated expense and expense incurred for vacation leave, sick leave, or extended health or life insurance benefits are recorded as a component of benefits expense on the 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 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 the SOM has deposited $500,000 in an escrow account with the state treasury from which BRIM may withdraw amounts to pay indemnity costs and allocated expenses in connection with medical malpractice claims against the SOM. Based on an actuarial valuation of this self insurance program, the University has recorded a liability of $2,200,976, which is presented in the combined statement of net assets as an other noncurrent liability, to reflect projected claim payments at 90% confidence level and a $1,700,976 receivable from UP&S for the funding they have agreed to provide for this liability.

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

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

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

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

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

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

Federal Financial Assistance Programs—The University makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through institutions like the University. Direct student loan receivables are not included in the University's statement of net assets as the loans are repayable directly to the U.S. Department of Education. In 2006 and 2005, the University received and disbursed approximately $48,400,000 and $45,500,000, 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 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 2006 and 2005, the University received and disbursed approximately $11,100,000 and $11,800,000, 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 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 student's 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 ("NACUBO"). Certain aid such as loans, funds provided to students as awarded by third parties, and Federal Direct Lending is accounted for as a third-party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the combined financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a university basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third-party aid.

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

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

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

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

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

Recent Statements Issued by the GASB—The GASB has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after December 15, 2006. This statement provides standards for the measurement, recognition, and display of other postemployment benefit expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. Effective July 1, 2006, the University will adopt GASB Statement No. 45. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployement benefits for the State. Effective July 1, 2006, the University is required to participate in this multiple employer cost sharing plan sponsored by the State. Details regarding this plan can be obtained by contacting Public Employees Insurance Agency, State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, WV 25305-0710 or http://www.wvpeia.com.

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

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents at June 30, 2006 and 2005, was held as follows:

	2006		
	Current	**Noncurrent**	**Total**
State Treasurer	$ 37,096,428	$ 176,000	$ 37,272,428
Municipal Bond Commission	290,041	404,719	694,760
Trustee	83,121	3,192,104	3,275,225
Restricted Cash		500,680	500,680
Money Markets	14,606,358		14,606,358
In bank	5,114,693		5,114,693
On hand	6,581		6,581
	$ 57,197,222	$ 4,273,503	$ 61,470,725

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

Cash designated as held by the Municipal Bond Commission for the University represents various repair and replacement and debt service accounts trusteed with the State's Municipal Bond Commission related to various University specific bond issues (see Note 8). Other cash held by the State Treasurer includes $2,130,162 and $1,630,785 at June 30, 2006 and 2005, respectively, of restricted cash for sponsored projects, loans, and other purposes. Cash on deposit with Trustee represents funds reserved for acquisition and construction of housing and parking facilities as well as various repair and replacement and debt service accounts and relates to the 2001 Housing and Parking Series A Bonds (see Note 8).

MURC has $544,763 and $523,226 of cash equivalents held in highly liquid money market funds comprised of high grade fixed income securities, and $4,896,028 and $3,853,539 of cash equivalents held in repurchase agreements which are collateralized at 102% and the collateral is held in MURC's name at June 30, 2006 and 2005, respectively. The University has $9,165,567 of cash equivalents held in highly liquid money market funds comprised of high grade fixed income securities at June 30, 2006.

The combined carrying amount of cash in bank at June 30, 2006 and 2005 was $5,114,693 and $6,209,180, respectively, as compared with the combined bank balance of $5,523,728 and $9,223,479, respectively. The difference is primarily caused by outstanding checks and items in transit. The bank balances are covered by federal depository insurance or are collateralized by securities held by the State's agent.

Restricted Cash—On December 10, 2004, MURC entered into a lease agreement for the occupancy of a building to commence on July 26, 2005. This transaction included the execution of two Escrow Agreements for a total of $2.6 million, which was subsequently released to the lessor under the amended lease agreement. In 2006, the University entered into an escrow agreement with BRIM for malpractice insurance deductibles with a $500,000 minimum balance.

Amounts with the State Treasurer and the Municipal Bond Commission as of June 30, 2006 and 2005, are comprised of the following investment pools.

2006

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 investment policy 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 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.

Cash Liquidity Pool

Credit Risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Neither the BTI nor any of the BTI's Consolidated Fund pools or accounts has been rated for credit risk by any organization. Of the BTI's Consolidated Fund pools and accounts which the University may invest in three are subject to credit risk: Cash Liquidity Pool, Government Money Market Pool, and Enhanced Yield Pool.

The BTI limits the exposure to credit risk in the Cash Liquidity 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. The following table provides information on the credit ratings of the Cash Liquidity Pool's investments (in thousands):

Security Type	Credit Rating * Moody's	Credit Rating * S&P	Carrying Value	Percent of Pool Assets
Commercial paper	P1	A-1	$ 943,057	54.14 %
Corporate bonds and notes	Aaa	AAA	61,992	3.56
	Aa	AA	55,063	3.16
	Aa	A	12,000	0.69
			129,055	7.41
U.S. agency bonds	Aaa	AAA	43,663	2.51
U.S. Treasury bills	Aaa	AAA	306,279	17.58
Certificates of deposit	P1	A-1	99,000	5.68
	NR	NR	23,800	1.37
			122,800	7.05
U.S. agency discount notes	P1	A-1	93,851	5.39
Money market funds	Aaa	AAA	758	0.04
Repurchase agreements (underlying securities)				
U.S. Treasury notes	Aaa	AAA	73,000	4.19
U.S. agency notes	Aaa	AAA	29,339	1.69
			102,339	5.88
			$ 1,741,802	100.00 %

* NR = Not Rated

The University's ownership represents 1.39% of these amounts held by the BTI.

Government Money Market Pool

Credit Risk—The BTI limits the exposure to credit risk in the Government Money Market Pool by limiting the pool to U.S. Treasury issues, U.S. government agency issues, money market funds investing in U.S. Treasury issues and U.S. government agency issues, and repurchase agreements collateralized by U.S. Treasury issues and U.S. government agency issues. The pool must have at least 15% of its assets in U.S. Treasury issues. The following table provides information on the credit ratings of the Government Money Market Pool's investments (in thousands):

Security Type	Credit Rating Moody's	Credit Rating S&P	Carrying Value	Percent of Pool Assets
U.S. agency bonds	Aaa	AAA	$ 21,420	11.76 %
U.S. Treasury bills	Aaa	AAA	28,346	15.56
U.S. agency discount notes	P1	A-1	112,399	61.70
Money market funds	Aaa	AAA	109	0.06
Repurchase agreements (underlying securities):				
U.S. Treasury strips	Aaa	AAA	15,602	8.56
U.S. agency bonds	Aaa	AAA	4,298	2.36
			19,900	10.92
			$ 182,174	100.00 %

The University's ownership represents 0.32% of these amounts held by the BTI.

Enhanced Yield Pool

Credit Risk—The BTI limits the exposure to credit risk in the Enhanced Yield Pool by requiring all corporate bonds to be rated A- 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 following table provides information on the credit ratings of the Enhanced Yield Pool's investments (in thousands):

Security Type	Credit Rating Moody's	S&P	Carrying Value	Percent of Pool Assets
Corporate asset backed securities	P1	A-1	$ 46,963	17.70 %
Corporate bonds and notes	Aaa	AAA	2,448	0.92
	Aa	AA	3,790	1.43
	Aa	A	15,660	5.90
	A	AA	3,048	1.15
	A	A	46,847	17.65
			71,793	27.05
U.S. agency bonds	Aaa	AAA	87,215	32.86
U.S. Treasury bills	Aaa	AAA	58,067	21.88
Repurchase agreements (underlying securities)				
U.S. agency mortgage backed securities	Aaa	AAA	1,346	0.51
			$ 265,384	100.00 %

The University's ownership represents 4.76% 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 Cash Liquidity Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides information on the weighted average maturities for the various asset types in the Cash Liquidity Pool:

Security Type	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	$ 102,339	3
U.S. Treasury bills	306,279	32
Commercial paper	943,057	25
Certificates of deposit	122,800	105
U.S. agency discount notes	93,851	89
Corporate notes	129,055	77
U.S. agency bonds/notes	43,663	208
Money market fund	758	1
	$ 1,741,802	42

The overall weighted average maturity of the investments of the Government Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides information on the weighted average maturities for the various asset types in the Government Money Market Pool:

Security Type	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	$ 19,900	3
U.S. Treasury bills	28,346	42
U.S. agency discount notes	112,399	39
U.S. agency bonds/notes	21,420	152
Money market funds	109	1
	$ 182,174	49

The overall weighted average maturity of the investments of the Enhanced Yield Pool cannot exceed 731 days. Maximum maturity of individual securities cannot exceed 1,827 days (five years) from date of purchase. The following table provides information on the weighted average maturities for the various asset types in the Enhanced Yield Pool:

Security Type	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	$ 1,346	3
U.S. Treasury bonds/notes	58,067	894
Corporate notes	71,793	588
Corporate asset backed securities	46,963	688
U.S. agency bonds/notes	87,215	594
	$ 265,384	672

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 an account's investment in a single corporate issuer. The BTI investment policy prohibits those pools and accounts permitted to hold corporate securities from investing more than 5% of their assets in any one corporate name of 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.

2005

Cash Liquidity Pool

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

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

2005 Security Type	Moody's	S&P	Carrying Value	Percent of Assets
Commercial paper	P1	A-1	$ 598,241,394	37.9 %
U. S. Treasury bills	Aaa	AAA	259,397,648	16.4
Corporate notes	Aaa	AAA	155,559,323	9.9
Certificates of deposit	P1	A-1	152,998,937	9.7
Agency bonds	Aaa	AAA	147,955,465	9.4
Agency discount notes	P1	A-1	119,564,248	7.6
Money market funds	Aaa	AAA	4,241,278	0.3
Total rated investments			$1,437,958,293	91.2 %

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

The University's ownership represents 2.55% of the net asset position of this pool at June 30, 2005.

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

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

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

2005 **Security Type**	**Carrying Value**	**WAM**
Commercial paper	$ 598,241,394	49
U. S. Treasury bills	259,397,648	30
Corporate notes	155,559,323	53
Certificates of deposit	152,998,937	42
Agency bonds	147,955,465	88
Repurchase agreements	141,050,000	1
Agency discount notes	119,564,248	52
Money market funds	4,241,278	1
Total assets	$ 1,579,008,293	45

Foreign Currency Risk—The Cash Liquidity Pool has no securities that are subject to foreign currency risk.

Government Money Market Pool

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

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

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

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

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

2005 **Security Type**	**Carrying Value**	**WAM (days)**
Agency discount notes	$ 46,409,362	32
Agency bonds	42,571,144	75
Repurchase agreements	39,950,000	1
U. S. Treasury bills	24,903,836	48
Money market funds	985,190	1
Total assets	$ 154,819,532	38

Foreign Currency Risk—The Government Money Market Pool has no securities that are subject to foreign currency risk.

Enhanced Yield Pool

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

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

2005 **Security Type**	**Moody's**	**S&P**	**Fair Value**	**Percent of Assets**
Corporate notes	A	AA	$ 81,631,581	30.0 %
Agency bonds	Aaa	AAA	69,203,277	25.5 %
U. S. Treasury notes	Aaa	AAA	66,466,539	24.5 %
Corporate asset backed securities	Aaa	AAA	49,990,408	18.4 %
Total rated investments			$267,291,805	98.4 %

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

The University's ownership represents 4.00% of the net asset position of this pool at June 30, 2005.

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

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

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

2005 **Security Type**	**Fair Value**	**WAM (years)**
Corporate notes	$ 81,631,581	1.7
Agency bonds	69,203,277	1.9
U. S. Treasury notes	66,466,539	2.3
Corporate asset backed securities	49,990,408	1.1
Repurchase agreement	4,362,262	0.0
Total assets	$271,654,067	1.7

Foreign Currency Risk—The Enhanced Yield Pool has no securities that are subject to foreign currency risk.

Cash in Bank with Trustee

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

	2006		**2005**	
Investment Type	**Moody's Rating**	**Carrying Value**	**Moody's Rating**	**Carrying Value**
Money Market Fund	Aaa	$ 173	Aaa	$ 71,690
Money Market Fund (Credit Enhancers/Collateral 1.000 Financial Guaranty Insurance Co. Municipal Bond Insurance Policy)	Aaa	83,121	Aaa	83,923
MBIA Guaranteed Investment Contract		3,191,931		3,191,931
		$ 3,275,225		$ 3,347,544

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

Custodial Credit Risk—Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The University's Investment Policy requires commercial paper assets must be rated at least A1 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, 2006 and 2005, were as follows:

	2006		
	Current	**Noncurrent**	**Total**
Student tuition and fees, net of allowance for doubtful accounts of $222,934	$ 851,796	$ -	$ 851,796
Grants and contracts receivable, net of allowance for doubtful accounts of $325,242	10,077,798		10,077,798
Due from the Commission	3,756,546		3,756,546
Due from other State agencies	1,635,924		1,635,924
Other accounts receivable	1,386,888	1,732,641	3,119,529
	$17,708,952	$1,732,641	$19,441,593

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

5. INVESTMENTS

Investments at June 30, 2006 and 2005, consist of the following:

	2006	**2005**
U.S. Government Agency Securities	$ 1,966,376	$ 1,949,685
Fixed Income Bond Fund—Commonfund	1,919,237	1,868,349
Multi-Strategy Bond Fund—Commonfund	2,053,179	
Multi-Strategy Equity Fund—Commonfund	4,879,773	
Total investments	$ 10,818,565	$ 3,818,034

Credit Risk—MURC's investment policy limits individual investments to U.S. government securities and nationally recognized Bond Funds holding those securities. The U.S. government agency securities have an average maturity of 1.1 years and the Fixed Income Bond Fund had an average maturity of 2.8 years. At June 30, 2006 and 2005, MURC's investments in U.S. government agency securities were rated Aaa by Moody's Investors Service and AAA by Standard & Poor's rating service. The average rating of the Fixed Income Bond Fund was AA+. The Multi Strategy Bond Fund has a weighted average maturity of 7.85 years and an effective duration of 4.41 years.

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 AA.

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

The University's Investment Policy states 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 the 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.

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, 2006 and 2005, are as follows:

	2006				
	Beginning Balance	**Additions**	**Reductions**	**Other**	**Ending Balance**
Capital assets not being depreciated:					
Land	$ 20,128,380	$ 3,939,743	$ -	$ -	$ 24,068,123
Antiques and artwork (inexhaustible)	132,107				132,107
Construction in progress	33,790,842	39,334,719		(2,502,016)	70,623,545
Total capital assets not being depreciated	54,051,329	43,274,462	-	(2,502,016)	94,823,775
Other capital assets:					
Land improvements	1,522,704	165,721			1,688,425
Infrastructure	19,478,320	243,937	(5,324)	7,900	19,724,833
Buildings	241,019,128	4,462,704		2,494,116	247,975,948
Equipment	62,161,301	8,053,889	(3,064,747)		67,150,443
Library books	7,940,131	161,882	(68,675)		8,033,338
Total other capital assets	332,121,584	13,088,133	(3,138,746)	2,502,016	344,572,987
Less accumulated depreciation for:					
Land improvements	816,415	102,434			918,849
Infrastructure	10,342,263	1,027,132	(5,324)		11,364,071
Buildings	71,588,791	4,747,462			76,336,253
Equipment	37,663,245	6,475,452	(2,926,443)		41,212,254
Library books	7,046,669	310,481	(68,675)		7,288,475
Total accumulated depreciation	127,457,383	12,662,961	(3,000,442)	-	137,119,902
Other capital assets—net	$ 258,715,530	$ 43,699,634	$ (138,304)	$ -	$ 302,276,860
Capital asset summary:					
Capital assets not being depreciated	$ 54,051,329	$ 43,274,462	$ -	$(2,502,016)	$ 94,823,775
Other capital assets	332,121,584	13,088,133	(3,138,746)	2,502,016	344,572,987
Total cost of capital assets	386,172,913	56,362,595	(3,138,746)		439,396,762
Less accumulated depreciation	(127,457,383)	(12,662,961)	3,000,442		(137,119,902)
Capital assets—net	$ 258,715,530	$ 43,699,634	$ (138,304)	$ -	$ 302,276,860

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

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

Title for certain real property is with the Commission.

At June 30, 2006, the University, excluding MURC, had outstanding contractual commitments of approximately $1,350,000 for property, plant, and equipment expenditures.

7. LONG-TERM LIABILITIES

Long-term obligation transactions for the University for the years ended June 30, 2006 and 2005, are as follows:

	2006				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and capital leases:					
Revenue bonds payable, including unexpended funds of $3,192,104	$ 46,515,000	$ -	$ (1,115,000)	$ 45,400,000	$ 1,160,000
Capital leases payable	9,610,820	6,762,411	(4,290,337)	12,082,894	1,293,092
Total bonds and capital leases	56,125,820	6,762,411	(5,405,337)	57,482,894	2,453,092
Other long-term liabilities:					
Notes payable	41,594	9,315	(3,194)	47,715	
Other noncurrent liability		2,200,976		2,200,976	
Accrued compensated absences	15,192,853	6,005,218	(4,374,454)	16,823,617	5,976,778
Advances from Federal sponsors	6,689,000		(7,083)	6,681,917	
Debt obligation to Commission	40,993,275		(2,725,000)	38,268,275	2,852,475
Total long-term liabilities	$ 119,042,542	$ 14,977,920	$ (12,515,068)	$ 121,505,394	$ 11,282,345

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

8. BONDS

Bonds payable at June 30, 2006 and 2005, consisted of the following:

		2006		2005	
	Original Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding	Annual Principal Installment Due	Principal Amount Outstanding
University Center Revenue Bonds due through 2009	4%–6%	$ 195,000 to 215,000	$ 615,000	$ 185,000 to 215,000	$ 800,000
University Facilities Revenue Bonds due through 2031	3.6%–5.3%	$ 965,000 to 3,035,000	44,785,000	$ 930,000 to 3,035,000	45,715,000
			$ 45,400,000		$ 46,515,000

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

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

The above bond issues are specific to the University, although the Bonds were also issued in the name of the Board or the State itself. As debt service is required on these bond issues, the University remits the funds to either the State’s Municipal Bond Commission or a commercial bank for payment to the Trustee of the bond issue and the bondholders. Mandatory debt service transfers are recorded as the funds are so remitted. The Municipal Bond Commission or a commercial bank may hold certain cash and cash equivalents (see Note 4) for debt service or other bond issue purposes on behalf of the University.

A summary of the annual aggregate principal payments for years subsequent to June 30, 2006, is as follows:

Year Ending June 30, 2006	University Center Principal	University Center Interest	University Facilities Principal	University Facilities Interest	Total Principal	Total Interest
2007	$195,000	$32,600	$ 965,000	$ 2,226,526	$ 1,160,000	$ 2,259,126
2008	205,000	20,900	1,000,000	2,187,926	1,205,000	2,208,826
2009	215,000	8,600	1,045,000	2,146,676	1,260,000	2,155,276
2010			1,085,000	2,102,264	1,085,000	2,102,264
2011			1,135,000	2,055,609	1,135,000	2,055,609
2012–2016			6,530,000	9,412,106	6,530,000	9,412,106
2017–2021			8,430,000	7,522,556	8,430,000	7,522,556
2022–2026			10,785,000	5,157,456	10,785,000	5,157,456
2027–2031			13,810,000	2,138,500	13,810,000	2,138,500
Total	$615,000	$62,100	$44,785,000	$34,949,619	$45,400,000	$35,011,719

9. LEASES

Operating—Future annual minimum lease payments on operating leases for years subsequent to June 30, 2006, are as follows:

Year Ending June 30, 2006	
2007	$ 409,284
2008	324,174
2009	221,185
2010	114,780
2011	114,780
2012	95,650
	$1,279,853

Total rent expense for the years ended June 30, 2006 and 2005, was $603,867 and $669,960, respectively. The University does not have any noncancellable leases.

Capital—The University leases various equipment and buildings through capital leases. At June 30, 2006 and 2005, leased equipment with a net book value of $788,490 and $781,796, respectively, and leased buildings with a net book value of $15,966,389 and $12,166,227, respectively, are included in equipment and buildings.

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

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

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 the center 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 the Facility transfers to the University at the end of the lease term.

In December 1998, the University also 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, 2006, the total minimum lease payments to be received on the new sublease through June 30, 2009, are $152,817 including unearned income of $76,487 for a net investment in direct financing and sales type leases of $76,330.

Future annual minimum lease payments for years subsequent to June 30, 2006, are as follows:

Year Ending June 30	Principal	Interest	Total
2007	$1,293,092	$ 461,386	$ 1,754,478
2008	983,347	425,187	1,408,534
2009	798,162	386,407	1,184,569
2010	782,314	353,302	1,135,616
2011	783,734	319,931	1,103,665
2012–2016	4,029,239	1,103,617	5,132,856
2017–2021	2,158,203	435,412	2,593,615
2022–2025	1,254,803	80,902	1,335,705
			15,649,038
Less interest			3,566,144
			$12,082,894

10. COMPENSATED ABSENCES

The composition of the compensated absence liability at June 30, 2006 and 2005, was as follows:

	2006	2005
Health or life insurance benefits	$10,354,463	$ 9,155,953
Accrued vacation leave	6,469,154	6,036,900
	$16,823,617	$15,192,853

The cost of health and life insurance benefits paid by the University is based on a combination of years of service and age. For the years ended June 30, 2006 and 2005, the amount paid by the University for extended health or life insurance coverage retirement benefits totaled approximately $329,035 and $323,879, respectively. As of June 30, 2006 and 2005, there were 162 and 159 retirees, respectively, receiving these benefits.

11. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

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

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

Payments to the Commission for the 2006 and 2005 years were $4,884,902 and $4,900,140, respectively, which consisted of $2,725,000 and $2,781,300 in principal, and $2,159,902 and $2,118,840 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 million 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 $30.5 million of these funds. The University has recognized $14 million of this approved amount as of June 30, 2006. State lottery funds will be used to repay the debt, although the University revenues are pledged if lottery funds prove insufficient.

12. UNRESTRICTED NET ASSETS

The University has not formally designated any of its unrestricted net assets. However, as a general rule, unrestricted auxiliary net asset balances in the amount of $6,262,470 and $6,009,925 at June 30, 2006 and 2005, respectively, have been used only for auxiliaries. In addition, unrestricted net asset balances of $7,351,744 and $7,856,187 at June 30, 2006 and 2005, respectively, have been allocated to repairs and maintenance, debt payments, capital projects, and equipment purchases.

13. RETIREMENT PLANS

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

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the Educators Money 401(a) basic retirement plan. New hires have the choice of either plan. As of June 30, 2006, 16 employees were enrolled in the Educators Money 401(a) basic retirement plan.

The STRS is a cost-sharing, defined benefit public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The University's contributions to the STRS were at the rate of 15% of each enrolled employee's total annual salaries for the years ended June 30, 2006 and 2005. Required employee contributions were at the rate of 6% of total annual salaries for the years ended June 30, 2006 and 2005. Participants in the STRS may retire with full benefits upon reaching age 60 with 5 years of service, age 55 with 30 years of service or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest 5 years of salary out of the last 15 years) multiplied by the number of years of service.

Total contributions to the STRS for the years ended June 30, 2006, 2005, and 2004 were approximately $1,282,000, $1,305,000, and $1,322,000, respectively, which consisted of approximately $916,000, $932,000, and $944,000 from the University and approximately $366,000, $373,000, and $378,000 from covered employees, respectively.

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

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

Total contributions to TIAA-CREF for the years ended June 30, 2006, 2005, and 2004 were approximately $10,343,000, $9,765,000, and $9,095,000, respectively, which consisted of approximately $5,104,000, $4,792,000, and $4,473,000 from the University and approximately $5,239,000, $4,973,000, and $4,622,000 from covered employees, respectively.

The University's total payroll for the years ended June 30, 2006 and 2005, was approximately $101,607,000 and $95,307,000, respectively; total covered employees salaries in the STRS and TIAA-CREF were approximately $6,107,000 and $83,150,000, respectively, in 2006 and $6,210,000 and $80,400,000, respectively, in 2005.

14. MARSHALL UNIVERSITY FOUNDATION, INCORPORATED

The Foundation is a separate nonprofit organization incorporated in the State having as its purpose to benefit the work and services of the University and its affiliated nonprofit organizations. The Foundation has a board of directors consisting of 34 members selected by its Board members. The President of the University is a non voting ex-officio member of the Foundation's Board. In carrying out its responsibilities, the board of directors of the Foundation employs management, forms policy, and maintains fiscal accountability over funds administered by the Foundation. The University administration does not control the resources of the Foundation. The Foundation's financial statements are presented as part of the University's combined financial statements, in accordance with GASB 39.

15. AFFILIATED ORGANIZATIONS

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

16. CONTINGENCIES AND COMMITMENTS

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

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

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

17. SEGMENT INFORMATION

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

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 are secured by and payable from the revenues of the Center.

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

Condensed financial information for each of the University's segments as of June 30, 2006 and 2005 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	
	2006	2005	2006	2005
CONDENSED STATEMENT OF NET ASSETS				
Assets:				
Current assets	$ 2,034,744	$ 1,921,760	$ 6,052,996	$ 5,549,109
Noncurrent assets	4,047,685	4,119,127	49,466,698	50,536,216
Total assets	$ 6,082,429	$ 6,040,887	$ 55,519,694	$ 56,085,325
Liabilities:				
Current liabilities	$ 316,759	$ 269,587	$ 2,312,341	$ 2,802,239
Noncurrent liabilities	480,192	668,873	44,170,370	45,237,788
Total liabilities	796,951	938,460	46,482,711	48,040,027
Net assets:				
Invested in capital assets—net of related debt	3,027,965	2,929,258	4,681,524	4,529,252
Restricted:				
Debt service	459,172	436,850	83,121	112,398
Capital projects	219,288	211,241		
Unrestricted	1,579,053	1,525,078	4,272,338	3,403,648
Total net assets and liabilities	$ 6,082,429	$ 6,040,887	$ 55,519,694	$ 56,085,325
Operating:				
Operating revenues	$ 1,339,663	$ 1,367,968	$ 14,672,921	$ 13,956,899
Operating expenses	(1,132,291)	(1,062,480)	(11,488,629)	(11,182,289)
Net operating income	207,372	305,488	3,184,292	2,774,610
Nonoperating:				
Nonoperating revenues	25,888	12,738	235,445	170,459
Nonoperating expenses	(38,150)	(48,950)	(2,326,463)	(2,332,004)
Transfers from (to) the university	(12,059)	(1,778)	(101,589)	(345,013)
Changes in net assets	183,051	267,498	991,685	268,052
Net assets—beginning of year	5,102,427	4,834,929	8,045,298	7,777,246
Net assets—end of year	$ 5,285,478	$ 5,102,427	$ 9,036,983	$ 8,045,298
CONDENSED STATEMENT OF CASH FLOWS				
Net cash provided by operating activities	$ 261,526	$ 395,590	$ 3,570,851	$ 2,682,956
Net cash used in capital and related financing	(147,384)	(212,990)	(3,106,040)	(6,222,648)
Net increase (decrease) in cash and cash equivalents	114,142	182,600	464,811	(3,539,692)
Cash and cash equivalents—beginning of year	2,290,938	2,108,338	8,521,989	12,061,681
Cash and cash equivalents—end of year	$ 2,405,080	$ 2,290,938	$ 8,986,800	$ 8,521,989

18. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2006 and 2005, the following table represents operating expenses within both natural and functional classifications:

2006

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Other Operating Expense	Fees Assessed by Commission	Total
Instruction	$ 50,112,880	$14,803,258	$10,183,463	$ 58	$ -	$ -	$	$ -	$ 75,099,659
Research	6,578,133	2,352,296	7,656,454	415,294			83,865		17,086,042
Public service	8,424,900	2,468,372	4,253,686	177,012					15,323,970
Academic support	9,353,214	2,796,751	4,825,210	6,850					16,982,025
Student services	6,064,921	2,086,983	3,418,052	2,540					11,572,496
General institutional support	10,173,488	3,468,060	2,725,655	19,766			312		16,387,281
Operations and maintenance of plant	3,718,965	1,661,271	2,556,723	3,879,104					11,816,063
Student financial aid					14,997,857				14,997,857
Auxiliary enterprises	7,180,351	2,267,839	10,891,460	1,996,714					22,336,364
Depreciation						12,662,961			12,662,961
Other							234,577	683,109	917,686
Total	$ 101,606,852	$31,904,830	$46,510,703	$6,497,338	$14,997,857	$12,662,961	$318,754	$683,109	$215,182,404

2005

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Other Operating Expense	Fees Assessed by Commission	Total
Instruction	$46,695,111	$12,975,873	$ 9,598,617	$ 387	$ 30,061	$ -	$ -	$ -	$ 69,300,049
Research	6,676,768	2,053,314	6,353,162	321,589	16,513		(63,320)		15,358,026
Public service	8,032,410	2,015,021	4,188,770	187,368	58,133				14,481,702
Academic support	8,705,898	2,353,271	4,083,623	10,692					15,153,484
Student services	5,680,940	1,805,840	3,149,547	688					10,637,015
General institutional support	8,984,954	2,280,423	2,748,123	35,033	2,990		253		14,051,776
Operations and maintenance of plant	3,555,920	1,341,100	2,853,515	3,398,999					11,149,534
Student financial aid	30,800	3,035	19,931		14,109,368				14,163,134
Auxiliary enterprises	6,944,762	2,262,850	9,302,215	1,800,873					20,310,700
Depreciation						12,077,349			12,077,349
Other							104,410	687,912	792,322
Total	$95,307,563	$27,090,727	$42,297,503	$5,755,629	$14,217,065	$12,077,349	$ 41,343	$687,912	$197,475,091

19. COMPONENT UNIT'S DISCLOSURES

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

Note 1—Summary of Significant Accounting Policies:

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

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

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

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

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

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

Investments—Investments are reported in the financial statements at market value using quoted market prices. The current year increase or decrease in market value over book value is recognized currently in the statement of activities. 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.

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

Note 2—Cash and Cash Equivalents—Cash and cash equivalents at June 30, 2006 and 2005, are comprised of the following:

	2006	2005
Cash	$1,864,060	$ 666,920
Short-term investments	4,534,261	2,343,070
Total	$6,398,321	$3,009,990

Note 3—Notes Receivable—Notes receivable at June 30, 2006 and 2005, consist of the following:

	2006	2005
$600,000—original face, receivable at borrower's discretion, interest at 6.5%, unsecured, due June, 2008.	$ 84,763	$266,520
$500,000—original face, receivable in 40 quarterly installments of $15,355 inclusive of interest at 5% due September 30, 2012, unsecured.	338,733	402,969
Total	$423,496	$669,489

Note 4—Investments—Investments as of June 30, 2006 and 2005 are summarized as follows:

	2006		
	Book Value	Fair Value	Unrealized Gain (Loss)
Bonds	$24,359,666	$25,315,249	$ 955,583
Stocks	36,141,370	46,128,158	9,986,788
Other	13,379,113	15,605,637	2,226,524
Total	$73,880,149	$87,049,044	$ 13,168,895

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

The following summarizes the investment return for the years ended June 30, 2006 and 2005:

	2006	2005
Interest and dividends	$2,120,984	$1,820,135
Realized gain	2,078	423,501
Unrealized gain	5,509,905	4,979,811
Investment fees	(147,245)	(121,033)
Net investment return	$7,485,722	$7,102,414

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

As of June 30, 2006 and 2005, the aggregate amount of the deficiencies for all donor-restricted endowment funds for which the fair value of the investments is less than the level required by donor stipulation or law totaled $4,267 and $193,441, respectively.

Note 5—Net Investment in Direct Financing Leases—On June 25, 1997, the Foundation entered into a direct financing lease with the State of West Virginia (the lessee) and Marshall University (the tenant) for the Athletics Facilities Building. In July, 2003, the Foundation renegotiated this lease. Under the new lease terms, the Foundation is to receive semi-annual lease payments in the amount of $34,368 beginning July 1, 2003 with final payment due January 1, 2019. Upon receipt of all lease payments, the Foundation will transfer ownership of the building to the tenant.

Following is a summary of the components of the Foundation's net investment in the direct financing leases at June 30, 2006 and 2005:

	2006	2005
Total minimum lease payments to be received	$ 59,501	$ 403,292
Unearned income	(2,443)	(65,733)
Net investment	$ 57,058	$ 337,559

As of June 30, 2006, the Lease is paid ahead. According to the terms of the lease agreement, the lease will be paid in full during the June 30, 2007 fiscal year.

Note 6—Promises to Give—Unconditional promises to give at June 30, 2006 and 2005, are as follows:

	2006	2005
Receivable in less than one year	$3,032,692	$2,597,095
Receivable in one to five years	4,174,844	3,326,376
Receivable in more than five years	133,857	215,279
Total unconditional promises to give	7,341,393	6,138,750
Less discounts to net present value	(773,937)	(424,132)
Less allowance for uncollectible promises	(391,206)	(657,935)
Net unconditional promises to give	$6,176,250	$5,056,683

Discount rates used on long-term promises to give ranged from 4.25% to 9.5% for fiscal years ended June 30, 2006 and 2005.

Note 7—***Property and Equipment***—The following is a summary of property and equipment at June 30, 2006 and 2005:

	2006	2005
Land	$ 220,000	$ 220,000
Buildings	1,034,275	1,034,275
Office equipment	293,070	286,961
	1,547,345	1,541,236
Less accumulated depreciation	(471,883)	(424,789)
	$ 1,075,462	$ 1,116,447

Depreciation expense charged to operations was $47,094 and $41,472 for the years ended June 30, 2006 and 2005, respectively.

Note 8—Contingent Assets—The Foundation is the beneficiary of various whole life insurance policies. Proceeds payable to the Foundation upon the demise of the insured parties totaled approximately $1,661,884 and $1,120,000 at June 30, 2006 and 2005, 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, 2006 and 2005 totaled $0.

Note 10—Notes Payable—Notes payable at June 30, 2006 and 2005 consist of the following:

	2006	2005
$450,000—original face, 7% note payable, payable in 180 monthly installments of $4,045 including interest, due September 2012, secured by real estate with a book value of $431,542 at June 30, 2006.	$245,131	$275,350
$750,000—original face, 5.25% note payable, payable in one lump sum due June 1, 2007 with regular monthly payments of accrued interest beginning June 30, 2002, secured by investment accounts.	241,200	413,700
Total	$ 486,331	$ 689,050

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

Year Ended June 30	
2007	$ 273,604
2008	34,747
2009	37,258
2010	39,952
2011	42,840
Thereafter	57,930
Total	$ 486,331

Interest expense for the years ended June 30, 2006 and 2005, totaled $36,077 and $46,551, respectively.

Note 11—Charitable Gift Annuities—As of June 30, 2006 and 2005, 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 (5.4% at June 30, 2006), the present value of future liabilities expected to be paid by the Foundation to the beneficiaries totaled $675,018 and $381,477 as of June 30, 2006 and 2005, 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 ($4,701) and ($50,959) for the years ended June 30, 2006 and 2005, respectively.

Note 12—Charitable Remainder Trusts—The Foundation is named as the residual beneficiary of three charitable remainder unitrusts. Under the terms of the unitrusts, a primary beneficiary receives annual distributions of a certain percentage of the net fair market value of the trust as of the first day of the taxable year. At the death of the primary beneficiary the Foundation receives all of the principal and income of the trust. Because these unitrusts are administered by third-party trustees, the Foundation records this as a contribution receivable and contribution revenue for the present value of the future benefits expected to be received from the trusts. The present value is calculated based on IRS actuarial formulas based on the primary beneficiary's life expectancy utilizing a rate of 5.4% at June 30, 2006. At June 30, 2006 and 2005, the contribution receivable from the remainder trusts totaled $705,965 and $728,605, respectively.

Contribution revenue net of change in valuation of charitable remainder trusts totaled ($22,640) and ($225,702) for the years ended June 30, 2006 and 2005, respectively.

Note 13—Perpetual Trusts Held by Third Parties—The Foundation is the beneficiary of numerous perpetual trusts (see note 21). The assets of the perpetual trusts are held by third parties. The Foundation has an irrevocable right to receive the income earned from the trust's 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, 2006 and 2005, the beneficial interest in perpetual trusts totaled $7,450,349 and $7,244,346, 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 $206,003 and ($17,174) for the years ended June 30, 2006 and 2005, respectively.

Note 14—Temporarily Restricted Net Assets—Temporarily restricted net assets at June 30, 2006 and 2005 are available for the following purposes or periods:

Periods After June 30	**2006**	**2005**
Program activities:		
Academic assistance	$17,144,894	$17,575,275
Student assistance	1,420,567	4,459,052
Unrealized gain on investments—unallocated	11,310,176	5,676,129
Unconditional promises to give, net—unallocated	(822,466)	(620,544)
Total temporarily restricted net assets	$29,053,171	$27,089,912

Net assets were released from donor restrictions during the years ended June 30, 2006 and 2005 by incurring expenses satisfying the purpose specified by donors as follows:

	2006	**2005**
Purpose restrictions accomplished:		
Academic assistance	$3,925,821	$5,508,285
Student assistance	568,923	1,210,466
Fundraising	86,750	158,586
Total restrictions released	$4,581,494	$6,877,337

Note 15—Permanently Restricted Net Assets—Net assets were permanently restricted for the following purposes at June 30, 2006 and 2005:

	2006	**2005**
Academic assistance	$15,395,732	$13,563,456
Student assistance	41,401,005	37,746,343
Unrealized gain on investments—unallocated	212,309	204,021
Unconditional promises to give, net—unallocated	(87,221)	(22,613)
Total permanently restricted net assets	$56,921,825	$51,491,207

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 $391,206 and $657,935 at June 30, 2006 and 2005, respectively.

The Foundation maintains substantially all of its cash balances with two financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $100,000. The Foundation had gross bank balances of $327,906 and $332,932 at these two financial institutions at June 30, 2006 and 2005, respectively.

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, 2006 and 2005, was $33,746 and $24,490, 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—In June, 2002, the Foundation entered into an operating lease with the State of West Virginia (the lessee) and Marshall University (the tenant) for land. Under the terms of the agreement, the Foundation has committed to sell the property to the tenant at the termination of the lease at a purchase price of $748,800. The tenant has the option of paying the purchase price or a portion thereof prior to the termination of the lease. Under the lease agreement, the Foundation is to receive monthly payments ($2,873 at June 30, 2006) based on the outstanding purchase price beginning June 1, 2002 and ending May 31, 2007 unless otherwise cancelled. If the tenant exercises its option to pay a portion of the purchase price prior to termination of the lease, that portion of the property will be deeded to the tenant. The tenant opted to exercise this right in December 2005; December 2004; January, 2004 and May, 2003 and made partial payments of $172,500, $132,850, $103,200 and $100,250, respectively. Once the tenant pays the remainder of the purchase price, the lease shall terminate and the Foundation shall deed the remaining land to the tenant.

Minimum payments to be received as of June 30, 2006 for the next year and in the aggregate are:

June 30	
2007	$ 31,603
Total	$ 31,603

Following is a summary of property on or held for lease at June 30, 2006 and 2005:

	2006	2005
Land	$ 240,000	$ 412,500

The Foundation has entered into employment contracts expiring in various years through 2008 for fund-raising services. At June 30, 2006, the total commitment was $15,172. The Foundation has also guaranteed contractual obligations for these personal services. At June 30, 2006, the maximum amount of these outstanding guarantees totaled $147,792.

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

Note 21—Prior Period Adjustment—The accompanying financial statements for 2005 have been restated to correct for the omission of the Foundation's beneficial interest in perpetual trusts in years prior to 2005. The effect of the restatement was to decrease change in net assets for 2005 by $17,174. Net assets at the beginning of 2005 has been adjusted for the effects of the restatement on prior years and totaled $7,261,520.

Note 22—Subsequent Event—On August 1, 2006, the Foundation transferred/deeded property known as the Keith Albee Theater to an unrelated 501(c)(3) non-profit entity. This transaction resulted in a charge to income of $457,535 which will be included in operations during fiscal year ending June 30, 2007.

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ADDITIONAL INFORMATION

MARSHALL UNIVERSITY

ADDITIONAL INFORMATION—COMPONENT FINANCIAL DATA
SCHEDULE OF NET ASSETS INFORMATION
AS OF JUNE 30, 2006

ASSETS	Community and Technical College	Four-Year and Other Components	Combined Institution
CURRENT ASSETS:			
Cash and cash equivalents	$ 8,708,371	$ 48,488,851	$ 57,197,222
Accounts receivable—net	142,916	17,566,036	17,708,952
Loans receivable	31,336	770,515	801,851
Inventories		781,212	781,212
Other current assets		965,111	965,111
Total current assets	8,882,623	68,571,725	77,454,348
NONCURRENT ASSETS:			
Cash and cash equivalents		4,273,503	4,273,503
Accounts receivable		1,732,641	1,732,641
Loans receivable	250,194	6,122,996	6,373,190
Investments		10,818,565	10,818,565
Other assets		3,587,913	3,587,913
Capital assets—net	812,305	301,464,555	302,276,860
Total noncurrent assets	1,062,499	328,000,173	329,062,672
TOTAL	$ 9,945,122	$ 396,571,898	$ 406,517,020

(Continued)

MARSHALL UNIVERSITY

ADDITIONAL INFORMATION—COMPONENT FINANCIAL DATA
SCHEDULE OF NET ASSETS INFORMATION
AS OF JUNE 30, 2006

LIABILITIES AND NET ASSETS	Community and Technical College	Four-Year and Other Components	Combined Institution
CURRENT LIABILITIES:			
Accounts payable	$ 173,913	$ 8,226,484	$ 8,400,397
Due to commission		26,167	26,167
Accrued liabilities	242,357	5,302,346	5,544,703
Deferred revenue	405,675	6,913,387	7,319,062
Deposits		546,683	546,683
Compensated absences—current portion	119,084	5,857,694	5,976,778
Debt obligation to Commission—current portion		2,852,475	2,852,475
Capital lease obligations—current portion	4,013	1,289,079	1,293,092
Bonds payable—current portion		1,160,000	1,160,000
Total current liabilities	945,042	32,174,315	33,119,357
NONCURRENT LIABILITIES:			
Notes payable	33,976	13,739	47,715
Advances from federal sponsors	370,185	6,311,732	6,681,917
Other noncurrent liability		2,200,976	2,200,976
Compensated absences	288,083	10,558,756	10,846,839
Debt obligation to Commission		35,415,800	35,415,800
Capital lease obligations	5,299	10,784,503	10,789,802
Bonds payable		44,240,000	44,240,000
Total noncurrent liabilities	697,543	109,525,506	110,223,049
Total liabilities	1,642,585	141,699,821	143,342,406
NET ASSETS:			
Invested in capital assets—net of related debt	802,993	212,810,293	213,613,286
Restricted for:			
Nonexpendable		176,000	176,000
Expendable:			
Scholarships		45,418	45,418
Sponsored projects	24,720	9,496,002	9,520,722
Loans		2,184,830	2,184,830
Capital projects		210,100	210,100
Debt service		542,293	542,293
Total restricted expendable	24,720	12,478,643	12,503,363
Unrestricted	7,474,824	29,407,141	36,881,965
Total net assets	8,302,537	254,872,077	263,174,614
TOTAL	$ 9,945,122	$ 396,571,898	$ 406,517,020

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, 2006

	Community and Technical College	Four-Year and Other Components	Combined Institution
OPERATING REVENUES:			
Student tuition and fees (net of scholarship allowance of $2,083,902, $16,039,152, and $18,123,054), respectively	$ 2,829,586	$ 48,709,371	$ 51,538,957
Contracts and grants:			
Federal	2,140,890	35,316,144	37,457,034
State	1,266,438	16,447,808	17,714,246
Local		838,260	838,260
Private	75,298	13,937,862	14,013,160
Interest on loans receivable		108,919	108,919
Sales and services of educational activities		369,934	369,934
Auxiliary enterprise revenue (net of scholarship allowance of $0, $3,367,307 and $3,367,307), respectively	245,919	23,846,746	24,092,665
Other operating revenues	2,791,781	8,525,799	11,317,580
Total operating revenues	9,349,912	148,100,843	157,450,755
OPERATING EXPENSES:			
Salaries and wages	3,549,198	98,057,654	101,606,852
Benefits	874,816	31,030,014	31,904,830
Supplies and other services	6,088,209	40,422,494	46,510,703
Utilities	3,585	6,493,753	6,497,338
Student financial aid—scholarships and fellowships	1,683,399	13,314,458	14,997,857
Depreciation	210,836	12,452,125	12,662,961
Other operating expenses	11,516	307,238	318,754
Fees assessed by the Commission for operations	62,241	620,868	683,109
Total operating expenses	12,483,800	202,698,604	215,182,404
OPERATING LOSS	(3,133,888)	(54,597,761)	(57,731,649)

(Continued)

MARSHALL UNIVERSITY

ADDITIONAL INFORMATION—COMPONENT FINANCIAL DATA
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2006

	Community and Technical College	Four-Year and Other Components	Combined Institution
NONOPERATING REVENUES (EXPENSES):			
State appropriations	$ 5,451,052	$ 57,413,284	$ 62,864,336
Gifts		655,505	655,505
Investment income	276,677	1,996,729	2,273,406
Interest on indebtedness	(415)	(2,804,695)	(2,805,110)
Fees assessed by the Commission for debt service		(2,159,902)	(2,159,902)
Other nonoperating revenues (expenses)—net	(17,415)	(2,103)	(19,518)
Net nonoperating revenues	5,709,899	55,098,818	60,808,717
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	2,576,011	501,057	3,077,068
CAPITAL GRANTS AND GIFTS		28,526,238	28,526,238
CAPITAL BOND PROCEEDS FROM THE COMMISSION		12,501,541	12,501,541
INCREASE IN NET ASSETS BEFORE TRANSFERS	2,576,011	41,528,836	44,104,847
TRANSFERS—INCLUDING DEBT	(651,136)	651,136	
INCREASE IN NET ASSETS	1,924,875	42,179,972	44,104,847
NET ASSETS—Beginning of year	6,377,662	212,692,105	219,069,767
NET ASSETS—End of year	$ 8,302,537	$ 254,872,077	$ 263,174,614

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, 2006

	Community and Technical College	Four Year and Other Components	Combined Institution
CASH FLOWS FROM OPERATING ACTIVITIES:			
Student tuition and fees	$ 2,843,861	$ 48,671,366	$ 51,515,227
Contracts and grants	3,588,363	63,341,274	66,929,637
Payments to and on behalf of employees	(4,336,379)	(126,619,158)	(130,955,537)
Payments to suppliers	(6,129,946)	(39,828,081)	(45,958,027)
Payments to utilities	(3,585)	(6,493,753)	(6,497,338)
Payments for scholarships and fellowships	(1,683,399)	(13,314,458)	(14,997,857)
Loans issued	(4,065)	(1,783,261)	(1,787,326)
Collection of loans	33,089	1,314,316	1,347,405
Sales and service of educational activities		369,934	369,934
Auxiliary enterprise charges	245,919	24,127,187	24,373,106
Fees assessed by Commission	(62,241)	(620,868)	(683,109)
Other receipts—net	2,786,312	7,870,151	10,656,463
Net cash used in operating activities	(2,722,071)	(42,965,351)	(45,687,422)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
State appropriations	5,547,603	58,360,035	63,907,638
Payments on notes and lease payable		(3,194)	(3,194)
Proceeds from notes payable	1,973	7,342	9,315
Gift receipts		655,505	655,505
Advance from federal sponsor (nonoperating)			
Other operating revenue (expense)	(11,760)	11,760	
Agency fund receipts		373,039	373,039
Agency fund payments		(359,314)	(359,314)
William D. Ford direct lending receipts		48,377,762	48,377,762
William D. Ford direct lending payments		(48,377,400)	(48,377,400)
Net cash provided by noncapital financing activities	5,537,816	59,045,535	64,583,351
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:			
Capital grants and gifts received		28,397,301	28,397,301
Capital projects and bond proceeds from Commission		9,818,170	9,818,170
Purchases of capital assets	(330,813)	(49,036,980)	(49,367,793)
Principal paid on bonds and leases	(2,065)	(5,400,658)	(5,402,723)
Interest paid on bonds and leases	(415)	(2,766,640)	(2,767,055)
Proceeds from sale of capital assets		114,674	114,674
Principal payment on debt obligation due to Commission		(2,725,000)	(2,725,000)
Fees assessed by Commission		(2,159,902)	(2,159,902)
Lease escrow deposit from (to) restricted cash		2,600,000	2,600,000
Transfers—including debt	(651,136)	651,136	
Increase in noncurrent cash and cash equivalents		(444,012)	(444,012)
Net cash used in capital financing activities	(984,429)	(20,951,911)	(21,936,340)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments		(7,925,906)	(7,925,906)
Sale/maturity of investments		773,995	773,995
Investment income	261,909	2,126,072	2,387,981
Lease receipts		61,888	61,888
Net cash provided by (used in) investing activities	261,909	(4,963,951)	(4,702,042)
INCREASE (DECREASE) IN CURRENT CASH AND CASH EQUIVALENTS	2,093,225	(9,835,678)	(7,742,453)
CURRENT CASH AND CASH EQUIVALENTS—Beginning of year	6,615,146	58,324,529	64,939,675
CURRENT CASH AND CASH EQUIVALENTS—End of year	$ 8,708,371	$ 48,488,851	$ 57,197,222

(Continued)

MARSHALL UNIVERSITY

ADDITIONAL INFORMATION—COMPONENT FINANCIAL DATA
SCHEDULE OF CASH FLOW INFORMATION
FOR THE YEAR ENDED JUNE 30, 2006

	Community and Technical College	Four Year and Other Components	Combined Institution
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:			
Operating loss	$ (3,133,888)	$ (54,597,761)	$ (57,731,649)
Adjustments to reconcile net operating loss to net cash used in operating activities:			
Depreciation expense	210,836	12,452,125	12,662,961
Changes in assets and liabilities:			
Accounts receivable—net	(24,696)	(4,631,618)	(4,656,314)
Loans receivable—net	36,055	(234,367)	(198,312)
Other Assets	1,850	(76,314)	(74,464)
Inventories		7,181	7,181
Accounts payable	26,605	(1,764,842)	(1,738,237)
Accrued liabilities	32,784	3,334,020	3,366,804
Compensated absences	54,947	1,575,816	1,630,763
Deferred revenue	76,368	938,560	1,014,928
Deposits held in custody for others		36,000	36,000
Advances from federal sponsors	(2,932)	(4,151)	(7,083)
NET CASH USED IN OPERATING ACTIVITIES	$ (2,722,071)	$ (42,965,351)	$ (45,687,422)
NONCASH TRANSACTIONS:			
Capital lease obligation incurred for equipment and buildings	$ 11,378	$ 6,761,106	$ 6,772,484
Capital gifts of equipment	$ -	$ 69,722	$ 69,722
Loss on disposal of assets	$ 5,656	$ 13,862	$ 19,518
Construction in progress additions in accounts payable	$ -	$ 1,804,774	$ 1,804,774

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, 2006

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	$ 2,816,416	$ 699,733	$ 1,746,785	$ -	$ -	$ -	$ -	$ -	$ 5,262,934
Research									
Public service	246,650	40,069	27,732	2,946			11,516		328,913
Academic support	264,340	62,721	735,026						1,062,087
Student services			820,888						820,888
General institutional support	221,792	72,293	1,236,859						1,530,944
Operations and maintenance of plant			1,275,000	639					1,275,639
Student financial aid					1,683,399				1,683,399
Auxiliary enterprises			245,919						245,919
Depreciation						210,836			210,836
Other								62,241	62,241
Total	$ 3,549,198	$ 874,816	$ 6,088,209	$ 3,585	$ 1,683,399	$ 210,836	$ 11,516	$ 62,241	$ 12,483,800

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	$47,296,464	$14,103,525	$ 8,436,678	$ 58	$ -	$ -	$ -	$ -	$ 69,836,725
Research	6,578,133	2,352,296	7,656,454	415,294			83,865		17,086,042
Public service	8,178,250	2,428,303	4,225,954	174,066			(11,516)		14,995,057
Academic support	9,088,874	2,734,030	4,090,184	6,850					15,919,938
Student services	6,064,921	2,086,983	2,597,164	2,540					10,751,608
General institutional support	9,951,696	3,395,767	1,488,796	19,766			312		14,856,337
Operations and maintenance of plant	3,718,965	1,661,271	1,281,723	3,878,465					10,540,424
Student financial aid					13,314,458				13,314,458
Auxiliary enterprises	7,180,351	2,267,839	10,645,541	1,996,714					22,090,445
Depreciation						12,452,125			12,452,125
Other							234,577	620,868	855,445
Total	$98,057,654	$31,030,014	$40,422,494	$6,493,753	$13,314,458	$12,452,125	$ 307,238	$620,868	$202,698,604

See note to additional information—component financial data.

MARSHALL UNIVERSITY

NOTE TO ADDITIONAL INFORMATION—COMPONENT FINANCIAL DATA FOR THE YEAR ENDED JUNE 30, 2006

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 UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Marshall University Governing Board:

We have audited the combined financial statements of Marshall University (the "University") as of and for the year ended June 30, 2006, and have issued our report thereon dated September 28, 2006, which states reliance on other auditors for the discretely presented component unit. 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 audit of the University's discretely presented component unit was audited in accordance with generally accepted auditing standards but not in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 28, 2006

Marshall University & Marshall Community & Technical College

Student Profile

Age Distribution		
Less than 24	9,126	55%
24 to 29	3,053	18%
30 to 39	2,256	14%
40 to 49	1,363	8%
50 and older	787	5%

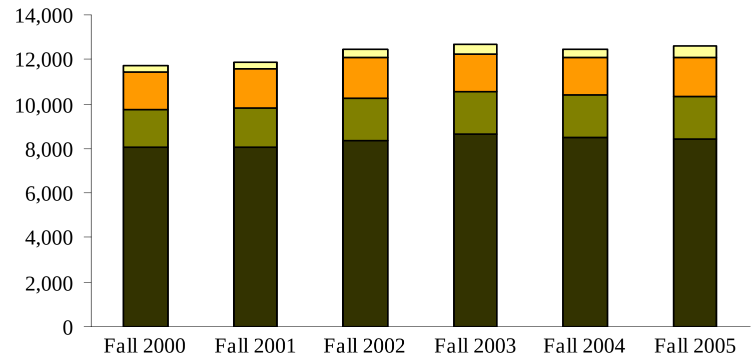
Residence Status		
In-State	13,906	84%
Out-of-State	2,679	16%

Living Arrangements		
Residence Halls	1,868	11%
Commuters	14,717	89%

Total Headcount

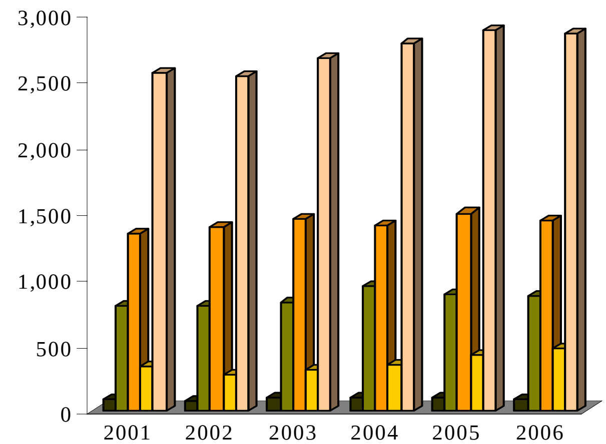
Undergraduate	12,434
Graduate	3,938
1st Professional	213
Full-time	11,042
Part-time	5,543

FTE Enrollment 2000-2005



	Fall 2000	Fall 2001	Fall 2002	Fall 2003	Fall 2004	Fall 2005
Graduate and First Professional Non-Resident	317	335	387	402	401	474
Graduate and First Professional Resident	1,688	1,732	1,813	1,687	1,680	1,739
Undergraduate Non-Resident	1,716	1,774	1,905	1,936	1,924	1,917
Undergraduate Resident	8,028	8,058	8,360	8,639	8,488	8,448
TOTAL	11,623	11,749	11,899	12,465	12,664	12,493

Degrees Granted 2000-2006



	2001	2002	2003	2004	2005	2006
1st Professional, Graduate Certificate and Doctoral	82	74	99	95	90	86
Masters Degree	793	788	810	937	871	861
Baccalaureate Degree	1,336	1,384	1,447	1,395	1,487	1,433
Associate Degree	333	271	306	337	420	464
Total	2,544	2,517	2,662	2,764	2,868	2,844

Higher Education Policy Commission
2005-2006

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2005-2006

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Dr. James M. Sottile, Jr., Faculty Representative
Chad Caldwell, Student Representative

ACKNOWLEDGEMENTS

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