Marshall University

Combined Financial Statements as of and
for the Year Ended June 30, 2009, and
Independent Auditors' Reports

MARSHALL UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

To the Governing Board of
Marshall University:

We have audited the accompanying combined statement of net assets of Marshall University (the "University") as of June 30, 2009, and the related combined statements of revenues, expenses, and changes in net assets, and of cash flows for the year then ended. These combined financial statements are the responsibility of the management of the University. Our responsibility is to express an opinion on these combined financial statements based on our audit. We did not audit the discretely presented financial statements of The Marshall University Foundation, Inc. (the "Foundation") or MSH — Marshall, L.L.C. (MSH — Marshall) (component units of the University). Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the discretely presented financial statements of the Foundation and MSH — Marshall, is based solely on the reports of such other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, such combined financial statements present fairly, in all material respects, the respective financial position of the University and the discretely presented component units of the University as of June 30, 2009, and the respective changes in net assets and its cash flows for the year 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 10 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2009, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

October 5, 2009

Marshall University
Management's Discussion and Analysis (Unaudited)
Fiscal Year 2009

About Marshall University

Marshall University (the "University" or the "Institution") is a public, non-profit academic institution, which offers degrees in more than 95 academic fields of study at the baccalaureate and graduate degree level, including doctoral degrees (Ph.D. and professional doctorates) in various fields through its twelve colleges and schools. The University was founded in 1837 and achieved University status in 1961. Integral parts of the Institution included in the financial information presented are the Marshall University Research Corporation (MURC) and the Joan C. Edwards School of Medicine (SOM). MURC has a separately presented financial statement, which can be referenced for additional information about changes to that organization. With the passage of House Bill 3215 during the 2008 session of the West Virginia Legislature, effective July 1, 2008 the Marshall Community and Technical College became an independent, public institution no longer administratively linked to Marshall University. As such, this report does not include Marshall Community and Technical College financial information for any periods shown.

As West Virginia's second largest university, MU including the SOM serves over 13,500 students from virtually all counties in West Virginia, 44 states and the District of Columbia, as well as over 500 students from more than 40 countries across the globe. The students are served by 770 full-time faculty and 818 staff members on its main campus located in Huntington, West Virginia and its four regional centers (South Charleston Campus, Mid-Ohio Valley Center, Teays Valley Center and Beckley Center).

Marshall University has been accredited continuously as an institution of higher learning by the North Central Association of Colleges and Schools since 1928. It also has earned and maintains specialized accreditation status with twenty-one (21) agencies responsible for evaluating and conferring specialty accreditation for educational programs involving various professional fields of study (includes business, engineering and technology, medicine, psychology, speech-language pathology, teacher education, etc.); see http://www.marshall.edu/www/accreditation.asp for a complete list.

Marshall University is governed by a 16-member Board of Governors (the "Board"), appointed by the Governor of the State of West Virginia, who 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 and controls all academic programs offered at the Institution, and approves tuition and other fees for the different classes or categories of students enrolled.

Overview

The Management's Discussion and Analysis is required supplementary information and has been prepared in accordance with the requirements of Governmental Accounting Standard Board (GASB) Statements No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, GASB Statement No. 35, *Basic Financial Statements- and Management's Discussion and Analysis – for Public Colleges and Universities – an amendment of GASB Statement No. 34 and*, GASB Statement No. 39 – *Determining Whether Certain Organizations are Component Units.*

The separation of the Marshall Community and Technical College from the University made the University a new reporting entity for financial statement purposes. Comparable data does not exist for years prior to FY 2009, therefore, only one year of financial data is presented in the financial statements. Detailed financial information of the Marshall University Foundation, Inc., and MSH — Marshall, L.L.C. which are controlled and managed by independent 501(c) (3) corporations with separate independent Boards of Directors, are included. The University does not control these resources. Our discussions about these statements will focus on FY 2009 data.

The University's financial report consists of three financial statements: the combined statement of net assets; the combined statement of revenues, expenses, and changes in net assets; and the combined statement of cash flows. These statements focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole. Each of these statements is discussed below.

Net Assets

The statements of net assets present the assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities) of the University as of the end of the fiscal year. Assets denote the resources available to continue the operations of the University. Liabilities indicate how much the University owes vendors, employees and lenders. Net assets measure the equity or the availability of funds of the University for future periods.

Net Assets are displayed in three major categories:

Invested in capital assets, net of related debt. This category represents the University's total investment in capital assets, net of accumulated depreciation and 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. This category includes net assets, the use of which is restricted, either due to externally imposed constraints or because of restrictions imposed by law. They are further divided into two additional components - nonexpendable and expendable. **Nonexpendable restricted net assets** include endowment and similar type funds for 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. **Expendable restricted net assets** include resources for which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted net assets. This category includes resources that are not subject to externally imposed stipulations. Such resources are derived primarily from tuition and fees (not restricted as to use), State appropriations, sales and services of educational activities, and auxiliary enterprises. Unrestricted net assets are used for transactions related to the educational and general operations of the University and may be designated for specific purposes by action of the University's Board of Governors.

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

	FY 2009
Assets:	
Current assets	$ 91,122
Other noncurrent assets	27,429
Capital assets, net	322,974
Total Assets	$ 441,525
Liabilities	
Current liabilities	$ 33,168
Noncurrent liabilities	96,386
Total Liabilities	$ 129,554
Net Assets	
Invested in capital assets, net of related debt	$ 244,458
Restricted - nonexpendable	641
Restricted - expendable	20,637
Unrestricted	46,235
Total Net Assets	$ 311,971

Current assets include the following:

- Current cash and cash equivalents of $74.0 million
    - Cash at MURC totals $20.9 million
    - Cash at the University totals $53.1 million
- Accounts receivable and loans receivable totaling $16.1 million
- Inventories and other current assets totaling $1.0 million

Other noncurrent assets include the following:

- Noncurrent cash and cash equivalents of $5.3 million
- Accounts receivable and loans receivable totaling $12.0 million
- Investments of $9.0 million
- Bond issuance costs and other items totaling $1.1 million

Capital assets totaling $487.2 million are reduced by accumulated depreciation of $164.2 million

Current and noncurrent liabilities include the following:

- Accounts payable and due to other state agencies total $8.9 million
- Accrued liabilities total $6.9 million
- Deferred revenue and deposits total $7.0 million
- Notes, bonds, and leases payable total $54.6 million
- Compensated absences and other post employment benefits total $11.3 million
- Debt to Commission of $27.6 million
- Advances from federal sponsors and other noncurrent liabilities total $13.3 million

Statement of Revenues, Expenses and Changes in Net Assets

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

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

		FY 2009
Operating revenues	$	156,477
Operating expenses		(233,252)
Operating loss		(76,775)
Nonoperating revenues		85,128
Nonoperating expenses		(4,588)
Income before other revenues, expenses, gains or losses		3,765
Other revenues, expenses, gains or losses		5,619
Increase in Net Assets	$	9,384

Operating revenues are received for student tuition and fees, grants and contracts, auxiliary services and miscellaneous revenue. Operating revenues were $156.5 million in FY 2009 and include the following:

- Net tuition and fee revenue of $57.0 million
- Grant and Contract revenue of $66.3 million
- Auxiliary enterprise revenue of $25.2 million
- Other operating revenues totaling $8.0 million

Operating expenses are paid for goods and services to carry out the mission of the Institution. Operating expenses were $233.3 million in FY 2009 and include the following:

- Salaries and benefits of $145.6 million
- Supplies and other services of $47.9 million
- Utilities of $8.2 million
- Student financial aid of $16.8 million
- Depreciation and other operating expenses totaling $14.7 million

Revenues for which goods and services are not provided are reported as nonoperating revenues. Likewise, Pell grants are reported as nonoperating because of specific guidance in the AICPA industry audit guide. Nonoperating revenues for FY 2009 were $85.1 million. Included in this category is:

- State appropriation revenue of $71.6 million
- Pell grant revenue of $10.4 million
- Gifts of $0.8 million
- Payments made by the State on behalf of MU for Other Post Employment Benefits of $1.6 million.
- Other nonoperating revenue (net of nonoperating expenses) was $0.7 million which includes the gain on the sale of University Heights of $0.9 million offset by the loss on disposal of equipment of $0.2 million.

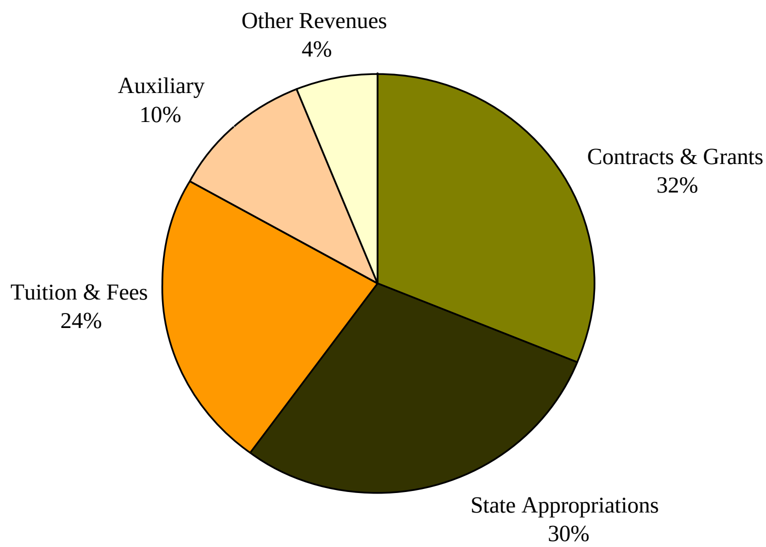
Nonoperating expenses for FY 2009 were $4.6 million. Included in this category is:

- Interest on debt of $2.7 million
- Fees assessed by the Commission for debt service of $1.4 million
- Investment loss of $0.5 million primarily due to this year's economic downturn affecting the fair value of investments at Commonfund.

Total operating and nonoperating revenue for the Institution was $241.6 million in FY 2009.

Total Operating and Nonoperating Revenues

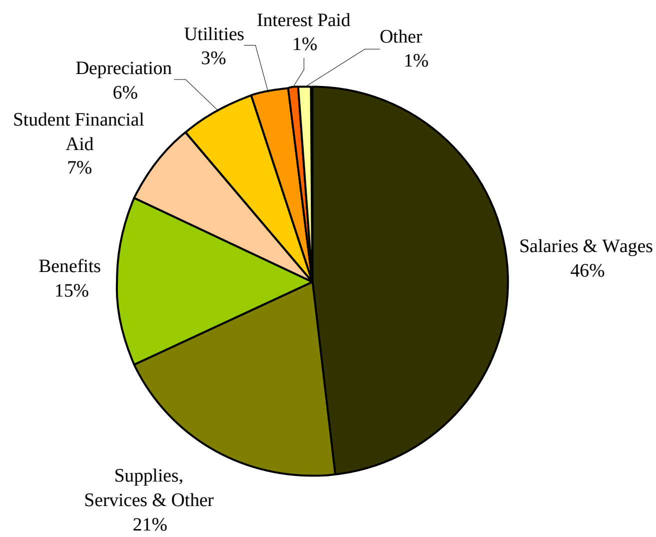
FY 2009



Operating and nonoperating expense for the Institution was $237.8 million in FY 2009.

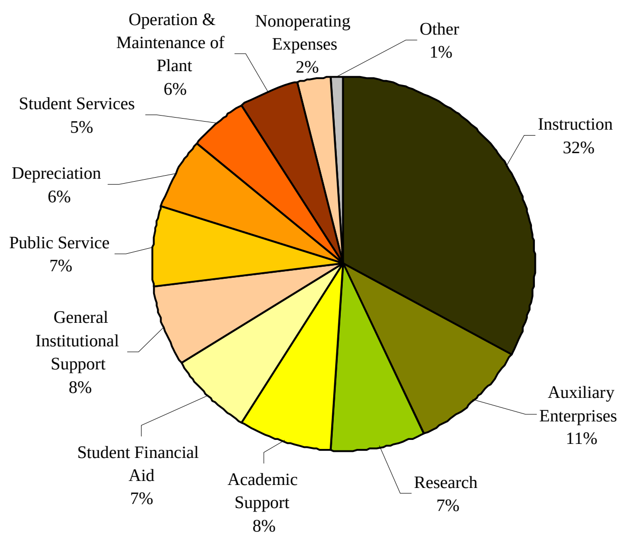
Total Operating and Nonoperating Expenses
By Object

FY 2009



Total Operating and Nonoperating Expenses
By Function

FY 2009



Income before other Revenues, Expenses and Other items

The total of both operating and nonoperating revenues and expenses is reflected in the income before other revenues, expenses and other items. In FY 2009, the income was $3.8 million for the Institution. Of this total, the University had income of $0.7 million while MURC had income of $3.1 million.

Changes to Net Assets

The increase in net assets of $9.4 million reflects improvement in the Institution's general financial condition. The net asset increase includes the $3.8 million mentioned above as well as the following:

- Capital grants and gifts totaling $5.1 million
- Lottery bond proceeds from HEPC of $0.5 million

The beginning net assets for the new reporting entity for FY2009 were reduced by $9,981,800 from the net assets of the former combined institution to reflect the transfer to MCTC for their portion of the combined net assets at 6-30-08.

Statement of Cash Flows

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

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

		FY 2009
Cash flows provided by (used in):		
Operating activities	$	(61,800)
Noncapital financing activities		82,447
Capital and related financing activities		(14,381)
Investing activities		831
Net Change in current cash		7,097
Current cash and cash equivalents, beginning of year		66,939
Current cash and cash equivalents , end of year	$	74,036

The statement of cash flows is divided into five sections:

- Cash flows from operating activities show the net cash used by the operating activities of the University.
- Cash flows from noncapital financing activities reflect the cash received and paid for nonoperating, noninvesting, and noncapital financing purposes. State appropriations are the primary source of cash in this section.
- Cash flows from capital financing activities include cash used for the acquisition and construction of capital and related items.
- Cash flows from investing activities show the purchases, proceeds, and interest received from investing activities.

- Reconciliation of operating loss to net cash used in operating activities provides a schedule that reconciles the accrual-based operating income (loss) and net cash used in operating activities.

Capital Asset and Debt Administration

The University had significant construction, renovation and capital activity in fiscal year 2009, financed by bond proceeds, loan proceeds, grants, gifts and other University funds.

- The University completed construction in August 2008 of the Weisberg Engineering Lab, renovations to the Memorial Student Center and phase two of the Shewey (Athletic) Facilities building.

- In addition, the Marshall Recreation Center, a 123,000 square foot state-of-the-art facility was completed by MSH — Marshall and opened February 2009.

- Other projects that began in fiscal year 2009 that will be completed in fiscal year 2010 are an addition to the Forensic Science building, improvements to the player locker rooms at the Henderson Center (August 2009) and The Marshall University Foundation Hall home of the Erickson Alumni Center (December 2009).

- The University owned 95.7 acres of property at University Heights of which it sold 14.5 acres in January 2009. The property was sold for $2.3 million.

The Commission assesses each public institution of higher education for funds to meet the payment of debt service on various revenue bonds that were issued for the financing of academic and other facilities of the State's universities and colleges, including certain facilities of the University. The bonds remain as a capital obligation of the Commission; however $27.6 million is reported as debt service assessment payable to the Commission by the University.

The University's and MURC's other debt activity during 2009 was primarily the repayment of bonds, capital leases and notes payable according to schedule. As part of the MCTC separation, the University incurred a long term payable to MCTC of $3,500,000.

Economic Outlook

The University's financial position is closely correlated to that of the State of West Virginia. The Institution continues to be at risk for a reallocation of State appropriations to other State institutions and/or non-higher education State funded entities. For FY 2010, State appropriations have been maintained at the FY 2009 funding level. The University has been advised by the Governor's Office to begin planning for the possibility of a 4% reduction in State appropriations for FY 2011.

Due to the uncertainty in future State appropriations, the University has taken strides to lower this dependence through initiatives that will provide greater self-reliance and sustainability for the future. The University is focused on cost control and revenue enhancements with highlights noted below from our Strategic Signature Initiatives.

RESEARCH: Major research program development is occurring in targeted areas that build on existing strengths of the University. These focused areas include: biotechnology and genomics research, including a developing focus in human and environmental genomics, forensic science (DNA, computer and microbial forensics), cancer, cardiovascular, geospatial sciences, transportation research and intelligent transportation system design, environmental sciences, and cognitive disabilities and rehabilitation (e.g., learning/attention deficit disorders, autism.). The new endowment-based Marshall Institute for Interdisciplinary Research has been established and is operational within the Robert C. Byrd Biotechnology and Science Center. When fully operational, this institute is funded through proceeds from private, endowed gifts matched by endowment funds from the WV Research Trust Fund established in 2008. Marshall University is legislatively entitled to match $15 million in private gifts with the possibility of additional matching funds beyond that total. As of June 30, 2009 the Institution has received $465,000 of the potential $15 million.

<u>ENROLLMENT GROWTH PLAN:</u> Beginning in summer 2006, Marshall University launched a series of initiatives to increase full-time undergraduate enrollment by up to 3,500 students over the next decade. The primary objective is to maximize and manage enrollment growth by taking full advantage of existing institutional capacities in terms of instructional space, faculty and support staff. The targeted enrollment growth over the next ten years will be achieved through a combination of annual increases in the size of the freshmen class with greater non-resident student enrollment and improved retention rates across all levels to achieve 6-year graduation rates that exceed 60%. The results of this initiative are evident by the Fall 2009 increase in total Full Time Equivalent (FTE) enrollment and Full-Time Freshmen enrollment of 2.8% and 11.5% respectively over Fall 2008 levels.

<u>*e*-LEARNING PLATFORM:</u> The e-learning platform at Marshall University is an area that has contributed to substantial enrollment growth and revenue enhancement. It has been the fastest growing enrollment segment within the University over the last five years, with course enrollment increasing from less than 1,000 to over 10,000 and a 92% increase in related revenue.

<u>ACADEMIC PROGRAMS:</u> The University will invest selectively in new academic degree programs. Examples include undergraduate engineering, which has already been launched; a professional doctorate in Nurse Anesthesia, which builds on an existing joint program with the Charleston Area Medical Center; a new professional executive doctoral degree in Forensic Science; and a new D.P.T. degree program in physical therapy. These and other new academic program initiatives will increase student enrollment and add to the overall revenue base of the University.

Although these are unpredictable economic times and there are challenges ahead of us, Marshall University is committed to continue to provide its high standard of undergraduate and graduate education to its students and the citizens of the State.

MARSHALL UNIVERSITY

COMBINED STATEMENT OF NET ASSETS
AS OF JUNE 30, 2009

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	$ 74,036,488
Accounts receivable — net	15,215,056
Loans receivable	852,130
Inventories	747,997
Other current assets	270,727
Total current assets	91,122,398
NONCURRENT ASSETS:	
Cash and cash equivalents	5,288,092
Investments	9,033,820
Accounts receivable	4,780,327
Loans receivable — net of allowance of $1,411,665	7,255,808
Other assets	1,070,334
Capital assets — net	322,974,142
Total noncurrent assets	350,402,523
TOTAL	$ 441,524,921

(Continued)

MARSHALL UNIVERSITY

COMBINED STATEMENT OF NET ASSETS
AS OF JUNE 30, 2009

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	$ 5,354,964
Due to MCTC — current portion	350,000
Accrued liabilities	6,930,263
Deferred revenue	6,321,822
Deposits	682,733
Notes payable — current portion	163,215
Compensated absences	8,313,207
Debt obligation to the Commission — current portion	3,024,479
Capital lease obligations — current portion	941,661
Bonds payable — current portion	1,085,000
Total current liabilities	33,167,344
NONCURRENT LIABILITIES:	
Notes payable	2,777,711
Advances from federal sponsors	6,510,861
Other noncurrent liability	6,805,898
Other post employment benefits liability	2,988,774
Due to MCTC	3,150,000
Debt obligation to the Commission	24,542,639
Capital lease obligations	8,920,417
Bonds payable	40,690,000
Total noncurrent liabilities	96,386,300
Total liabilities	129,553,644
NET ASSETS:	
Invested in capital assets — net of related debt	244,458,107
Restricted for — nonexpendable	641,000
Expendable:	
Scholarships	49,638
Sponsored projects	17,975,006
Loans	2,529,976
Debt service	82,292
Total restricted expendable	20,636,912
Unrestricted	46,235,258
Total net assets	311,971,277
TOTAL	$ 441,524,921

See notes to combined financial statements. (Concluded)

THE MARSHALL UNIVERSITY FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2009

ASSETS

ASSETS:	
Cash and cash equivalents	$ 617,817
Notes receivable	56,734
Unconditional promises to give — less allowance for uncollectible promises of $82,288	5,786,361
Contributions receivable from remainder trusts	500,919
Beneficial interest in perpetual trusts	6,018,545
Investments	77,073,781
Net investment in direct financing leases	4,052,229
Property and equipment — net	7,918,330
Cash surrender value — life insurance, net of policy loans	305,993
Other assets	615,800
TOTAL	$ 102,946,509

LIABILITIES AND NET ASSETS

LIABILITIES:	
Accounts payable	$ 639,094
Accrued vacation	64,886
Accrued interest payable	38,803
Bonds payable	4,071,089
Notes payable	2,235,474
Annuity payment liability	727,458
Deferred revenue	676,502
Total liabilities	8,453,306
NET ASSETS:	
Unrestricted	14,904,732
Temporarily restricted	12,036,205
Permanently restricted	67,552,266
Total net assets	94,493,203
TOTAL	$ 102,946,509

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

MARSHALL UNIVERSITY

MSH — MARSHALL, L.L.C.
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2009

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	$ 1,286,567
Investments — bond funds	2,932,256
Accounts receivable	119,114
Interest receivable	19,835
Inventory	3,211
Prepaid expenses	19,020
Total current assets	4,380,003
RESTRICTED ASSETS — Investments — debt service reserves	4,951,979
CAPITAL ASSETS — Net	81,811,611
OTHER ASSETS — Debt issuance costs — net	2,542,830
Total other assets	2,542,830
TOTAL	$ 93,686,423

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable and accrued liabilities	$ 1,194,482
Unearned revenue	93,019
Accrued interest payable	1,110,601
Total current liabilities	2,398,102
LONG-TERM LIABILITIES — Long-term liabilities	90,065,000
OBLIGATION UNDER INTEREST RATE SWAP	8,879,900
Total liabilities	101,343,002
MEMBER’S DEFICIT	(7,656,579)
TOTAL	$ 93,686,423

See accompanying notes to financial statements.

MARSHALL UNIVERSITY

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2009

OPERATING REVENUES:	
Student tuition and fees — net of scholarship allowance of $19,945,139	$ 56,968,499
Contracts and grants:	
Federal	30,218,677
State	21,030,356
Local	972,453
Private	14,035,506
Interest on loans receivable	120,006
Sales and services of educational activities	228,711
Auxiliary enterprise revenue — net of scholarship allowance of $3,096,934	25,199,781
Other operating revenues	7,703,241
Total operating revenues	156,477,230
OPERATING EXPENSES:	
Salaries and wages	109,961,450
Benefits	35,673,835
Supplies and other services	47,902,484
Utilities	8,154,757
Student financial aid — scholarships and fellowships	16,844,833
Depreciation	14,016,792
Other operating expenses	49,787
Fees assessed by the Commission for operations	647,881
Total operating expenses	233,251,819
OPERATING LOSS	(76,774,589)

(Continued)

MARSHALL UNIVERSITY

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2009

NONOPERATING REVENUES (EXPENSES):	
State appropriations	$ 71,582,427
Federal Pell grants	10,387,672
Payments on behalf of Marshall University	1,621,730
Gifts	848,394
Investment loss	(520,309)
Interest on indebtedness	(2,658,547)
Fees assessed by the Commission for debt service	(1,409,586)
Other nonoperating income — net	687,711
Net nonoperating revenues	80,539,492
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	3,764,904
CAPITAL GRANTS AND GIFTS	5,067,337
CAPITAL BOND PROCEEDS FROM THE COMMISSION	551,670
INCREASE IN NET ASSETS	9,383,911
NET ASSETS — Beginning of year	302,587,366
NET ASSETS — End of year	$ 311,971,277

See notes to combined financial statements. (Concluded)

MARSHALL UNIVERSITY

THE MARSHALL UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT, REVENUES, AND RECLASSIFICATIONS:				
Gifts, contributions, and other	$ 797,494	$ 6,408,172	$ 2,476,989	$ 9,682,655
Investment (loss) income	(23,379,223)	3,325,876	(721,725)	(20,775,072)
Net assets released from restrictions — satisfaction of program restrictions	9,459,660	(9,459,660)		-
Total public support, revenues, and reclassifications	(13,122,069)	274,388	1,755,264	(11,092,417)
EXPENSES:				
Program services:				
Academic assistance	7,064,577			7,064,577
Student assistance	2,420,726			2,420,726
Total program services	9,485,303	-	-	9,485,303
Supporting services:				
Management and general	2,950,005			2,950,005
Fund-raising	574,708			574,708
Total supporting services	3,524,713	-	-	3,524,713
Total expenses	13,010,016	-	-	13,010,016
CHANGE IN NET ASSETS	(26,132,085)	274,388	1,755,264	(24,102,433)
NET ASSETS — Beginning of year	21,596,127	33,592,997	63,406,512	118,595,636
TRANSFERS	19,440,690	(21,831,180)	2,390,490	-
NET ASSETS — End of year	$ 14,904,732	$ 12,036,205	$ 67,552,266	$ 94,493,203

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

MARSHALL UNIVERSITY

MSH — MARSHALL. L.L.C.
STATEMENT OF ACTIVITIES AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2009

REVENUES:	
Housing	$ 3,694,923
Wellness center	1,511,193
Interest income	322,835
Total revenues	5,528,951
EXPENSES:	
Interest expense	2,959,942
Depreciation and amortization	2,185,210
Payroll and related benefits	652,283
Letter of credit fees	541,003
Utilities	444,708
Management fees	219,500
Building maintenance	201,041
Arbitrage rebate expense	65,255
Remarketing fees	52,630
Rental expenses	51,400
Owners fees	42,597
Legal and accounting	41,903
Insurance	79,261
Office supplies and equipment	15,018
Telephone and communications	9,621
Bond rating fees	8,500
Interior unit expenses	6,337
Travel	6,243
Taxes and licenses	2,687
Total expenses	7,585,139
OTHER INCOME (EXPENSE):	
Unrealized gain on investments	67,855
Unrealized (loss) on investments	(5,668,246)
Total other income (expense)	(5,600,391)
NET LOSS	(7,656,579)
MEMBER'S DEFICIT:	
Beginning of the year	
End of the year	$ (7,656,579)

See accompanying notes to financial statements.

MARSHALL UNIVERSITY

COMBINED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:	
Student tuition and fees	$ 56,677,604
Contracts and grants	63,256,285
Payments to and on behalf of employees	(141,487,094)
Payments to suppliers	(46,499,066)
Payments to utilities	(8,154,757)
Payments for scholarships and fellowships	(16,844,834)
Loans issued	(1,761,908)
Collection of loans	764,731
Transfer of loans	(2,025)
Sales and service of educational activities	228,711
Auxiliary enterprise charges	24,832,783
Fees assessed by the Commission	(647,881)
Other receipts — net	7,837,452
Net cash used in operating activities	(61,799,999)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State appropriations	71,307,117
Federal Pell grants	10,387,672
Payments on notes and lease payable	(107,031)
Gift receipts	848,394
Agency fund receipts	5,775,321
Agency fund payments	(5,764,470)
William D. Ford direct lending receipts	58,333,588
William D. Ford direct lending payments	(58,333,034)
Net cash provided by noncapital financing activities	82,447,557
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Capital grants and gifts received	5,067,337
Capital bond proceeds from the Commission	354,819
Purchases of capital assets	(16,605,144)
Increase in other noncurrent liabilities	576,374
Principal paid on bonds and leases	(2,028,523)
Interest paid on bonds and leases	(2,565,923)
Proceeds from sale of capital assets	2,491,821
Principal payment on debt obligation due to the Commission	(2,899,326)
Fees assessed by the Commission	(1,409,586)
Withdrawals from noncurrent cash and cash equivalents	2,636,743
Net cash used in capital financing activities	(14,381,408)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of investments	(938,024)
Sale/maturity of investments	410,315
Investment income	1,348,166
Lease receipts	10,721
Net cash provided by investing activities	831,178
INCREASE IN CURRENT CASH AND CASH EQUIVALENTS	7,097,328
CURRENT CASH AND CASH EQUIVALENTS — Beginning of year	66,939,160
CURRENT CASH AND CASH EQUIVALENTS — End of year	$ 74,036,488

(Continued)

MARSHALL UNIVERSITY

COMBINED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating loss	$ (76,774,589)
Adjustments to reconcile net operating loss to net cash used in operating activities:	
Depreciation expense	14,016,792
Expenses paid on behalf of Marshall University	1,621,730
Changes in assets and liabilities:	
Accounts receivable — net	(2,961,409)
Loans receivable — net	(950,465)
Prepaid expenses	88,731
Inventories	6,198
Accounts payable	809,716
Accrued liabilities	2,698,718
Compensated absences	292,245
Deferred revenue	(662,466)
Deposits held in custody for others	(26,250)
Advances from federal sponsors	41,050
NET CASH USED IN OPERATING ACTIVITIES	$ (61,799,999)
NONCASH TRANSACTIONS:	
Donated capital assets	$ 4,751,991
Loss on disposal of assets	$ 193,503
Construction in progress additions in accounts payable	$ 564,210
Change in investment classification	$ 626,372

See notes to combined financial statements. (Concluded)

1. ORGANIZATION

Marshall University (the "University") is governed by the Marshall University Board of Governors (the "Board"). The Board was established by Senate Bill (S.B.) 653.

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

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

As a requirement of Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units — an amendment of GASB Statement No. 14*, the University has included information from the Marshall University Foundation, Inc. (the "Foundation") and MSH — Marshall, L.L.C. (MSH — Marshall).

Although the University benefits from the activities of the Foundation, the Foundation is independent of the University in all respects. The Foundation is not a subsidiary of the University and is not directly or indirectly controlled by the University. The Foundation has its own separate, independent Board of Directors. Moreover, the assets of the Foundation are the exclusive property of the Foundation and do not belong to the University. The University is not accountable for, and does not have ownership of, any of the financial and capital resources of the Foundation. The University does not have the power or authority to mortgage, pledge, or encumber the assets of the Foundation. The Board of Directors of the Foundation is entitled to make all decisions regarding the business and affairs of the Foundation, including, without limitation, distributions made to the University. Under State law, neither the principal nor income generated by the assets of the Foundation can be taken into consideration in determining the amount of State-appropriated funds allocated to the University. Third parties dealing with the University, the Board, and the State of West Virginia (the "State") (or any agency thereof) should not rely upon the financial statements of the Foundation for any purpose without consideration of all the foregoing conditions and limitations.

Although the University benefits from the activities of MSH — Marshall, MSH — Marshall is independent of the University in all respects. MSH — Marshall is not a subsidiary of the University and is not directly or indirectly controlled by the University. MSH — Marshall is a wholly owned subsidiary of Mustard Seed Housing, Inc., which is a nonprofit corporation that is operated for charitable purposes. The assets of MSH — Marshall are the exclusive property of MSH — Marshall and do not belong to the University. The University is not accountable for, and does not have ownership of, any of the financial and capital resources of MSH — Marshall. The University does not have the power or authority to mortgage, pledge, or encumber the assets of MSH — Marshall. Any income resulting from the operations of MSH — Marshall is for the benefit of MSH — Marshall and is not distributed to the University.

Third parties dealing with the University, the Board, and the State (or any agency thereof) should not rely upon the financial statements of MSH — Marshall for any purpose without consideration of all the foregoing conditions and limitations.

During fiscal year 2008, House Bill 3215 was passed, which clarified and redefined relationships between and among certain higher education boards and institutions. This legislation defines the statewide network of independently accredited community and technical colleges. Effective July 1, 2008, the administratively linked community and technical college of the University established its own Board of Governors. As required, the newly established Marshall Community and Tehnical College (MCTC) Board of Governors and the University Board of Governors jointly agreed on a division of assets and liabilities of the University. The division of all assets and liabilities was effective July 1, 2008. This change resulted in a change in reporting entity for the University and accordingly only single year financial statements are provided herein as follows:

Net assets as previously presented	$312,469,166
Transfer of net assets to MCTC:	
Cash and cash equivalents	(9,178,516)
Other assets	(3,565,108)
Capital assets — net	(1,606,826)
Compensated absences	190,817
Debt obligation to Commission	2,686,956
Other liabilities	1,590,877
Total transfer of net assets to MCTC	(9,881,800)
Beginning net assets of new reporting entity	$302,587,366

Title to all property has not yet been transferred to MCTC.

The University continued to provide services to MCTC and the University recognized $4.1 million in state contracts and grants in connection with service agreements. A contractual arrangement can be negotiated for the University to provide services to MCTC until July 1, 2011, or until the governing boards of both institutions mutually agree to end the contract arrangement. At June 30, 2009, related to this service agreement, the University has recorded $26,598 as a receivable from MCTC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of the University have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB, including GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments,* and GASB Statement No. 35, *Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities — an amendment of GASB Statement No. 34*. The combined financial statement presentation required by GASB Statements No. 34 and No. 35 provide a comprehensive, 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 that, along with all State institutions of higher education, the Commission (which includes West Virginia Network for Educational Telecomputing), and the West Virginia Council for Community and Technical College Education 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. (the "Center"). The basic criteria for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the University's ability to significantly influence operations and accountability for fiscal matters of related entities. Related foundations and other affiliates of the University (see Notes 15, 16, and 17) are not part of the University reporting entity and are not included in the accompanying combined financial statements, since the University has no ability to designate management, cannot significantly influence operations of these entities, and is not accountable for the fiscal matters of these entities under GASB Statement No. 14, *The Financial Reporting Entity*.

On May 25, 2006, the Center was incorporated to foster and promote the redevelopment of Brownfield sites, including providing assistance to eligible entities on state and federal Brownfield programs, securing state and federal funding for Brownfield redevelopment, and acquire property eligible for state and federal Brownfield assistance as set forth in West Virginia State Code 18B-11-7. As of June 30, 2009, the Center had limited financial activity, all of which is included in the accompanying combined financial statements.

GASB Statement No. 39, as an amendment to GASB Statement No. 14, was adopted by the University as of July 1, 2003. As a result, the audited financial statements of the Foundation and MSH — Marshall are presented here as discrete component units with the University combined financial statements. The Foundation is a separate, private, nonprofit organization, and MSH — Marshall is a single-member, limited liability company that both report under FASB standards, including FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the audited financial information as they are presented herein except as tailored for single-year presentation (see Notes 15, 16, 21, and 22).

Financial Statement Presentation — GASB Statements No. 35 and No. 38 establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a basis to focus on the University as a whole. Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of University obligations. The University's net assets are classified as follows:

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

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

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

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

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

Cash and Cash Equivalents — For purposes of the combined statements of net assets, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer's Office (the "State Treasurer") are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Board of Treasury Investments (BTI). These funds are transferred to the BTI, and the BTI is directed by the State Treasurer to invest the funds in specific external investment pools in accordance with West Virginia Code, policies set by the BTI, provisions of bond indentures, and the 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 BTI was established by the State Legislature and is subject to oversight by the State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit are available for immediate withdrawal or on the first day of each month for the WV Short Term Bond Pool (formerly Enhanced Yield Pool) and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

The BTI maintains the Consolidated Fund investment fund, which consists of eight investment pools and participant-directed accounts, three of which the Commission may invest in. These pools have been structured as multi-participant variable net asset funds to reduce risk and offer investment liquidity diversification to the Fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the BTI's investment operations pool can be found in its annual report. A copy of that annual report can be obtained from the following address: 1900 Kanawha Blvd. East, Room E-122, Charleston, WV 25305 or http://www.wvbti.com.

Investments — The University has investments in two multi-strategy funds at June 30, 2009. One fund comprises high-quality bond investments, with the other comprising long-term equity investments. MURC held U.S. government agency securities and invested in an intermediate-term fund comprising of high-quality fixed income securities at June 30, 2009.

Investments, other than alternative investments, are presented at fair value based on quoted market prices. The alternative investments are carried at fair value. These valuations include assumptions and methods that were reviewed by University management and are primarily based on quoted market prices or other readily determinable market values for the underlying investments. The University believes that the carrying amount of its alternative investments is a reasonable estimate of fair value. Because a portion of 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, its agencies, and instrumentalities (U.S. government obligations); corporate debt obligations, including commercial paper, that meet certain ratings; certain money market funds; repurchase agreements; reverse repurchase agreements; asset-backed securities; certificates of deposit; state and local government securities; and other investments. Other investments consist primarily of investments in accordance with the Linked Deposit Program, a program using financial institutions in the State to obtain certificates of deposit, loans approved by the State legislature, and any other program investments authorized by the State legislature.

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

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

Noncurrent Cash and Cash Equivalents — Cash that is (1) externally restricted to make debt service payments and long-term loans to students, or to maintain sinking or reserve funds, (2) to purchase capital or other noncurrent assets, and (3) permanently restricted net assets, is classified as a noncurrent asset in the accompanying combined statements of net assets.

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

Capital Assets — Capital assets include property, plant, and equipment; books and materials that are part of a catalogued library; and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction or at market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and infrastructure, 15 years for land improvements, 7 years for library books, and 3 to 10 years for furniture and equipment. The University's capitalization threshold is $100,000 for buildings and $5,000 for most other capital assets. The accompanying combined financial statements reflect all adjustments required by GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

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

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

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

These GASB statements require entities to accrue for employees' rights to receive compensation for vacation leave or payments in lieu of accrued vacation or sick leave as such benefits are earned and payment becomes probable.

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

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally, 3-1/3 years of teaching service extend health insurance for one year of single coverage, and five years extend health insurance for one year of family coverage. Faculty hired after July 1, 2009, will no longer receive years of service credit toward insurance premiums when they retire.

The estimated expense and expense incurred for the vacation leave or OPEB benefits are recorded as a component of benefits expense in the combined statements of revenues, expenses, and changes in net assets.

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

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

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

Under the program, SOM entered into an agreement with BRIM whereby SOM initially deposited $500,000 in an escrow account with the State Treasury from which BRIM could withdraw amounts to pay indemnity costs and allocated expenses in connection with medical malpractice claims against the SOM. At June 30, 2009, the balance in the escrow account was $1,555,882. Based on an actuarial valuation of this self-insurance program, the University has recorded a liability of $6,229,524 at June 30, 2009, to reflect projected claim payments at 80% confidence level at June 30, 2009. The receivable from University Physicians & Surgeons, Inc. for the funding it has agreed to provide for this liability was $4,673,642 at June 30, 2009.

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

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

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

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

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

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

Federal Financial Assistance Programs — The University makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students through institutions such as the University. Direct student loan receivables are not included in the University's accompanying combined statements of net assets since the loans are repayable directly to the U.S. Department of Education. In 2009, the University received and disbursed approximately $58,300,000 under the Federal Direct Student Loan Program on behalf of the U.S. Department of Education, which is not included as revenue and expense on the accompanying combined statements of revenues, expenses, and changes in net assets.

The University also distributes other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant, and College Work Study programs. The activity of these programs is recorded in the accompanying combined financial statements. In 2009, the University received and disbursed approximately $11,500,000 under these federal student aid programs.

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

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

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

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

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

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

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

Newly Adopted Statements Issued by the GASB — During 2009, the University adopted GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, as required. The adoption of this statement had no impact on the financial statements.

During 2009, the GASB issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement identifies the sources of accounting principles and provides the framework for selecting the principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with generally accepted accounting principles. The University adopted GASB Statement No. 55 upon issuance.

During 2009, the GASB also issued GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. This statement establishes accounting and financial reporting standards for related party transactions, subsequent events, and going concern considerations. The University adopted GASB Statement No. 56 upon issuance.

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

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

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was held as follows:

	Current	Noncurrent	Total
State Treasurer	$46,963,750	$ 176,000	$47,139,750
Trustee	82,293	3,556,210	3,638,503
State Treasurer — escrow		1,555,882	1,555,882
Money markets	20,080,689		20,080,689
In bank	6,904,945		6,904,945
On hand	4,811		4,811
	$74,036,488	$5,288,092	$79,324,580

Cash held by the State Treasurer includes $1,860,944 at June 30, 2009, of restricted cash for sponsored projects, loans, and other purposes.

Cash on deposit with Trustee represents funds reserved for acquisition and construction of housing and parking facilities, various repair and replacement and debt service accounts, that relate to the 2001 Housing and Parking Series A Bonds (see Note 9) and proceeds from a note payable that is restricted for the construction of a new forensic science center (see Note 8).

State Treasurer-escrow represents an escrow agreement the University entered into with BRIM for malpractice insurance deductibles with a balance of $1,555,882 at June 30, 2009.

MURC has cash equivalents totaling $14,487,753 held in repurchase agreements and a business savings account, which are collateralized at 125%, and the collateral is held in MURC's name at June 30, 2009. Other cash equivalents totaling $5,592,937 are in the government securities fund at Commonfund. These securities have an average maturity of l.2 months and are categorized as level 2.

The combined carrying amount of cash in bank at June 30, 2009 was $6,904,945 as compared with the combined bank balance of $7,147,630. 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.

Amounts with the State Treasurer as of June 30, 2009, comprise the following investment pools:

The BTI has adopted an investment policy in accordance with the "Uniform Prudent Investor Act." The "prudent investor rule" guides those with responsibility for investing the money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income; preserve capital; and, in general, avoid speculative investments. The BTI's 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. Of the BTI's Consolidated Fund pools and accounts which the Commission may invest in, three are subject to credit risk: WV Money Market Pool, WV Government Money Market Pool, and WV Short Term Bond Pool.

WV Money Market —

Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For the year ended June 30, 2009, the WV Money Market Pool has been rated AAAm by Standard & Poor's. A Fund rated "AAAm" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAm" is the highest principal stability fund rating assigned by Standard & Poor's. As this pool has been rated, specific information on the credit ratings of the underlying investments of the pool have not been provided.

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

At June 30, 2009, the WV Money Market Pool investments had a total carrying value of $2,570,261,000, of which the University's ownership represents 1.53%.

WV Government Money Market Pool —

Credit Risk — For the year ended June 30, 2009, the WV Government Market Pool has been rated AAAm by Standard & Poor's. A Fund rated "AAAm" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAm" is the highest principal stability fund rating assigned by Standard & Poor's. As this pool has been rated, specific information on the credit ratings of the underlying investments of the pool have not been provided.

The BTI limits the exposure to credit risk in the WV Government Money Market Pool by limiting the pool to U.S. Treasury issues, U.S. government agency issues, money market funds investing in U.S. Treasury issues and U.S. government agency issues, and repurchase agreements collateralized by U.S. Treasury issues and U.S. government agency issues. The pool must have at least 15% of its assets in U.S. Treasury issues.

At June 30, 2009, the WV Government Money Market Pool investments had a total carrying value of $283,826,000, of which the University's ownership represents 0.12%.

WV Short Term Bond Pool:

Credit Risk — The BTI limits the exposure to credit risk in the WV Short Term Bond Pool by requiring all corporate bonds to be rated A 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 WV Short Term Bond Pool's investments (in thousands) at June 30, 2009:

Security Type	Credit Rating* Moody's	Credit Rating* S&P	Carrying Value	Percent of Pool Assets
Corporate asset backed securities				
	Aaa	AAA	$ 16,402	5.21 %
	Aaa	NR	5,136	1.63
	Aa3	AAA	223	0.07
	Aa2	AAA	461	0.15
	A3	AAA	273	0.09
	Baa2	AAA	831	0.26
	Baa1	BBB**	332	0.10
	Baa2	BBB**	1,376	0.44
	Ba3	AAA	645	0.20
	B1	AAA	779	0.25
	B2	B**	493	0.16
	B2	CCC**	539	0.17
	B3	AAA	949	0.30
	Caal	BB**	254	0.08
	NR	AAA	679	0.02
			29,372	9.33
Corporate bonds and notes	Aaa	AAA	47,204	14.99
	Aa1	AA	4,445	1.41
	Aa1	A	2,052	0.65
	Aa2	AAA	3,040	0.96
	Aa2	AA	9,066	2.88
	Aa3	A	7,831	2.49
	A1	AA	4,813	1.53
	A1	A	5,522	1.75
	A2	A	32,040	10.17
	A3	A	7,024	2.23
	Baa3	A	2,067	0.66
			125,104	39.72
U.S. agency bonds	Aaa	AAA	60,250	19.13
U.S. Treasury notes***	Aaa	AAA	88,805	28.20
U.S. agency mortgage backed securities****	Aaa	AAA	4,975	1.58
Money Market Funds	Aaa	AAA	6,426	2.04
			$ 314,932	100 %

* NR = Not Rated

** The securities were not in compliance with BTI Investment Policy at June 30, 2009. The securities were in compliance when originally acquired, but were subsequently downgraded. BTI management and its investment advisors have determined that it is in the best interests of the participants to hold the securities for optimal outcome.

*** U.S. Treasury issues are explicitly guaranteed by the United States government and are not subject to credit risk.

**** U.S. agency mortogage backed securities are issued by the Government National Mortgage Association and are explicitly guaranteed by the United States government and are not subject to credit risk.

At June 30, 2009, the University's ownership represents 0.24% of these amounts held by the BTI.

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

The overall weighted average maturity of the investments of the WV Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides information on the weighted average maturities for the various asset types in the WV Money Market Pool at June 30, 2009:

Security Type	**Carrying Value (In thousands)**	**WAM (Days)**
Repurchase agreements	$ 212,010	1
U.S. Treasury bills	483,714	69
Commercial paper	592,479	32
Certificates of deposit	128,402	56
U.S. agency discount notes	635,602	57
Corporate bonds and notes	73,812	38
U.S. agency bonds/notes	294,019	70
Money market funds	150,223	1
	$ 2,570,261	47

The overall weighted average maturity of the investments of the WV Government Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides information on the weighted average maturities for the various asset types in the WV Government Money Market Pool at June 30, 2009:

Security Type	**Carrying Value (In thousands)**	**WAM (Days)**
Repurchase agreements	$ 53,000	1
U.S. Treasury bills	74,424	94
U.S. agency discount notes	87,662	55
U.S. agency bonds/notes	68,608	37
Money market funds	132	1
	$ 283,826	51

The overall effective duration of the investments of the WV Short Term Bond Pool cannot exceed 731 days. Maximum maturity of individual securities cannot exceed 1,827 days (five years) from date of purchase. The following table provides information on the effective duration for the various asset types in the WV Short Term Bond Pool at June 30, 2009:

Security Type	Carrying Value (in Thousands)	Effective Duration (Days)
U. S,. Treasury bonds/notes	$ 88,805	917
Corporate notes	125,104	559
Corporate asset backed securities	29,372	622
U.S. agency bonds/notes	60,250	752
U.S. agency mortgage backed securities	4,975	540
Money market funds	6,426	1
	$ 314,932	691

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's Consolidated Fund pool or 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 or one corporate issue.

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

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

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

Cash in Bank with Trustee —

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

Investment Type	**Moody's Rating**	**Carrying Value**
Money market fund	AAA	$ 364,279
Money market fund	Aaa	82,293
(Credit Enhancers/Collateral 1.000 Financial Guaranty Insurance Co. Municipal Bond Insurance Policy)		
MBIA Guaranteed Investment Contract		3,191,931
		$3,638,503

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

Custodial Credit Risk — Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The University's investment policy requires commercial paper assets to be rated at least A-1 or P-1 (by Moody's or Standard & Poor's). The University has an MBIA Guaranteed Investment Contract (GIC) with a fixed rate of interest of 5.18%.

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University's investment policy limits investment maturities from potential fair value losses due to increasing interest rates. No more than 5% of the money market fund's total market value may be invested in the obligations of a single issuer, with the exception of the U.S. government and its agencies.

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

4. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2009, are as follows:

	Current	Noncurrent	Total
Student tuition and fees — net of allowance for doubtful accounts of $166,896	$ 634,160	$ -	$ 634,160
Grants and contracts receivable — net of allowance for doubtful accounts of $410,734	10,171,673		10,171,673
Due from the Commission	1,624,005		1,624,005
Due from other State agencies	2,502,140		2,502,140
Other accounts receivable	283,078	4,780,327	5,063,405
	$15,215,056	$4,780,327	$19,995,383

5. INVESTMENTS

The University had the following investments as of June 30, 2009:

Investment Type	Level 1	Level 2	Level 3	Fair Value
Other Alternative Investments:				
Commonfund (MURC):				
Short Term Fund	$ -	$ 61,186	$ 4,542	$ 65,728
Intermediate Fund	-	1,849,239	38,243	1,887,482
Commonfund (University):				
Short Term Fund	-	583,090	43,282	626,372
Multi-Strategy Equity Fund	-	4,249,296	52,482	4,301,778
Multi-Strategy Bond Fund	-	2,127,276	25,184	2,152,460
	$ -	$8,870,087	$163,733	$9,033,820

Investments have been reported at fair value and categorized as Level 1, 2 or 3. Level 1 represents investments that have a quoted price in the active market. Level 2 represents investments with direct or indirect observable market inputs. Level 3 represents investments with no observable market.

Credit Risk — MURC’s investment policy limits individual investments to U.S. government agency securities and nationally recognized bond funds holding those securities. The U.S. government agency securities matured October 15, 2008, and had an average maturity of 0.3 years. The Intermediate Term Fund had an average maturity of 1.3 years for fiscal 2009 and the average rating was AA. The Multi-Strategy Bond Fund has a weighted-average maturity of 6.8 years and an effective duration of 3.9 years as of June 30, 2009.

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

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

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

6. CAPITAL ASSETS

Capital asset transactions for the University for the year ended June 30, 2009, are as follows:

	Beginning Balance	Additions	Reductions	Other	Ending Balance
Capital assets not being depreciated:					
Land	$ 31,111,133	$ 786,051	$ (914,948)	$ -	$ 30,982,236
Antiques and artwork (inexhaustible)	132,107				132,107
Construction in progress	4,565,358	8,856,345		(7,042,945)	6,378,758
Total capital assets not being depreciated	35,808,598	9,642,396	(914,948)	(7,042,945)	37,493,101
Other capital assets:					
Land improvements	5,677,338	497,443			6,174,781
Infrastructure	23,891,774	91,232	(102,853)	119,585	23,999,738
Buildings	337,210,341	2,628,299	(1,678,592)	6,923,360	345,083,408
Equipment	68,036,644	3,745,002	(5,655,812)		66,125,834
Library books	8,245,383	202,911	(80,820)		8,367,474
Total other capital assets	443,061,480	7,164,887	(7,518,077)	7,042,945	449,751,235
Less accumulated depreciation for:					
Land improvements	787,642	411,652			1,199,294
Infrastructure	13,622,476	1,079,834	(102,853)		14,599,457
Buildings	87,975,082	6,708,319	(1,164,755)		93,518,646
Equipment	46,824,369	5,594,442	(5,280,489)		47,138,322
Library books	7,672,750	222,545	(80,820)		7,814,475
Total accumulated depreciation	156,882,319	14,016,792	(6,628,917)	-	164,270,194
Capital assets — net	$ 321,987,759	$ 2,790,491	$ (1,804,108)	$ -	$ 322,974,142
Capital asset summary:					
Capital assets not being depreciated	$ 35,808,598	$ 9,642,396	$ (914,948)	$ (7,042,945)	$ 37,493,101
Capital assets	443,061,480	7,164,887	(7,518,077)	7,042,945	449,751,235
Total cost of capital assets	478,870,078	16,807,283	(8,433,025)	-	487,244,336
Less accumulated depreciation	(156,882,319)	(14,016,792)	6,628,917		(164,270,194)
Capital assets — net	$ 321,987,759	$ 2,790,491	$ (1,804,108)	$ -	$ 322,974,142

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

At June 30, 2009, the University had outstanding contractual commitments of approximately $1,300,000 for property, plant, and equipment expenditures.

7. LONG-TERM LIABILITIES

Long-term obligation transactions for the University for the year ended June 30, 2009, are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and capital leases:					
Revenue bonds payable — including unexpended funds of $3,191,931	$ 42,820,000	$ -	$(1,045,000)	$ 41,775,000	$1,085,000
Capital leases payable	10,845,601		(983,523)	9,862,078	941,661
Total bonds and capital leases	53,665,601	-	(2,028,523)	51,637,078	
Other long-term liabilities:					
Notes payable	3,047,957	2,363	(109,394)	2,940,926	163,215
Other noncurrent liability	5,735,000	1,138,313	(67,415)	6,805,898	
OPEB liability	1,314,180	3,706,351	(2,031,757)	2,988,774	
Advances from Federal sponsors	6,469,811	41,050		6,510,861	
Due to MCTC	3,500,000			3,500,000	350,000
Debt obligation to the Commission	30,466,444		(2,899,326)	27,567,118	3,024,479
Total other long-term liabilities	50,533,392	4,888,077	(5,107,892)	50,313,577	
	$104,198,993	$4,888,077	$(7,136,415)	$101,950,655	

8. NOTES PAYABLE

MURC borrowed the proceeds of a bond issuance by the Cabell County Commission for the construction of an addition to the Marshall University Forensic Science Center. MURC's repayment terms are the same as the bond repayment term. MURC is obligated to make interest payments which commenced on October 10, 2008, for the interest due on the loan semi-annually and to make annual principal payments starting on April 1, 2009, based on a hypothetical amortization of the then-remaining principal balance at the then-applicable interest rate for the then-remaining years of the original 20-year amortization period ending April 10, 2028. However, any unspent mortgage proceeds would go to pay the first amounts due for interest and principal. Any remaining principal balance shall be payable in full on April 10, 2028. The interest rate on the bonds is 3.2% at April 10, 2008, and continuing to and including year five, and will change for each subsequent five-year period to the rate per annum equal to 67% of the five-year Treasury Constant Maturity in effect on that date plus 1.67% per annum. The principal balance of $2,890,606 at June 30, 2009, is included in notes payable on the accompanying combined statement of net assets.

At June 30, 2009, the scheduled maturities on notes payable are as follows:

Years Ending June 30	Principal	Interest
2010	$ 163,215	$ 92,499
2011	116,507	88,887
2012	120,236	85,159
2013	124,083	81,311
2014	128,054	77,340
2015-2019	704,421	322,551
2020-2024	824,577	202,394
2025-2028	759,833	61,744
	$ 2,940,926	$ 1,011,885

9. BONDS

Bonds payable at June 30, 2009 consist of the following:

	Original Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding
University Facilities Revenue Bonds due through 2031	3.6%–5.3%	$1,045,000–$3,035,000	$ 41,775,000

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

The above bond issue is specific to the University, although the Bonds were also issued either in the name of the Board or the State itself. As debt service is required on these bond issues, the University remits the funds to 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. A commercial bank may hold certain cash and cash equivalents (see Note 3) for debt service or other bond issue purposes on behalf of the University.

A summary of the annual aggregate principal payments for years subsequent to June 30, 2009, is as follows:

Years Ending June 30	University Facilities Principal	University Facilities Interest
2010	$ 1,085,000	$ 2,102,264
2011	1,135,000	2,055,609
2012	1,185,000	2,005,669
2013	1,235,000	1,952,344
2014	1,300,000	1,887,506
2015-2019	7,610,000	8,338,180
2020-2024	9,780,000	6,168,156
2025-2029	12,515,000	3,430,513
2029-2031	5,930,000	448,250
	$41,775,000	$28,388,491

10. LEASES

Operating — Future annual minimum lease payments on operating leases for years subsequent to June 30, 2009, are as follows:

Years Ending June 30	
2010	$420,110
2011	288,195
2012	200,050
2013	60,900
	$969,255

Total rent expense for the year ended June 30, 2009 was $588,663. The University does not have any noncancelable leases.

Capital — The University leases various equipment and buildings through capital leases. At June 30, 2009, leased equipment with a net book value of $1,046,444 and leased buildings with a net book value of $11,044,971, are included in equipment and buildings.

In December 1996, the University entered into a lease agreement with the Marshall University Graduate College (MUGC) Foundation for an academic center to be used by the MUGC. The construction of the academic center was financed by the MUGC Foundation through the issuance of governmental revenue bonds. Effective September 1, 1997, the MUGC Foundation leased the academic center to the University for 20 years. Upon expiration of the lease term, the University will have the right to purchase the academic center for a sum equal to the amount required to redeem or otherwise satisfy or defease the MUGC Foundation's bonds on the date of such purchase. During the year ended June 30, 2009, all assets and liabilities of the MUGC Foundation became part of the Foundation. This lease agreement is now with the Foundation.

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

In December 1998, the University entered into a lease-purchase agreement with the Mason County Building Commission for the Mid-Ohio Valley Center (MOVC). The construction of MOVC was financed by the Mason County Building Commission through the issuance of revenue bonds and was completed in January 2000. This lease was terminated and replaced with a new lease-purchase agreement in December 2005, with the new lease including an addition to be constructed at MOVC with funds from new bonds issued by the Mason County Building Commission. Ownership of MOVC transfers to the University at the end of the lease term.

Also in December 1998, the University entered into a sublease with Pleasant Valley Hospital for partial ownership of MOVC. This sublease was terminated and replaced with a new sublease in January 2006. Under the terms of the new sublease, Pleasant Valley Hospital's percentage of equity in MOVC will decline over the following three years. On July 1, 2009, the equity contribution of Pleasant Valley Hospital will revert to the University.

Future annual minimum lease payments for years subsequent to June 30, 2009, are as follows:

Years Ending June 30	**Principal**	**Interest**	**Total**
2010	$ 941,661	$ 378,410	$ 1,320,071
2011	919,605	339,078	1,258,683
2012	899,870	302,649	1,202,519
2013	937,646	264,874	1,202,520
2014	976,542	225,969	1,202,511
2015-2019	3,107,223	642,914	3,750,137
2020-2024	1,860,084	206,563	2,066,647
2025	219,447	351	219,798
			12,222,886
Less interest			2,360,808
			$ 9,862,078

In October 2007, the University entered into a ground lease with MSH — Marshall to lease the site for the student housing and wellness center project, which was funded by debt obligations of MSH — Marshall. The ground lease payments are one dollar per year.

11. OTHER POST EMPLOYMENT BENEFITS

In accordance with GASB Statement No. 45 OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2009, the noncurrent liability related to OPEB costs was $2,988,774. The total of OPEB expense incurred and the amount of OPEB expense that relates to retirees was $6,436,910 and $3,140,586, respectively, during 2009. As of the year ended June 30, 2009, there were 191 retirees receiving these benefits.

12. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

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

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

For the year ended June 30, 2009, debt service assessed is as follows:

Principal	$ 2,899,326
Interest	1,364,436
Other	45,150
	$ 4,308,912

During the year ended June 30, 2005, the Commission issued $167,000,000 of 2005 Series B 30-year Revenue Bonds to fund capital projects at various higher education institutions in the State. The University has been approved to receive $26,250,000 of these funds. The University has recognized $26,250,000 as of June 30, 2009. State lottery funds will be used to repay the debt, although the University revenues are pledged if lottery funds prove insufficient.

13. 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 $1,823,053 at June 30, 2009, have been used for only auxiliaries. In addition, unrestricted net asset balances of $6,264,730 at June 30, 2009, have been allocated to repairs and maintenance, debt payments, capital projects, and equipment purchases.

14. RETIREMENT PLANS

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

The STRS is a cost-sharing, defined-benefit, public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The contractual maximum contribution rate is 15%. The University's contributions to the STRS were at the rate of 15% of each enrolled employee's total annual salaries for the year ended June 30, 2009. Required employee contributions were at the rate of 6% of total annual salaries for the year ended June 30, 2009. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest 5 years of salary out of the last 15 years) multiplied by the number of years of service.

Total contributions to STRS for the year ended June 30, 2009, were approximately $1,080,000, which consisted of approximately $770,000 from the University and approximately $310,000 from covered employees.

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

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

Total contributions to TIAA-CREF for the year ended June 30, 2009, were approximately $11,489,000, which consisted of approximately $5,670,000 from the University and approximately $5,819,000 from covered employees.

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the Educators Money 401(a) Basic Retirement Plan (the "Educators Money"). New hires have the choice of either plan.

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

Total contributions to the Educators Money for the year ended June 30, 2009, were approximately $128,000, which consisted of approximately $64,000 from the University and approximately $64,000 from covered employees.

The University's total payroll for the year ended June 30, 2009, was approximately $109,961,000; total covered employees salaries in the STRS, TIAA-CREF, and Educators Money were approximately $5,096,000, $94,883,000, and $1,068,000, respectively, in 2009.

15. MARSHALL UNIVERSITY FOUNDATION, INC.

The Foundation is a separate nonprofit organization incorporated in the State whose purpose is to benefit the work and services of the University and its affiliated nonprofit organizations. The Foundation has a board of directors authorized to have 40 members selected by its Board members. At present, there are 34 members, including the President of the University as a nonvoting ex-officio member. In carrying out its responsibilities, the board of directors of the Foundation employs management, forms policy, and maintains fiscal accountability over funds administered by the Foundation. The University administration does not control the resources of the Foundation. The Foundation's financial statements are presented as part of the University's combined financial statements in accordance with GASB Statement No. 39.

16. MSH — MARSHALL, L.L.C.

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

17. AFFILIATED ORGANIZATIONS

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

18. CONTINGENCIES AND COMMITMENTS

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

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

The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. No arbitrage rebate liabilities have been recorded in the accompanying combined financial statements as of June 30, 2009.

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

19. SEGMENT INFORMATION

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

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

Condensed financial information for the University's segment as of June 30, 2009 is as follows:

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

Condensed Statement of Net Assets

Assets:	
Current assets	$ 7,605,121
Noncurrent assets	45,805,352
Total assets	$ 53,410,473
Liabilities:	
Current liabilities	$ 3,087,521
Noncurrent liabilities	40,913,397
Total liabilities	44,000,918
Net assets:	
Invested in capital assets — net of related debt	4,030,352
Restricted for debt service	82,293
Unrestricted	5,296,910
Total net assets	9,409,555
Total liabilities and net assets	$ 53,410,473

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

Operating:	
Operating revenues	$ 14,074,822
Operating expenses	(12,005,306)
Net operating income	2,069,516
Nonoperating:	
Nonoperating revenues	166,096
Nonoperating expenses	(2,205,460)
Total nonoperating	(2,039,364)
Transfers to the university	(514,514)
Changes in net assets	(484,362)
Net assets — beginning of year	9,893,917
Net assets — end of year	$ 9,409,555

Condensed Statement of Cash Flows

Net cash provided by operating activities	$ 2,981,628
Net cash used in capital and related financing	(3,202,526)
Net decrease in cash and cash equivalents	(220,898)
Cash and cash equivalents — beginning of year	10,881,176
Cash and cash equivalents — end of year	$ 10,660,278

20. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The operating expenses within both natural and functional classifications for the year ended June 30, 2009, are as follows:

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Other Operating Expense	Fees Assessed by the Commission	Total
Instruction	$ 52,654,298	$16,064,334	$ 6,842,097	$ 300	$ -	$ -	$ -	$ -	$ 75,561,029
Research	7,162,088	2,640,404	7,654,304	214,785					17,671,581
Public service	9,923,585	2,887,638	4,544,624	154,145					17,509,992
Academic support	10,468,506	3,134,873	4,893,341	394					18,497,114
Student services	6,264,196	2,308,336	3,458,808	2,017					12,033,357
General institutional support	11,660,152	3,708,561	4,515,226	10,305					19,894,244
Operations and maintenance of plant	4,026,362	1,773,840	2,789,842	5,820,756					14,410,800
Student financial aid	-				16,844,833				16,844,833
Auxiliary enterprises	7,802,263	3,155,849	13,204,242	1,952,055					26,114,409
Depreciation	-					14,016,792			14,016,792
Other	-						49,787	647,881	697,668
Total	$109,961,450	$35,673,835	$47,902,484	$8,154,757	$16,844,833	$14,016,792	$ 49,787	$647,881	$233,251,819

21. COMPONENT UNIT'S DISCLOSURES — FOUNDATION

The notes taken directly from the audited financial statements of the Foundation as tailored for single-year presentation are as follows:

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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.

Contributions of long lived assets received without donor stipulation about how long the donated asset must be used are reported as unrestricted support.

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

Estimates — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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

Investments — Investments are reported in the financial statements at fair value. The current year increase or decrease in fair value over- book value is recognized currently in the statement of activities. The Foundation uses a number of valuation techniques to value its investments which are described in Note 22. 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 (depreciation), net of related investment expenses.

Property and Equipment — Property and equipment purchased for use by the Foundation is capitalized at cost and property and equipment contributed to the Foundation for its use is capitalized at fair value at the date of the gift. Property and equipment is depreciated over the estimated useful life of the asset which ranges from three to forty years using the straight line method. Property and equipment purchased from Marshall University departments is expensed when received and immediately donated to the University by The Marshall University Foundation, Inc.

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

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

Advertising Costs — Advertising costs totaling $34,376 for 2009 are charged to operations when incurred.

Accounting Changes — Effective July 1, 2008, the Foundation adopted the Financial Accounting Standards Board (FASB) FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subjected to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds*. This FASB Staff Position (FSP) provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations which are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). This FSP also requires enhanced disclosures about an organization's endowment funds, whether or not the organization is subject to UPMIFA, to enable users of financial statements to understand the net asset classification, net asset composition, changes in net asset composition, spending policies, and related investment policies of the organization's endowment funds. The adoption of this staff position did not have a material impact on the financial statements.

Effective July 1, 2008, the Foundation adopted SFAS No. 157 *Fair Value Measurements* for all financial instruments and non-financial instruments accounted for at fair value on a recurring basis. SFAS 157 provides enhanced guidance for using fair value to measure assets and liabilities. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 also specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources. while unobservable inputs reflect the Foundation's market assumptions. The adoption of this statement did not have a material impact on the financial statements.

NOTE 2 — CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2009, are comprised of the following:

Cash and overnight repurchase agreements	$ 63,725
Short-term investments	554,092
Total	$ 617,817

NOTE 3 — NOTES RECEIVABLE

Notes receivable at June 30, 2009, consist of the following:

$500,000 — original face, receivable in 40 quarterly installments of $15,355 inclusive of interest at 5%, unsecured, due September 30, 2012.	$ 56,734
Total	$ 56,734

NOTE 4 — INVESTMENTS

Investments as of June 30, 2009, are summarized as follows:

	Book Value	Fair Value	Unrealized Gain/(Loss)
Bonds	$ 26,075,166	$ 25,593,324	$ (481,842)
Stocks	41,666,624	38,729,426	(2,937,198)
Other	16,917,435	12,751,031	(4,166,404)
Total	$ 84,659,225	$ 77,073,781	$ (7,585,444)

The following summarizes the investment income for the year ended June 30, 2009, inclusive of income on cash equivalents, perpetual trusts, and the investments described above:

Interest and dividends	$ 1,919,242
Realized gain	(1,738,190)
Unrealized (loss) gain	(20,824,257)
Investment fees	(131,867)
Net investment return	$ (20,775,072)

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

NOTE 5 — DIRECT FINANCING LEASES AND BONDS PAYABLE

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

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

Investment in Direct Financing Leases — At June 30, 2009, the Foundation's net investment in direct financing leases is summarized as follows:

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

2010	$ 597,165
2011	630,369
2012	630,381
2013	630,378
2014	630,376
Total minimum lease payments due in next five years	3,118,669
Minimum lease payments due in later years	1,642,927
Gross investment in direct financing leases	4,761,596
Less unearned income	(709,367)
Net investment in direct financing leases	$ 4,052,229

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

Bonds Payable — Bonds payable are as follows at June 30, 2009:

City of South Charleston, West Virginia Commercial Development Refunding Revenue Bonds, Series 1998, original principal amount $3,630,470, interest at 4.60%, payable in monthly installments of principal and interest of approximately $25,610 through February 1, 2016, secured by real property	$ 1,761,480
City of South Charleston, West Virginia Commercial Development Refunding Revenue Bonds, Series 2005, original principal amount $3,177,495, interest at 3.99%, payable in semi annual installments of principal and interest of $161,535 through September 1, 2017, secured by real property	2,309,609
Total bonds payable	$ 4,071,089

Scheduled bond principal and interest payments are as follows at June 30, 2009:

Years Ending June 30	Principal	Interest	Total
2010	$ 464,331	$ 166,046	$ 630,377
2011	484,579	145,790	630,369
2012	505,736	124,645	630,381
2013	527,807	102,571	630,378
2014	550,848	79,528	630,376
Total due in next five years	2,533,301	618,580	3,151,881
Amounts due in later years	1,537,788	105,139	1,642,927
Total bonds payable	$ 4,071,089	$ 723,719	$ 4,794,808

Interest expense on bonds payable charged to operations was $223,744 for the year ended June 30, 2009.

NOTE 6 — PROMISES TO GIVE

Unconditional promises to give at June 30, 2009 are as follows:

Receivable in less than one year	$ 2,177,835
Receivable in one to five years	3,437,963
Receivable in more than five years	870,860
Total unconditional promises to give	6,486,658
Less discounts to net present value	(618,009)
Less allowance for uncollectible promises	(82,288)
Net unconditional promises to give	$ 5,786,361

Discount rates used on long-term promises to give ranged from 0.50% to 9.5% for fiscal year ended June 30, 2009.

NOTE 7 — PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at June 30, 2009:

Land	$ 1,357,000
Buildings	285,000
Office equipment	218,204
Construction in progress	6,385,426
	8,245,630
Less accumulated depreciation	(327,300)
	$ 7,918,330

Depreciation expense charged to operations was $33,262 for the year ended June 30, 2009.

NOTE 8 — CONTINGENT ASSETS

The Foundation is the beneficiary of various whole life and term insurance policies. Proceeds payable to the Foundation upon the demise of the insured parties totaled approximately $1,520,000 at June 30, 2009.

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 year ended June 30, 2009 totaled $0.

NOTE 10 — CHARITABLE GIFT ANNUITIES

As of June 30, 2009, the Foundation had liabilities under irrevocable charitable gift annuities. The Foundation agrees to pay to the donors quarterly annuity payments until the donor's death. Based on the donor's life expectancy and the IRS discount rate (3.4% at June 30, 2009), the present value of future liabilities expected to be paid by the Foundation to the beneficiaries totaled $727,458 as of June 30, 2009.

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 ($39,351) for the year ended June 30, 2009.

NOTE 11 — CHARITABLE REMAINDER TRUSTS

The Foundation is named as the residual beneficiary of five charitable remainder unitrusts. Under the terms of the unitrusts, a primary beneficiary receives annual distributions of a certain percentage of the net fair market value of the trust as of the first day of the taxable year. At the death of the primary beneficiary the Foundation receives all of the principal and income of the trust. Because these unitrusts are administered by third-party trustees, the Foundation records this as a contribution receivable and contribution revenue for the present value of the future benefits expected to be received from the trusts. The present value is calculated based on IRS actuarial formulas based on the primary beneficiary's life expectancy utilizing a rate of 3.4 % at June 30, 2009. At June 30, 2009, the contribution receivable from the remainder trusts totaled $500,919.

Contribution revenue net of change in valuation of charitable remainder trusts totaled ($259,949) for the year ended June 30, 2009.

NOTE 12 — PERPETUAL TRUSTS HELD BY THIRD PARTIES

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

The Foundation records its beneficial interest in the perpetual trust assets at fair market value with a corresponding entry to permanently restricted contribution revenue. At June 30, 2009, the beneficial interest in perpetual trusts totaled $6,018,545.

The change in the beneficial interest in perpetual trusts assets is recorded in permanently restricted other income in the accompanying financial statements and totaled ($1,362,867) for the year ended June 30, 2009.

NOTE 13 — NOTES PAYABLE

As of June 30, 2009, the Foundation had drawn down $2,235,474 of a $10.0 million commercial loan with a local bank. All advances on this loan are to be paid in full in one payment along with all accrued unpaid interest on September 30, 2010. Interest on the outstanding advances is payable monthly at .550% above the LIBOR rate (.86313% at June 30, 2009). This note is unsecured. As of June 30, 2009, there is $7,764,526 remaining to be drawn upon as needed.

Interest expense on Notes Payable charged to operations totaled $2,928 for the year ended June 30, 2009.

NOTE 14 — TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2009 are available for the following purposes or periods:

Periods after June 30	
Program activities:	
Academic assistance	$ 5,426,651
Student assistance	6,609,554
Total temporarily restricted net assets	$12,036,205

Net assets were released from donor restrictions during the year ended June 30, 2009 by incurring expenses satisfying the purpose specified by donors as follows:

Purpose restrictions accomplished:	
Academic assistance	$6,828,794
Student assistance	2,420,726
Fundraising	210,140
Total restrictions released	$9,459,660

NOTE 15 — PERMANENTLY RESTRICTED NET ASSETS

Net assets were permanently restricted for the following purposes at June 30, 2009:

Academic assistance	$26,800,490
Student assistance	40,751,776
Total permanently restricted net assets	$67,552,266

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 $82,288 at June 30, 2009.

The Foundation maintains substantially all of its cash balances with three financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250,000. The Foundation had gross bank balances of $272,693 at two of these financial institutions at June 30, 2009.

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 year ended June 30, 2009 was $66,683.

NOTE 18 — FUNCTIONAL ALLOCATION OF EXPENSES

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

NOTE 19 — DONATED SERVICES

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

NOTE 20 — COMMITMENTS

At June 30, 2009, the Foundation had incurred costs totaling $6,385,426 for construction of new office facilities and an alumni center. Remaining contract costs to complete the project totaled $5,483,105 at June 30, 2009.

In connection with the purchase of property from Marshall University, the Foundation has agreed to demolish the building on one of its current properties and transfer ownership of the property to Marshall University. The book value of the property to be transferred totaled approximately $176,000 as of June 30, 2009.

NOTE 21 — FAIR VALUE MEASUREMENTS

Effective July 1, 2008, the Foundation adopted SFAS No. 157 *Fair Value Measurements* for all financial instruments and non-financial instruments accounted *for* at fair value on a recurring basis. In February 2008, the FASB issued staff position 157-2 which delayed the effective date of SFAS 157 for certain nonfinancial assets and liabilities recognized on a nonrecurring basis to years beginning after November 15, 2008. Therefore, the Foundation only partially implemented SPAS 157. The item affected by SFAS 157-2 includes other assets.

SFAS 157 prioritizes a hierarchy of inputs to valuation techniques based on whether these inputs are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Foundation's market assumptions. The three levels of the fair value hierarchy under SFAS 157 based on these two types of input are as follows:

Level 1 — Valuation is based on quoted prices in an active market for identical assets and liabilities.

Level 2 — Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived, primarily from or corroborated by observable data in the market.

Level 3 — Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

Fair values of assets measured on a recurring basis at June 30, 2009 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Contributions receivable from remainder trusts	$ 500,919	$ 500,919	$ -	$ -
Beneficial interest in perpetual trusts	6,018,545	6,018,545		
Investments	77,073,781	923,191	69,893,307	6,257,283
Total assets	$ 83,593,245	$ 7,442,655	$ 69,893,307	$ 6,257,283

Fair value measurements at reporting date using significant unobservable inputs (Level 3) are as follows:

	Investments
Beginning balance — June 30, 2008	$ 12,885,749
Investment income (loss)	(229,626)
Unrealized/realized (loss) included in changes in net assets, reported in investment income	(4,949,138)
Purchases	1,309,541
Sales	(2,759,243)
Ending balance — June 30, 2009	$ 6,257,283

The amount of the total losses for the period included in changes in net assets, reported in investment income, attributable to the change in unrealized losses relating to assets still held at June 30, 2009 was ($4,474,553).

Fair values of liabilities measured on a recurring basis at June 30, 2009 are as follows:

	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Liabilities — annuity payment liability	$ 727,458	$ 727,458	$ -	$ -
Total liabilities	$ 727,458	$ 727,458	$ -	$ -

The Foundation utilizes the services of independent third parties (banks and investment managers) to value their instruments. The following describes the valuation methodologies used to measure different financial instruments at fait value:

Contribution Receivable from Remainder Trusts — The Foundation uses quoted market prices of the underlying investments of contributions receivable from remainder trusts adjusted for the preset value of the future benefits expected to be received utilizing IRS actuarial formulas and, therefore, they are included in Level 1. The quoted market prices are provided by an independent third party bank. The underlying investments consist principally of cash equivalents, equities, fixed income, mutual fund, and certificates of deposit.

Beneficial Interest in Perpetual Trusts — The Foundation uses quoted market: prices of the underlying investments of beneficial interest in perpetual trusts and, therefore, they are included in Level 1. The quoted market prices are provided by independent third party banks. The underlying investments consists principally of cash equivalents, equities, fixed income, and mutual funds.

Investments — The Foundation uses quoted market prices in an active market when available. These investments consist of equities and fixed income securities and are included in Level 1. The quoted market prices are provided by independent third party banks.

When quoted market prices are unobservable in an active market. The Foundation uses fair value measurements provided by independent third party investment managers based on quoted prices in active markets for similar investments, quoted prices for identical or similar investments in less active markets, or model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market. These investments are included in Level 2 and consist primarily of multi-strategy equity multi-strategy bond, multi-strategy global hedged partners, multi-strategy commodities, government securities, international private equity partners, and intermediate term funds.

When observable inputs are not available, the Foundation uses fair value measurements provided by independent third party investment managers utilizing model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market. These investments are included in Level 3 and consist primarily of various partnerships and other pass-through entities. Fair values of the investments in these entities are based on the latest available information at the financial statement closing date, which, due to differing fiscal reporting periods, may not reflect all transactions and activity through June 30. Management believes that any resulting differences are not material in relation to the financial statements taken as a whole.

Annuity Payment Liability — The Foundation uses quoted market prices of the underlying investments of annuity payment liability adjusted for the present value of the expected future annuity payments utilizing IRS actuarial formulas and, therefore, they are included in Level 1. The quoted market prices are provided by an independent third party bank. The underlying investments consist principally of cash equivalents, equities, fixed income, and mutual funds.

NOTE 22 — ENDOWMENTS

The Marshall University Foundation, Inc.'s endowment consists of approximately 639 funds established for the benefit of the students of Marshall University through both scholarship assistance and supplemental support of various university departments and endeavors. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by Generally Accepted Accounting Principles, net assets associated with endowment funds. including funds designated by the Board of Directors to function as endowments, are classified and reported based all the existence or absence of donor-imposed restrictions.

Endowment Net Asset Composition by Type of Fund as of June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (4,566,394)	$ 4,553,038	$ 59,865,656	$ 59,852,300
Board-designated endowment funds	10,232,816	90,043		10,322,859
Total funds	$ 5,666,422	$ 4,643,081	$ 59,865,656	$ 70,175,159

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — beginning of year	$ 9,404,866	$ 21,942,102	$ 54,038,711	$ 85,385,679
Investment return:				
Investment income	219,404	1,065,788	12,305	1,297,497
Fees	(18,298)	(89,878)		(108,176)
Realized and unrealized gain (loss)	(3,415,110)	(16,774,632)		(20,189,742)
Total investment return	(3,214,004)	(15,798,722)	12,305	(19,000,421)
Contributions	255,851	47,093	3,486,957	3,789,901
Appropriation of endowment assets for expenditure				-
Other changes — transfers	(780,291)	(1,547,392)	2,327,683	-
Endowment net assets — end of year	$ 5,666,422	$ 4,643,081	$ 59,865,656	$ 70,175,159

Temporarily Restricted Net Assets (Endowment Only):

Permanently restricted net assets — portion of perpetual endowment funds that is required to be retained permanently by explicit donor stipulation	$ 59,865,656
Total endowment funds classified as permanently restricted net assets	$ 59,865,656
Temporarily restricted net assets — term endowment funds	$ 4,643,081
Total endowment funds classified as temporarily restricted net assets	$ 4,643,081

Funds With Deficiencies — From time to time. the fair value of assets associated with individual donor restricted endowment funds may fall below the level the donor requires the Organization to retain as a fund of perpetual duration. In accordance with Generally Accepted Accounting Principles, deficiencies of this nature that are reported as unrestricted net assets were $4,566,394 as of June 30, 2009. These deficiencies resulted from unfavorable market fluctuations.

Interpretation of Relevant Law — The state in which the Foundation operates, the State of West Virginia, enacted the Uniform Prudent Management of Institutional Funds Act in March 2008, effective June 30, 2008. The Board of Directors have reviewed this policy and were in the process of addressing and expressly incorporating reference to the UPMIFA into their revised policy at June 30, 2009. The new policy was ultimately approved by the Board of Directors in final form in August 2009. Prior to adoption of the revised policy, there were no written provisions for underwater spending even though these issues were discussed and addressed by the Board of Directors on a continual basis.

During the fiscal year ended June 30, 2009, the Foundation operated under policies developed in accordance with the Uniform Management of Institutional Funds Act (the old law). The Board of Directors have interpreted this law as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classified as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted Del assets until those amounts are appropriated for expenditure by the Foundation. In accordance with the law, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- Long and short term needs of the institution in carrying out their educational purposes
- Present and anticipated financial requirements
- Expected total return on investments
- Price level trends, and
- General economic conditions

Objective of the Endowment — The objective of the Endowment is to ensure that the future growth of the fund is sufficient to offset normal inflation plus reasonable spending, thereby preserving the constant dollar value and purchasing power of the fund. This will be accomplished through a carefully planned and executed long-term investment program. The objective of the investment program is to enhance the Endowment's long-term viability by maximizing the value of the Endowment with a prudent level of risk.

Performance Goals — On an annualized, net-of-fees basis, the return of me Endowment over the long term (at least a full market cycle) will be expected to:

- Equal or exceed the spending rate plus inflation over a market cycle; and,

- Equal or exceed the average return of appropriate capital market indices weighed by the asset allocation target percentages over rolling five-year periods; and.

- Equal or exceed the average return of a universe of similarly sized Endowment Funds as reported in a published study (Commonfund Benchmark Study).

Performance goals are based upon a long-term investment horizon, therefore, interim fluctuations should be viewed with appropriate perspective.

Investment Philosophy — The Endowment has a long-term investment horizon, and allocates its assets accordingly. It is recognized that a strategic long-run asset allocation plan implemented in a consistent and disciplined manner will be the major determinate of the Endowment's investment performance.

The assets will be managed on a total return basis. While the Endowment recognizes the importance of preservation of capital. It also adheres to the principle that varying degrees of investment risk: are generally rewarded with compensating returns. It is not a breach of fiduciary responsibility to pursue riskier investment strategies if such strategies are in the participant's best interest on a risk-adjusted basis.

Risk management of the investment program is focused on understanding both the investment and operational risks to which the Endowment is exposed. The objective is to minimize risks and require appropriate compensation for investment risks which the Endowment is willing to accept.

Investment Program Policy — It is the policy of the investment program to invest according to an asset allocation strategy that is designed to meet the goals of the Endowment Investment Objective. The strategy will be based on a number of factors, including:

- The relationship between current and projected assets of the Endowment and its spending requirements
- The maintenance of sufficient liquidity to meet spending payments
- Historical and expected long-term capital market risk and return behaviors

The policy provides for diversification of assets in an effort to maximize the investment return and manage the risk of the Endowment consistent with the market conditions. Asset allocation modeling will assist in identifying asset classes the Endowment will use and the percentages each class represents in the total fund.

Investment Program Strategy — As a result of the above policy, the Investment Committee of the Foundation has adopted the following asset allocation targets and ranges:

Asset Class	**Minimum Weight**	**Target Weight**	**Maximum Weight**	**Representative Index**
Equities	50 %	60 %	70 %	
Multi Strategy Equity Fund	40	50	60	S&P 500
Multi Strategy Global Hedge		5	10	LIBOR + 5%
Private Capital		5	10	S&P 500 + 5%
Fixed income	30 %	40 %	50 %	
Multi Strategy Bond Fund	10	20	30	Lehman Aggregate
Commodities		5	10	DJAIG TR Index
Distressed debt		5	7	Absolute Net Return 11%
Real estates		10	10	Absolute Net Return 11%

Management implemented the asset allocation policy through the use of qualified external professional investment managers, (Commonfund) since October 2003. The external investment managers have full discretion and authority for determining investment strategy, security selection and timing subject to the Policy guidelines and any other guidelines specific to their portfolio.

Spending Policy — The yearly distribution, which is calculated as of March 31, is based on a weighted average spending methodology. It is understood that this return basis for calculating spending is sanctioned by the Uniform Management of Institutional Funds Act (old law), under which guidelines the Foundation is permitted to spend an amount in excess of the current yield, including realized and unrealized appreciation.

The weighted average formula increases last year's spending amount by a weighted combination of two factors: inflation and endowment market value. The calculation of the weighted average spending method is summarized as follows:

70% weighted to inflation factor (CPI plus 0.5%)

- The previous year's total spending amount is increased by the inflation factor and then weighted by 70 percent.

30% weighted to endowment market value (5.0% of one year endowment market value)

- 5.0 percent of the endowment market value (as of March 31st is calculated and then weighted by 30 percent.

NOTE 23 — FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial condition. Estimates of fair value at June 30, 2009, were determined in accordance with SFAS 107, as amended by SFAS 157. Statement No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Foundation.

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

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

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

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

Contributions Receivable From Remainder Trusts — Fair value for contributions receivable from remainder trusts is based on quoted prices of the underlying investments in active markets for identical investments adjusted for the present value of the future benefits expected to be received utilizing IRS actuarial formulas.

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

Beneficial Interest in Perpetual Trusts — Fair value for beneficial interest in perpetual trusts is based on quoted prices of the underlying investments in active markets for identical investments.

Investments — Fair value for investments is based on quoted market prices in active markets for identical investments, where available. If quoted market prices for identical investments in active markets are not available, fair value is based on observable inputs including quoted prices in active markets for similar investments, quoted prices for identical or similar investments in less active markets, model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market, or model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

Cash Surrender Value — Life Insurance, Net of Policy Loans — The carrying amount reported in the statements of financial position for cash surrender value - life insurance, net of policy loans approximate those assets' fair values.

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

Accrued Vacation — The carrying amount reported in the statement of financial position for accrued vacation approximates those liabilities' fair values.

Accrued Interest Payable — The carrying amount reported in the statement of financial position for accrued interest payable approximates those liabilities' fair values.

Bonds Payable — It is not practicable to estimate the fair value of bonds payable due to the lack of available software capable of calculating fair value.

Notes Payable — It is not practicable to estimate the fair value of notes payable due to the lack of available software capable of calculating fair value.

Annuity Payment Liability — Fair value for annuity payment liability is based on quoted prices of the underlying investments in active markets for identical investments adjusted for the present value of the expected future annuity payments utilizing IRS actuarial formulas.

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

The estimated fair values of the Organization's financial instruments at June 30, 2009 are as follows:

	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 617,817	$ 617,817
Notes receivable	56,734	Not Practicable
Unconditional promises to give — net	5,786,361	Not Practicable
Contribution receivable from Remainder Trusts	500,919	500,919
Other contributions receivable		
Beneficial interest in Perpetual Trusts	6,018,545	6,018,545
Investments	77,073,781	77,073,781
Cash surrender value — life insurance — net	305,993	305,993
Financial liabilities:		
Accounts payable	639,094	639,094
Accrued vacation	64,886	64,886
Accrued interest payable	38,803	38,803
Bonds payable	4,071,089	Not Practicable
Notes payable	2,235,474	Not Practicable
Annuity payable liability	727,458	727,458
Deferred revenue	676,502	676,502

22. COMPONENT UNIT'S DISCLOSURES — MSH — MARSHALL

The notes taken directly from the audited financial statements of MSH — Marshall as tailored for single-year presentation are as follows:

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Basis of Accounting — The accompanying financial statements are prepared using the accrual basis of accounting. The Project was in the construction phase during the period ended June 30, 2008, thus there were no operating activities, which is reflected in these statements.

Use of Estimates — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates; however, in the opinion of management such differences will not be material to the financial statements.

Advertising — The Organization follows the policy of charging the costs of advertising to expense as incurred.

Allowance for Doubtful Accounts — The Organization allows for estimated losses on accounts receivable based on a review of existing receivables. Bad debt recoveries are charged against the allowance account as realized. Based on these factors, no allowance for doubtful accounts was made and no bad debt expense was incurred for the year ended June 30, 2009.

Revenue Recognition — The Housing Facility leases apartment units annually to students. Students are billed and revenue is recognized each semester based on the provisions of their signed student housing contract. The Wellness Center provides membership based on fees as designated by the University. Memberships are billed and revenue recognized on either a semester or monthly basis. It is not uncommon for students and members to pay rent and fees in advance. These amounts are recognized as unearned rental revenue. As of June 30, 2009 the balance of unearned rental revenue was $93,019.

Fair Value Measurements — Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*, was issued in 2006 and defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 was effective for the Organization's financial assets and liabilities for the year ended June 30, 2009. The Financial Accounting Standards Board ("FASB") approved a one-year deferral of the adoption of SFAS No. 157 as it relates to nonfinancial assets and liabilities measured at fair value on a nonrecurring basis with the issuance in February 2008 of FASB Staff Position FAS No. 157-2, *Effective Date of FASB Statement No. 157*. As a result of which, implementation by the Organization is now required for the year ending June 30, 2010. The effects of the adoption of SFAS No. 157 are reflected in Note 9.

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

Capital Assets — Capital assets have been recorded al cost and are being depreciated over their estimated useful lives. Depreciation expense was computed using the straight line method with estimated useful lives of thirty-two years for the buildings, twenty years for land improvements and five to fifteen years for furniture and equipment. Depreciation expense for year ending June 30, 2009 was $2,129,975.

Capital assets — net:	
Housing:	
Building	$ 35,601,925
Land improvements	463,382
Furniture and equipment	2,990,346
	39,055,653
Wellness Center:	
Building	40,363,634
Land improvements	781,812
Furniture and equipment	3,740,487
	44,885,933
Total capital assets	83,941,586
Less accumulated depreciation	2,129,975
Total capital assets — net	$ 81,811,611

Construction in Progress — Prior to 2009, construction in progress consisted of development costs, direct and indirect construction costs and capitalized interest. The costs are accounted for as construction in progress until such time as the project is complete and the assets are placed into service. The assets are then classified as capital assets and depreciated accordingly. The projects were completed during the current year, thus no construction in process at June 30, 2009.

Capitalized interest is recorded by the Organization based upon interest expense incurred on the Organization's borrowings, offset by the investment income earned on the related bond proceeds. The net amount of capitalized interest amounted to $1,002,792 at June 30, 2009.

Inventories — Inventories consist of fitness supplies and are stated at the lower of cost (determined on a first-in, first-out basis) or market value. Cost of goods sold associated with the sale of inventories is shown in revenue of the recreation and wellness center. The cost of goods sold was $880 at June 30, 2009.

Debt Issuance Costs — Costs incurred in connection with the issuance of the bonds are amortized using the straight-line method over the lives of the associated bonds. These costs are shown net of accumulated amortization of $141,268 at June 30, 2009.

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

Subsequent Events — Subsequent events have been evaluated through September 28, 2009, which is the date financial statements were issued.

NOTE 2 — CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances with creditworthy, high quality, financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250,000. Periodically, the Organization maintains deposits in excess of federally insured limits. The balances in investment — bond reserves are invested according to bond documents, which work to mitigate the credit risk of those investments.

NOTE 3 — INVESTMENTS-BOND FUNDS AND RESERVES

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

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

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

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

Investment reserves, at fair value, consist of the following at June 30, 2009:

Investment — bond funds	
Regions Money Market	$ 1,716,153
Federated Treasury Obligations	1,216,103
	$ 2,932,256
Investment — debt service reserves	
Morgan Stanley Investment Agreement with an expiration date of December 1, 2017; rate 4.373%	$ 4,951,979

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

NOTE 4 — LONG-TERM DEBT

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

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

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

Long-term debt consists of the following at June 30, 2009:

Tax exempt variable rate bonds payable dated October 25, 2007; due at various intervals through July 1, 2039; payable in monthly installments of interest and annual installments of principal; average coupon rate of 3.728%; secured by leasehold deed and assignment of rents	$80,745,000
Taxable fixed rated bonds payable dated October 25, 2007; due at various intervals through July 1, 2011; payable in monthly installments of interest and annual installments of principal; average coupon rate of 5.498%; secured by deed and assignment of rents	320,000
Subordinate fixed rate bonds payable dated December 12, 2007, August 1, 2008, and January 1, 2009; coupon rate of 7.5%; secured by leasehold deed and assignment of rents	9,000,000
Total long-term debt	$90,065,000

Maturities of long-term debt at June 30, 2009 are as follows:

Years Ending June 30	Tax Exempt	Taxable	Subordinate
2010	$ -	$ -	$ -
2011		145,000	
2012	250,000	175,000	
2013	590,000		
2014	795,000		
2015 and thereafter	79,110,000		9,000,000
	$ 80,745,000	$ 320,000	$ 9,000,000

NOTE 5 — DEVELOPER BONDS PAYABLE

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

NOTE 6 — GROUND LEASE PAYABLE

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

Lessor shall cause to be paid additional rent of one-half of the Cost Savings Compensation as provided in the Development Agreement. The Developer was due $372,000, per the Cost Savings Compensation provision in regards to the student housing project, this amount is accrued as of June 30, 2009. At the discretion of the University, the amount due to the University per the Cost Savings Compensation provision was used to fund additions to the Project.

NOTE 7 — PROJECT MANAGEMENT

The management and daily operations of the Organization’s student housing facility will be conducted by the Housing Manager pursuant to a Management Agreement dated October 1, 2007, between the Organization and the Housing Manager. The management of the student housing facility includes collection of rents, payment of indebtedness and expenses, repairs, maintenance and administrative services. All employees necessary or appropriate to manage the student housing facility will be under the control and supervision of the Housing Manager. Management fees for the year ended June 30, 2009 were $143,917; of this amount $45,792 was accrued at June 30, 2009.

The management and daily operations of the Organization’s wellness center will be conducted by the Wellness Center Manager pursuant to a Management Agreement dated October 1, 2007, between the Organization and the Wellness Center Manager. The management of the wellness center includes revenue generation, payment of indebtedness and expenses. All employees necessary or appropriate to manage the wellness center will be under the control and supervision of the Wellness Center Manager. Management fees for the year ended June 30, 2009 were $75,583; of this amount $18,896 was accrued at June 30, 2009.

NOTE 8 — INTEREST RATE SWAP AGREEMENT

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

Generally accepted accounting principles require derivative instruments, such as interest rate swap agreements, to be recognized at fair value as either assets or liabilities in the statement of financial position. Accordingly, the negative value of the swap agreement of $8,879,900 at June 30, 2009, is reported as a liability in the statement of financial position. Value has been measured based on estimates of the amount needed to settle the agreement as calculated by the counterparty to the swap agreement. Such calculations were based on changes in market conditions and/or assumptions underlying valuation models.

The notional principal amount of the swap agreement is $80,745,000. The agreement effectively fixes the Organization’s interest rate exposure at 3.728%. Interest expense on the underlying bonds totaled $4,325,574 for the year ended June 30, 2009. Included in this amount is $2,188,255 of additional interest required to be paid under the swap agreement for the year ended June 30, 2009.

NOTE 9 — FAIR VALUE MEASUREMENTS

The Organization adopted the provisions of SFAS No. 157 for its financial assets and liabilities. Although adoption of SFAS No. 157 had no material impact on the financial position, results of operations or cash flows of the Project, the Organization is now required to provide additional disclosures. SFAS No. 157 clarifies that fair value is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Organization utilizes market data or assumptions that the market participants would use in pricing the asset or liability. SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level I, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exits, therefore requiring an entity to develop its own assumptions.

Prices for interest rate swaps are determined on a recurring basis based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets and are categorized at Level 2. The fair value of Level 3 instruments is calculated as the net present value of expected cash flows based on externally provided inputs. These calculations take into consideration the credit risk of both the Organization and the counterparties. The Organization has not changed its valuation techniques in measuring financial assets and liabilities during the current period.

The following table sets forth by level within SFAS No. 157's fair value hierarchy, the Organization's financial assets and liabilities accounted for at fair value on a recurring basis at June 30, 2009. As required by SFAS No. 157, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Fair values of assets measured on a recurring basis at June 30, 2009 are as follows:

	Fair Value Measurements Reporting Date Using	
	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets — investment agreements	$ -	$ 4,951,979
Liabilities — derivative — interest rate swap	$ 8,879,900	$ -

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
	Investment Agreements
June 30, 2008	$ 38,917,713
Purchases, issuance, and settlements	(1,716,153)
Transfers in and/or out of Level 3	(32,317,436)
Total gains or (losses) unrealized	67,855
June 30, 2009	$ 4,951,979

Unrealized gains included in member's deficit for the year ending June 30, 2009 reported in other income (expenses) is $67,855.

Included in investments — bond funds at June 30, 2009 were other cash equivalents of $2,932,256. These were not classified as a Level as prescribed within SFAS No. 157.

NOTE 10 — LETTER OF CREDIT

The payment of principal and interest on the Series 2007A and 2007B bonds is supported by a letter of credit issued by the Letter of Credit Bank. The letter of credit was issued in the amount of $81,997,803 with an annual fee of 1.00%. The letter of credit will expire on the first to occur; expiration date of November 1, 2010, conversion of the interest mode on the bonds to an interest mode other that a weekly mode or the date in which the principal and interest have been paid in full. Letter of credit fees for the year ended June 30, 2009 were $831,367, of this amount $290,363 was included in capital assets.

NOTE 11 — REMARKETING

The Organization has entered into a Remarketing Agreement with a brokerage company to act as the exclusive remarketing agent in connection with the offering and sale from time to time of the Series 2007 bonds. The Remarketing Agreement requires a quarterly fee of one-tenth of one percent (1/10%) of the aggregate principal amount of the Series 2007 bonds outstanding. Remarketing fees for the year ended June 30, 2009 were $80,953 of which $28,323 are included in capital assets.

NOTE 12 — FIXED CHARGES COVERAGE RATIO

Under the terms of the loan agreement between Cabell County, West Virginia by and through the County Commission of Cabell County, West Virginia and the Organization dated October 1, 2007, the Organization covenants and agrees to operate the Project as a revenue producing student housing facility and a student recreation/wellness center. To charge such fees and rates for its facilities and services and to exercise such skill and diligence as will provide revenue available for fixed charges, together with other available funds, sufficient to pay promptly all expenses of operation, maintenance, and repair of the Project and to provide all payments required to be made by the Organization under the Loan Agreement. Such rate, fees, and charges in each Annual Period beginning with the first full Annual Period after the Series 2007 completion date will be required to be sufficient to produce a Fixed Charges Coverage Ratio of at least 1.20. In the event such Fixed Charges Coverage Ratio is not maintained, the Organization is required to engage a financial consultant for the purpose of obtaining a report recommending changes in operating policies of the Organization designed to maintain the fixed charges coverage ratio. For the year ended June 30, 2009 the fixed charges coverage ratio was 2.0818.

NOTE 13 — ARBITRAGE LIABILITY

Arbitrage rebate liability is to be computed at regular intervals beginning at the date of issuance through the “computation date” (which can be no more than five years from the date of issuance) until the bonds are retired and is based on the excess future value of the investments receipts over the investment purchases. For the current computation period, a rebate liability was computed of $65,255 and per the trust indenture this amount has been transferred into the rebate fund.

NOTE 14 — FINANCIAL STATEMENT RECLASSIFICATIONS

Certain accounts have been reclassified for ease of comparison on the financial statements. This has resulted in no change to total assets, liabilities, member’s equity or change in member’s equity of the Organization

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

To the Governing Board of
Marshall University:

We have audited the combined financial statements of Marshall University (the "University") as of and for the year ended June 30, 2009, and have issued our report thereon dated October 5, 2009, which states reliance on other auditors for the discretely presented component units. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The audits of the University's discretely presented component units were conducted in accordance with generally accepted auditing standards, but not in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

Deloitte & Touche LLP

October 5, 2009