Marshall University

Combined Financial Statements as of and for the Years Ended June 30, 2011 and 2010, and Independent Auditors’ Reports

MARSHALL UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

To the Governing Board of
Marshall University:

We have audited the accompanying combined statements of net assets of Marshall University (the "University") as of June 30, 2011 and 2010, and the related combined statements of revenues, expenses, and changes in net assets, and of cash flows for the years then ended. These combined financial statements are the responsibility of the management of the University. Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the discretely presented financial statements of The Marshall University Foundation, Inc. (the "Foundation"), Provident — Marshall Properties L.L.C. ("Provident — Marshall"), 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, Provident — Marshall, and MSH — Marshall, is based solely on the reports of such other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, such combined financial statements present fairly, in all material respects, the respective financial position of the University and the discretely presented component units of the University as of June 30, 2011 and 2010, and the respective changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 to 13, which is the responsibility of the University's management, is not a required part of the basic combined financial statements, but is supplementary information required by the Governmental Accounting Standards Board. 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 express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2011, 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 17, 2011

Marshall University
Management's Discussion and Analysis (Unaudited)
Fiscal Year 2011

About Marshall University

Marshall University (the "University" or the "Institution") is a public, non-profit institution of higher learning, which offers degrees in more than 100 academic fields of study at the baccalaureate and graduate degree level, including doctoral degrees (Ph.D. and professional doctorates) in various fields through its 12 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.

As West Virginia's second largest university, Marshall University including the SOM serves over 14,000 students from virtually all counties in West Virginia, 44 states and the District of Columbia, as well as over 300 students from more than 50 countries across the globe. The students are served by 719 full-time faculty and 891 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 Higher Learning Commission of the North Central Association of Colleges and Schools since 1928. It also has earned and maintains specialized accreditation status with 24 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, which determines, controls, supervises and oversees the financial, business and educational policies and affairs of the Institution. The Board of Governors also develops a master plan, approves the Institution's annual budget, reviews and controls all academic programs offered at the Institution, and approves tuition rates and applicable student fees.

Overview of the Financial Statements and Financial Analysis

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) Standards.

The emphasis of discussions about these Statements will concern FY 2011 data explaining, with the use of approximate dollar amounts, the significant changes from the financial statements presented for the year ended June 30, 2010, for both the University and MURC. Three years of comparative information are provided for discussion and analysis purposes. Additionally, detailed financial information of the Marshall University Foundation, Inc., MSH — Marshall, L.L.C., and Provident — Marshall, L.L.C. are included; however, these component units are controlled and managed by independent 501(c) (3) corporations, with separate independent Boards of Directors. The student housing and recreation center project that was owned by MSH-Marshall, L.L.C. in fiscal year 2010 was sold to Provident – Marshall, L.L.C. in July of the 2011 fiscal year. The University does not control these resources and, therefore, discussion and analyses of these organizations are not included.

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 management or the Board of Governors.

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

	FY 2011	FY 2010	FY 2009
Assets:			
Current assets	$ 120,490	$ 111,265	$ 91,122
Other noncurrent assets	42,497	24,192	27,429
Capital assets, net	327,319	318,604	322,974
Total Assets	$ 490,306	$ 454,061	$ 441,525
Liabilities			
Current liabilities	$ 41,680	$ 36,956	$ 33,168
Noncurrent liabilities	109,443	104,524	96,386
Total Liabilities	$ 151,123	$ 141,480	$ 129,554
Net Assets			
Invested in capital assets, net of related debt	$ 257,709	$ 244,714	$ 244,458
Restricted - nonexpendable	7,368	914	641
Restricted - expendable	22,134	20,886	20,637
Unrestricted	51,972	46,067	46,235
Total Net Assets	$ 339,183	$ 312,581	$ 311,971

Changes to Total Assets

Total assets of the Institution increased by $36.2 million in FY 2011 compared to an increase of $12.5 million FY 2010. The major components of this increase are:

- Cash balances for the University increased $5.1 million in total as a result of a $7.8 million increase in current cash related to student fees and auxiliaries and a $2.7 million decrease in restricted cash due to the elimination of the debt service reserve for the 2001 bonds offset by an increase in the Board of Risk and Insurance Management escrow.
- Cash balances at MURC decreased $1.1 million related to grant activity.
- Investments increased $20.9 million in total with the MURC's investments increasing $10.5 million during the year and the University investments increasing $10.4 million. The University did not have any investments at the end of fiscal year 2010 due to a State Code sunset clause that only allowed the University's monies to be invested through June 30, 2010. In July 2010, legislation was passed to allow investment through July 31, 2011. In October 2010, the University once again invested with Commonfund and the fair market value of that investment was $10.4 million at year end (the $8.1 million short term portion of the University's Commonfund investments are considered cash equivalents and are included in the cash balance). During the 2011 legislative session, the State Code sunset clause was removed and the amount of monies that the University can invest was increased to $30 million.
- Total current and noncurrent accounts receivable increased $1.6 million primarily as a result of the monies due from Economic Development Authority for the East Bonds projects of $2.3 million.
- Capital Assets, net of depreciation, increased $8.7 million as a result of asset additions of $22.0 million, offset by disposals and depreciation totaling $13.3 million. Asset additions are discussed further in the Capital Asset and Debt Administration section.

Changes to Total Liabilities

Total liabilities of the Institution increased $9.6 million in FY 2011 compared to an increase of $11.9 million in FY 2010. The major increase to liabilities this year is for Other Post Employment Benefits (OPEB), which increased $11.7 million. See below and Notes 2 and 11 for more information on OPEB. Other changes to liabilities in FY 2011 are related to accounts payable, deferred revenue, and long-term debt. The major components of this increase are:

- OPEB liability increased $11.7 million. This represents the unfunded liability that the University is not currently required to pay. In FY11, the Annual Required Contribution (ARC) was $742 per policy per month, in FY10 it was $761 and in FY09 it was $224. The changes are the result of changes in the discount rate and other factors used in the actuarial study that Public Employees Insurance Agency (PEIA) uses to determine the ARC amount and the elimination of payments made by the State on behalf of the University beginning with 2010.
- Accounts payable and accrued liabilities increased a total of $4.6 million due to increases in payables to vendors for supplies and services mainly related to increased construction activity.
- Current and noncurrent debt decreased by $6.5 million due to payments made during FY 2011 including the debt obligation to the Commission, bonds and notes payable, capital leases, and the amount due to Mountwest Community and Technical College (MCTC).

Changes to Net Assets

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

The net asset category "Invested in capital assets, net of related debt" reflects overall changes to the buildings, equipment, and other capital assets net of depreciation and net of the liabilities associated with those assets. Investment in capital assets net of related debt increased $13.0 million in FY 2011 compared to an increase of only $0.3 million in FY 2010.

For the University, the increase is $9.7 million resulting from a $5.6 million increase in net capital assets, a $1.3 million increase in other noncurrent assets (unamortized bond issuance costs) and a $2.8 million decrease in related liabilities. The net assets-invested in capital assets of MURC increased $3.3 million.

Endowments which are recorded as restricted nonexpendable net assets increased $6.5 million. This increase was at MURC for amounts received in connection with the "Bucks for Brains" West Virginia Research Trust fund.

Total restricted expendable net assets increased $1.2 million in FY 2011 compared to an increase of $0.3 million in FY 2010, attributable to increased grant activity at MURC.

The unrestricted net asset balance of $52.0 million in FY 2011 represents a $5.9 million increase from FY 2010. Unrestricted net assets increased $1.2 million for MURC and increased $4.7 million for the University.

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

	FY 2011	FY 2010	FY 2009
Operating revenues	$ 179,444	$ 166,478	$ 156,477
Operating expenses	(257,146)	(255,951)	(233,252)
Operating loss	(77,702)	(89,473)	(76,775)
Nonoperating revenues	94,146	90,632	85,128
Nonoperating expenses	(3,480)	(3,918)	(4,588)
Income (loss) before other revenues, expenses, gains, or losses	12,964	(2,759)	3,765
Other revenues, expenses, gains, or losses	13,638	3,773	5,619
Transfer to MCTC	-	(404)	-
Increase in net assets	$ 26,602	$ 610	$ 9,384

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.

Operating Revenues

Operating revenues are received for student tuition and fees, grants and contracts, auxiliary services and miscellaneous revenue. Operating revenues of $179.4 million in FY 2011 represents a $13.0 million increase from FY 2010. These increases are primarily the result of:

- Increases in tuition and fee revenue, net of scholarship allowances, of $2.9 million. Tuition for full-time undergraduate students increased $25 per semester for resident students, $149 for metro students and $207 per semester for nonresident students. Tuition for full-time graduate students increased $25 per semester for resident students, $160 for metro students and $227 per semester for nonresident students. Student enrollment for the 2010-2011 academic year was approximately 14,200, which was a 3% increase over the 2009-2010 academic year.
- Contract and grant revenue increased a combined $7.5 million primarily due to grants at MURC, including a federal INBRE II award for $3.1 million.
- Auxiliary enterprise revenues increased $2.2 million, including a $1.1 million increase in housing resulting from increased housing rates as well as increased occupancy, and a $1.5 million increase in Athletics due to increased ticket sales. These increases are offset by a $0.4 million decrease from changes in other auxiliaries and the auxiliary scholarship allowance.

Operating Expenses

Operating expenses are paid for goods and services to carry out the mission of the Institution. Operating expenses of $257.1 million in FY 2011 represents a $1.2 million increase from FY 2010. These increases are primarily the result of:

- Increases in expenses totaling $4.7 million, including $2.0 million in student financial aid, $1.4 million in supplies and other services, $0.8 million in salaries, and $0.5 million in utilities.
- These increases were offset by reductions in expenses totaling $3.5 million, including a $0.5 million in depreciation and $2.9 million in benefits as a result of a reduction in compensated absence expense for annual leave and lower OPEB expenses. PEIA no longer charges the University for the OPEB ARC for new hires because they are not eligible for OPEB benefits.

Nonoperating Revenues and Expenses

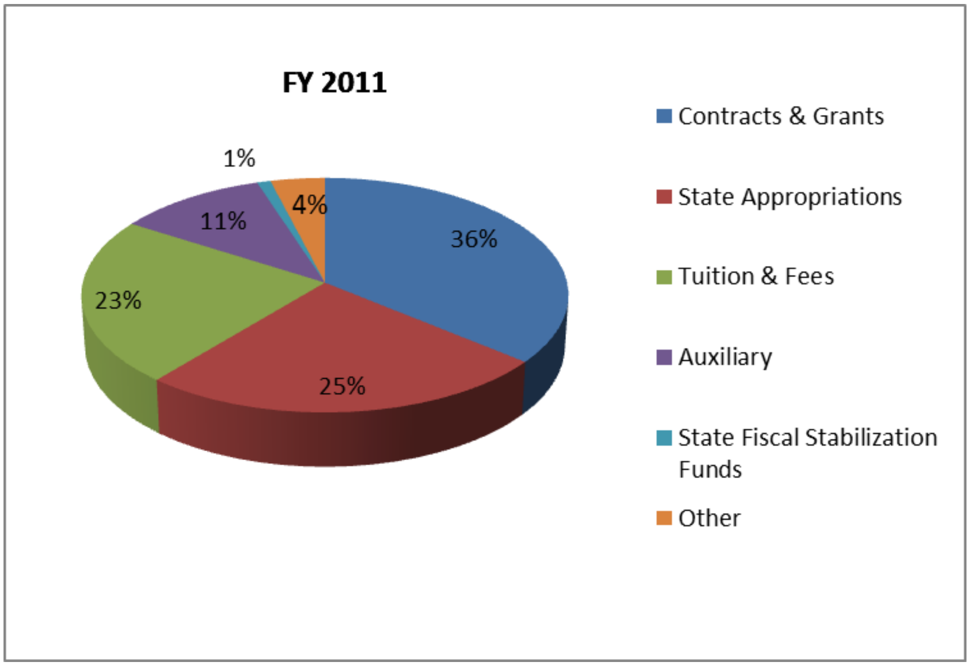
Revenues for which goods and services are not provided are reported as nonoperating revenues. Likewise, Federal Pell Grants (Pell) are reported as nonoperating because of specific guidance in the AICPA industry audit guide. Nonoperating revenues for FY 2011 were $94.1 million, which is an increase of $3.5 million as a result of:

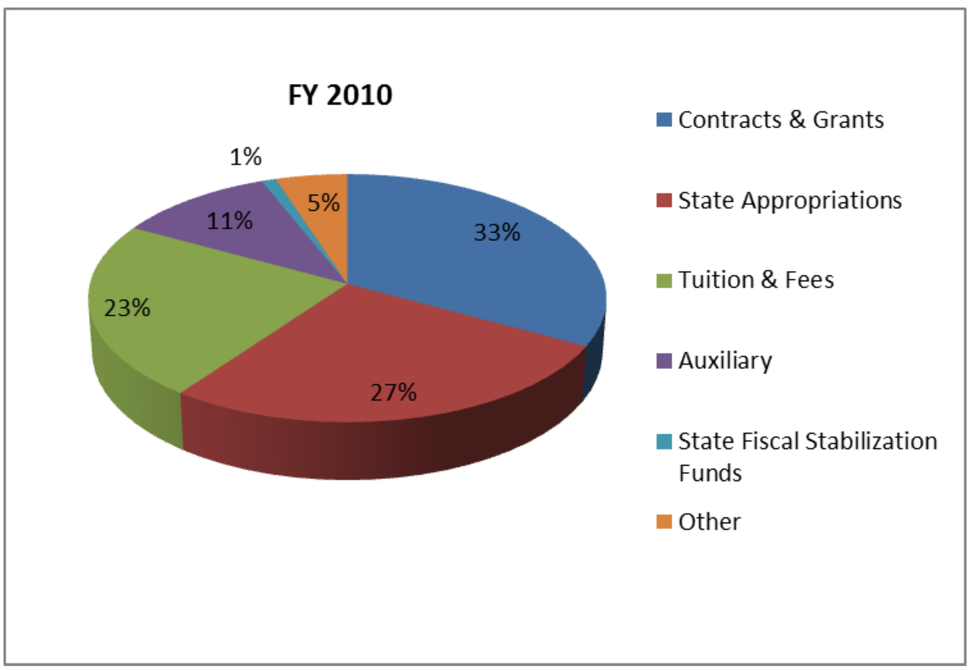
- State appropriations were increased $1.2 million and the state fiscal stabilization funds increased $1.2 million. The State Fiscal Stabilization Funds from the Federal American Reinvestment and Recovery Act of 2009 (ARRA) were used to backfill the reduction in State appropriations from the 2009 level.
- Investment income decreased $0.8 million. The University resumed its investment in Commonfund in October resulting in FY 2011 having only nine months of performance versus 12 months in FY 2010.
- Other changes to nonoperating revenues include an increase in Pell grant revenue of $3.0 million and a decrease of $1.1 million in gifts.

Total operating and nonoperating revenue for the Institution was $273.6 million in FY 2011 as compared to $257.1 million in FY 2010. Revenues as a percentage for FY 2011 and 2010 are shown on Graph A.

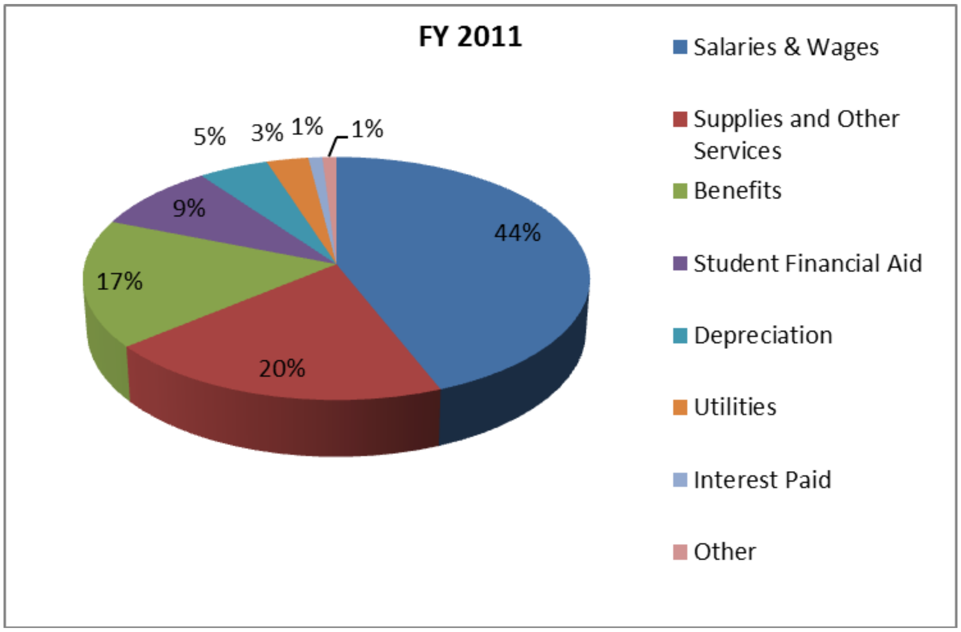
Total operating and nonoperating expense for the Institution was $260.6 million in FY 2011 as compared to $259.9 million in FY 2010. Expenses as a percentage for FY 2011 and 2010 are shown by object of expenditure in Graph B and by functional classification in Graph C.

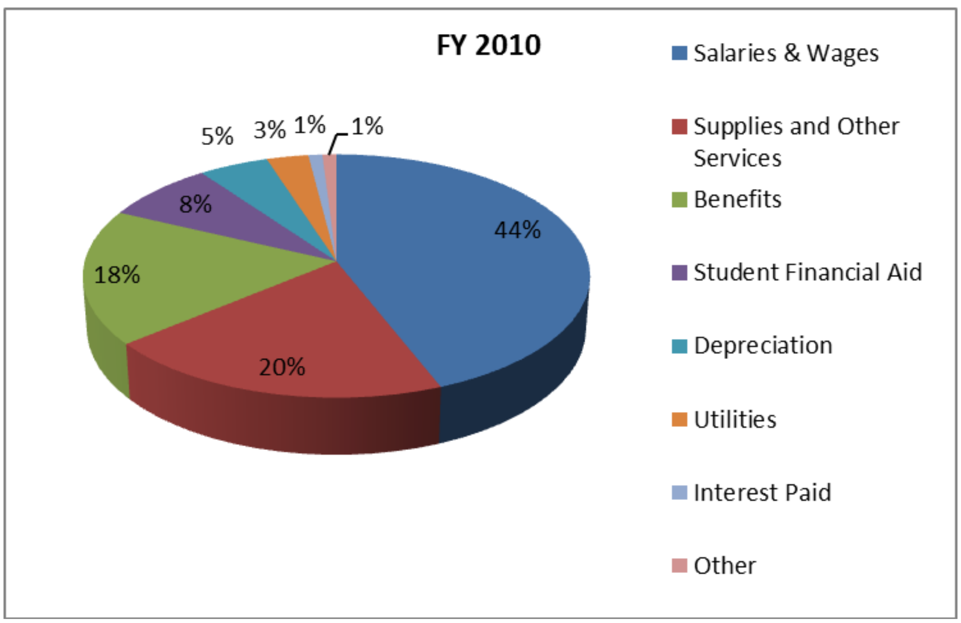
Total Operating and Nonoperating Revenues
(Graph A)



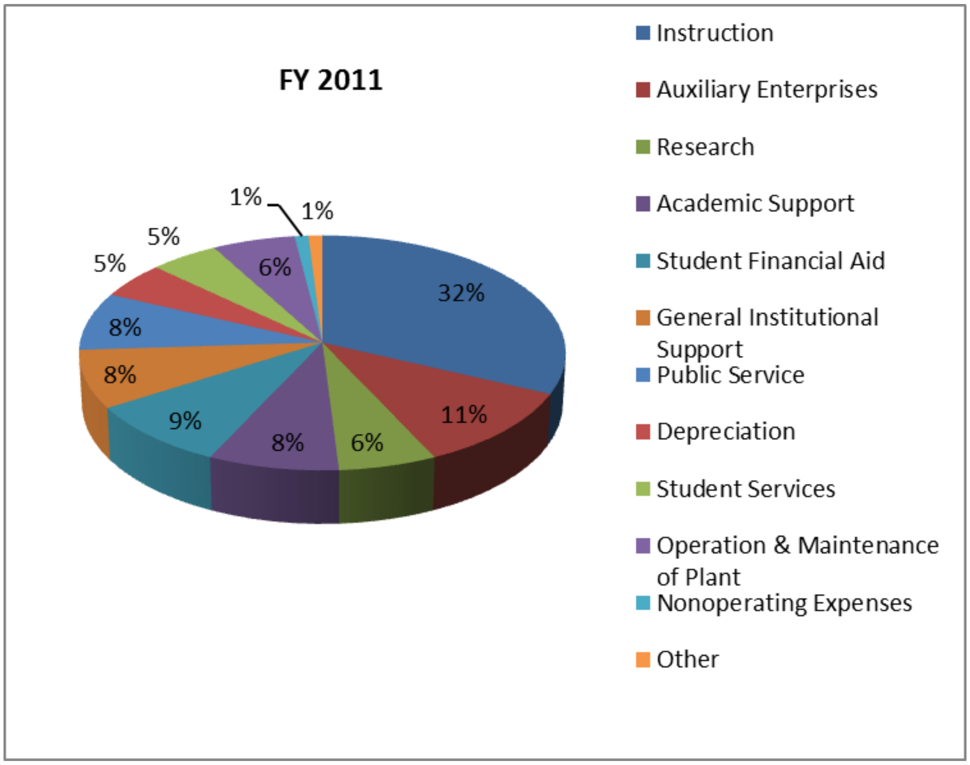


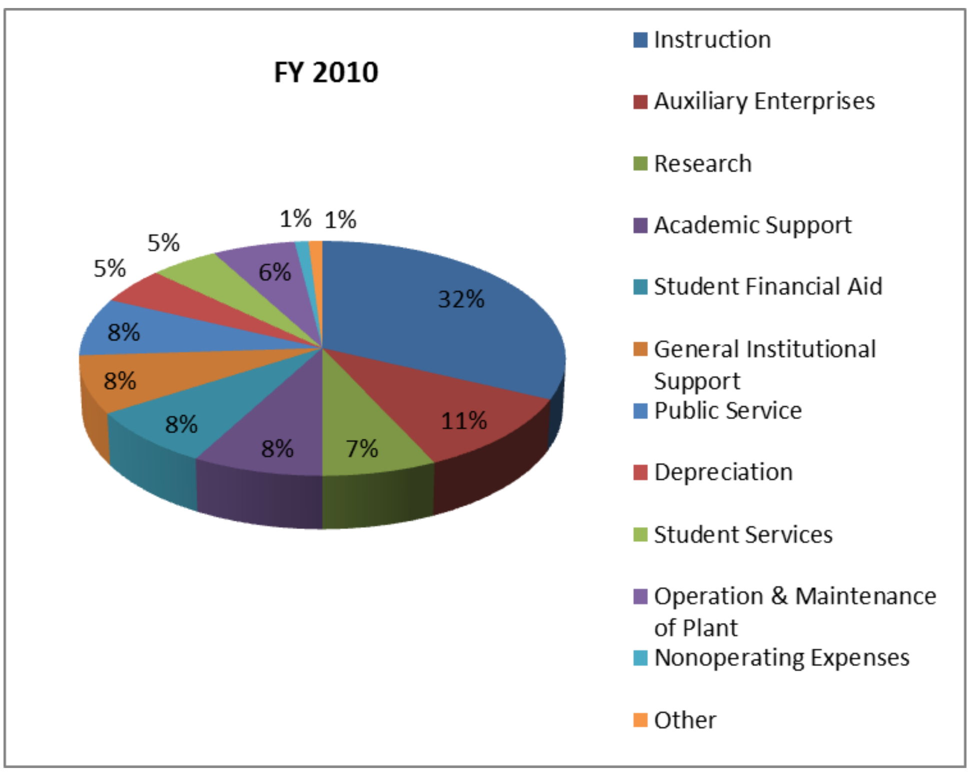
Total Operating and Nonoperating Expenses
By Object (Graph B)





Total Operating and Nonoperating Expenses
By Function (Graph C)





Income before other Revenues, Expenses, Gains, or Losses

The total of both operating and nonoperating revenues and expenses is reflected in the income before other revenues, expenses, and other items. In FY 2011, there was income of $13.0 million for the Institution. Of this total, the University had net income of $1.1 million while MURC had net income of $11.9 million. Note, if the unfunded portion of OPEB expense were excluded, the total Institution would show $24.7 million of net income.

Changes to Net Assets

The increase in net assets of $26.6 million reflects marked improvement in the Institution's general financial condition as FY2010 only had a $0.6 million increase in net assets. The net asset increase includes capital grants and gifts of $9.3 million and $4.0 million of capital bond proceeds from the Economic Development Authority.

Statement of Cash Flows

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

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

	FY 2011	FY 2010	FY 2009
Cash flows (used in) provided by:			
Operating activities	$ (49,981)	$ (63,016)	$ (61,800)
Noncapital financing activities	93,459	89,612	82,447
Capital and related financing activities	(16,784)	(13,477)	(14,381)
Investing activities	(19,948)	4,953	831
Net change in current cash	6,746	18,072	7,097
Current cash, beginning of year	92,108	74,036	66,939
Current cash, end of year	$ 98,854	$ 92,108	$ 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 loss and net cash used in operating activities.

Capital Asset and Debt Administration

The University continued its significant construction, renovation, and capital activities in fiscal year 2011, financed by state-issued bond proceeds, grants, gifts, and other University funds.

- Projects that were completed in fiscal year 2011 include the Logan County Rural Health and Clinical Educational Center in Chapmanville, West Virginia, and renovations to the Student Center.
- Projects that were initiated in fiscal year 2011 include deferred maintenance projects at the Drinko Library, Smith Hall, Henderson Center, Gullickson Hall, the Science Building, and the Fine and Performing Arts Center.

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, $21.4 million is reported as debt service assessment payable to the Commission by the University.

During FY2011, the Institution issued new Series 2010 Bonds that refunded the University's Facilities Revenue Bonds Series 2001A. The issuance of the Series 2010 bonds resulted in a savings of $1.7 million for the University that will be realized over the first two years of the bond amortization schedule via reduced payments.

In FY 2009, as part of the MCTC separation, the University incurred a long term payable to MCTC of $3.5 million for real asset acquisition. Payments made in FY 2011 and FY 2010 result in the fiscal year end amount payable of $2.5 million.

Economic Outlook

The University's financial position is closely coupled 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 2011, the Institution's total State appropriations were reduced by over $2.2 million from its 2009 level. However, this reduction was temporarily replaced by State Fiscal Stabilization Funds, which ended in FY 2011. State appropriations for FY 2012 currently are $75.5 million.

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 with a goal of maintaining or improving our existing revenue streams. The University is focused on cost controls, judicious spending, utility conservation measures, and revenue enhancements with highlights noted below.

DEFERRED MAINTENANCE: Marshall University has been awarded $17.6 million in deferred maintenance and capital improvement funding for academic buildings from the State in conjunction with the issuance of the EAST (Education Arts Science and Tourism) Bonds. As of June 30, 2011, the University has recognized $4.0 million of these funds. This one-time funding from the State enabled the Institution to significantly lower its deferred maintenance obligations over the next two years and make important academic building improvements such as the Medical Education Building (MEB) renovations, Fine and Performing Arts building renovations, Smith Hall renovations including the replacement of the windows, and roof replacements for the Drinko Library, Science Hall, Henderson Center and Gullickson Hall. These improvements will support Marshall's continuing efforts to grow enrollment and improve annual operating cost efficiencies. The University also is scheduled to receive $25.0 million of HEPC 2010 Series A Bond proceeds, which will be used towards the construction of the new Biotechnology Development Center and Applied Engineering Complex.

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 endowment-based Marshall Institute for Interdisciplinary Research (MIIR) has been established and is operational within the Robert C. Byrd Biotechnology and Science Center. This Institute is funded through proceeds from private, endowed gifts matched by endowment funds from the WV Research Trust Fund.

ENROLLMENT GROWTH PLAN: Beginning in summer 2006, Marshall University launched a series of initiatives to increase full-time undergraduate enrollment by up to 3,500 full-time 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 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 six-year graduation rates that exceed 60%. Student enrollment for the 2010-2011 academic year was approximately 14,200, which was a 3% increase over the 2009-2010 academic year. The results of this initiative continue to be evident because, in Fall 2011, Marshall University welcomed another record-enrollment entering freshman class.

Going forward, the University has identified the following priorities to pursue over the next five years:

- Continued emphasis on student recruitment, retention, and graduation successes.
- Selective new, high-demand degree program development, including the most recent addition of the School of Pharmacy and the professional doctoral program in Physical Therapy (Doctorate in Physical Therapy, D.P.T.), both of which currently are in their start-up accreditation phases. Other degree programs in the planning phase include a new BBA in Risk Management and Insurance, a new BS in Health Sciences, and a new BS in Public Health.
- Continued management of financial resources with a goal to improve faculty and staff compensation. During FY 2011, a Long Range Budget Plan was developed to support this goal. Additionally, faculty and staff compensation increases became effective at the beginning of FY 2012.
- Addressing major deferred maintenance challenges on campus and funding new capital project priorities, with major emphasis and fund raising being placed on a new Biotechnology and Applied Engineering Complex and a Sports Translational Research Center.
- Development of a comprehensive plan for campus-wide upgrades to furnishings and instructional technology capabilities with funding for the plan on a life cycle basis.

This is a pivotal time for the University. As the nation continues to struggle with economic difficulties, higher educational attainment continues to be a priority for our nation and many people. The challenge for the University is to continue to plan for the short term and the long term while maintaining strong leadership that encourages teamwork and relationship building and a steadfast commitment to excellence. With this foundation in place, Marshall University will succeed in advancing the creativity, adaptability, and capacity of the State’s citizens to continue to think, learn, relearn, and transform their marketability in a world economy that is increasingly dominated by global change. Although these are unpredictable economic times and there are challenges ahead of us, Marshall University continues to successfully sustain its commitment to continuing to provide its high standard of undergraduate and graduate education to its students and the citizens of our State and Nation at an affordable cost.

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2011 AND 2010

ASSETS	2011	2010
CURRENT ASSETS:		
Cash and cash equivalents	$ 98,854,192	$ 92,108,612
Accounts receivable — net	19,705,578	17,303,705
Loans receivable	869,806	866,117
Inventories	723,992	731,712
Other current assets	336,191	254,458
Total current assets	120,489,759	111,264,604
NONCURRENT ASSETS:		
Cash and cash equivalents	2,232,550	4,906,088
Investments	25,968,361	5,109,541
Accounts receivable	5,293,714	6,098,384
Loans receivable — net of allowance of $1,784,336 and $1,553,370 in 2011 and 2010, respectively	6,710,983	7,075,171
Other assets	2,292,343	1,003,143
Capital assets — net	327,318,832	318,603,537
Total noncurrent assets	369,816,783	342,795,864
TOTAL	$490,306,542	$454,060,468

(Continued)

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2011 AND 2010

LIABILITIES AND NET ASSETS	2011	2010
CURRENT LIABILITIES:		
Accounts payable	$ 10,939,038	$ 6,569,113
Due to MCTC — current portion	350,000	437,500
Accrued liabilities	7,767,018	7,580,535
Deferred revenue	8,164,676	7,235,495
Deposits	678,883	679,483
Notes, capital lease, and bonds payable — current portion	1,936,953	2,173,160
Compensated absences	8,533,947	9,120,324
Debt obligation to the Commission — current portion	3,309,689	3,160,103
Total current liabilities	41,680,204	36,955,713
NONCURRENT LIABILITIES:		
Notes, capital lease, and bonds payable	47,537,048	50,217,161
Advances from federal sponsors	6,409,866	6,418,460
Other noncurrent liabilities	8,177,986	8,574,101
Other post employment benefits liability	27,102,502	15,438,783
Due to MCTC	2,142,834	2,492,834
Debt obligation to the Commission	18,072,847	21,382,536
Total noncurrent liabilities	109,443,083	104,523,875
Total liabilities	151,123,287	141,479,588
NET ASSETS:		
Invested in capital assets — net of related debt	257,709,200	244,713,976
Restricted for:		
Nonexpendable	7,368,505	914,191
Expendable:		
Scholarships	138,085	82,550
Sponsored projects	19,872,558	18,337,745
Loans	2,116,889	2,382,578
Debt service	6,309	82,679
Total restricted expendable	22,133,841	20,885,552
Unrestricted	51,971,709	46,067,161
Total net assets	339,183,255	312,580,880
TOTAL	$490,306,542	$454,060,468

See notes to combined financial statements. (Concluded)

MARSHALL UNIVERSITY

THE MARSHALL UNIVERSITY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
Cash and cash equivalents	$ 8,992,272	$ 7,308,174
Unconditional promises to give, less allowance for uncollectible promises of $197,528 and $129,919 in 2011 and 2010, respectively	9,765,271	5,119,855
Contributions receivable from remainder trusts	978,911	478,743
Other receivables	48,571	25,658
Beneficial interest in perpetual trust	8,889,783	6,415,960
Investments	90,406,465	76,060,291
Net investment in direct financing leases	3,101,508	3,587,018
Property and equipment - net	12,876,755	13,298,035
Cash surrender value-life insurance, net of policy loans	394,645	337,017
Prepaids	19,500	-0-
Other assets	629,400	629,400
TOTAL ASSETS	$ 136,103,081	$ 113,260,151
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 38,501	$ 439,532
Accrued vacation and wages	103,352	121,638
Accrued interest payable	35,602	40,112
Bonds payable	12,322,179	3,606,758
Notes payable	-0-	8,735,452
Annuity payment liability	628,641	690,241
Deferred revenue	270,765	236,578
Fair value of interest rate swap	140,726	-0-
TOTAL LIABILITIES	13,539,766	13,870,311
NET ASSETS		
Unrestricted	16,976,026	10,357,717
Temporarily restricted	25,384,186	20,696,013
Permanently restricted	80,203,103	68,336,110
TOTAL NET ASSETS	122,563,315	99,389,840
TOTAL LIABILITIES AND NET ASSETS	$ 136,103,081	$ 113,260,151

See notes to combined financial statements.

MARSHALL UNIVERSITY

PROVIDENT — MARSHALL L.L.C.
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2011

ASSETS	
Current assets	
Cash	$ 935,820
Assets held by trustee, current portion	1,443,613
Accounts receivable, net of allowance of $96,000	195,373
Prepaid insurance and other current assets	60,849
Total current assets	2,635,655
Assets held by trustee and deposits	
Assets held by trustee, net of current portion	3,509,453
Total assets held by trustee and deposits	3,509,453
Property and equipment	
Buildings and improvements	77,340,285
Equipment and furniture	7,001,329
	84,341,614
Less accumulated depreciation	3,317,898
Total property and equipment	81,023,716
Other asset	
Deferred financing costs, net of accumulated amortization of $52,038	978,789
Total assets	$ 88,147,613
LIABILITIES AND MEMBER'S DEFICIT	
Current liabilities	
Revenue bonds payable, current portion	$ 125,000
Accounts payable	221,323
Accrued interest	9,552
Interest rate swap agreement, current portion	2,777,662
Accrued expenses and other current liabilities	665,367
Total current liabilities	3,798,904
Long-term liabilities	
Revenue bonds payable, net of current portion	89,002,255
Deferred interest - subordinate bonds payable	646,915
Interest rate swap agreement	8,390,734
Total long-term liabilities	98,039,904
Total liabilities	101,838,808
Member's deficit	(13,691,195)
Total liabilities and member's deficit	$ 88,147,613

See notes to combined financial statements.

MARSHALL UNIVERSITY

MSH — MARSHALL, L.L.C.
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2010

	2010
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 1,102,676
Investments — bond funds	1,114,023
Accounts receivable	98,642
Interest receivable	
Inventory	5,047
Prepaid expenses	17,825
Total current assets	2,338,213
RESTRICTED ASSETS — Investments — debt service reserves	5,629,679
CAPITAL ASSETS — Net	79,540,771
OTHER ASSETS — Debt issuance costs — net	2,458,069
Total other assets	2,458,069
TOTAL	$ 89,966,732
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable and accrued liabilities	$ 767,186
Accrued interest payable	323,936
Unearned revenue	92,233
Total current liabilities	1,183,355
LONG-TERM LIABILITIES:	
Accrued interest payable	1,338,187
Bonds payable	90,065,000
Total long-term liabilities	91,403,187
OBLIGATION UNDER INTEREST RATE SWAP	13,277,767
Total liabilities	105,864,309
MEMBER'S DEFICIT	(15,897,577)
TOTAL	$ 89,966,732

See notes to combined financial statements.

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
OPERATING REVENUES:		
Student tuition and fees — net of scholarship allowance of $27,636,917 and $26,215,579 in 2011 and 2010, respectively	$ 61,845,199	$ 58,904,116
Contracts and grants:		
Federal	37,532,029	34,384,266
State	26,553,816	20,535,999
Local	2,739,604	952,066
Private	12,347,383	15,799,489
Interest on loans receivable	127,918	133,338
Sales and services of educational activities	126,334	131,174
Auxiliary enterprise revenue — net of scholarship allowance of $4,046,698 and $3,477,814 in 2011 and 2010, respectively	29,459,854	27,265,884
Other operating revenues	8,712,122	8,371,927
Total operating revenues	179,444,259	166,478,259
OPERATING EXPENSES:		
Salaries and wages	114,859,618	114,053,264
Benefits	43,750,084	46,714,775
Supplies and other services	53,165,243	51,737,326
Utilities	8,955,864	8,458,098
Student financial aid — scholarships and fellowships	22,528,524	20,541,524
Depreciation	12,848,716	13,382,695
Other operating expenses	344,282	396,241
Fees assessed by the Commission for operations	694,131	667,466
Total operating expenses	257,146,462	255,951,389
OPERATING LOSS	(77,702,203)	(89,473,130)

(Continued)

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
NONOPERATING REVENUES (EXPENSES):		
State appropriations	$ 69,343,950	$ 68,169,997
State fiscal stabilization funds (federal)	3,857,032	2,691,646
Federal Pell grants	19,379,957	16,367,125
Gifts	673,912	1,742,174
Investment income	891,555	1,661,375
Interest on indebtedness	(2,151,418)	(2,590,938)
Fees assessed by the Commission for debt service	(1,150,693)	(1,283,848)
Other nonoperating expenses — net	(178,167)	(43,263)
Net nonoperating revenues	90,666,128	86,714,268
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	12,963,925	(2,758,862)
CAPITAL GRANTS AND GIFTS	9,270,344	2,090,612
STATE CAPITAL GRANTS (FEDERAL)	375,764	298,900
CAPITAL BOND PROCEEDS FROM THE COMMISSION		1,382,697
CAPITAL BOND PROCEEDS FROM STATE	3,992,342	
TRANSFER NET ASSETS TO MOUNTWEST CTC		(403,744)
INCREASE IN NET ASSETS	26,602,375	609,603
NET ASSETS — Beginning of year	312,580,880	311,971,277
NET ASSETS — End of year	$339,183,255	$312,580,880

See notes to combined financial statements. (Concluded)

MARSHALL UNIVERSITY

THE MARSHALL UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT, REVENUES, AND RECLASSIFICATIONS:				
Gifts, contributions, and other	$ 933,481	$ 5,333,901	$ 10,839,382	$ 17,106,764
Investment income	14,279,803	30,669	1,178,186	15,488,658
Net assets released from restrictions — satisfaction of program restrictions	6,047,523	(6,047,523)		
Total public support, revenues, and reclassifications	21,260,807	(682,953)	12,017,568	32,595,422
EXPENSES:				
Program services:				
Academic assistance	4,853,944			4,853,944
Student assistance	1,774,096			1,774,096
Total program services	6,628,040			6,628,040
Supporting services:				
Management and general	2,204,567			2,204,567
Fundraising	589,340			589,340
Total supporting services	2,793,907			2,793,907
Total expenses	9,421,947			9,421,947
CHANGE IN NET ASSETS	11,838,860	(682,953)	12,017,568	23,173,475
NET ASSETS — Beginning of year	10,357,717	20,696,013	68,336,110	99,389,840
TRANSFERS	(5,220,551)	5,371,126	(150,575)	
NET ASSETS — End of year	$ 16,976,026	$ 25,384,186	$ 80,203,103	$ 122,563,315

See notes to combined financial statements.

MARSHALL UNIVERSITY

THE MARSHALL UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT, REVENUES, AND RECLASSIFICATIONS:				
Gifts, contributions, and other	$ 799,564	$ 5,551,578	$ 1,184,928	$ 7,536,070
Investment income	5,185,598	1,020,226	696,659	6,902,483
Net assets released from restrictions — satisfaction of program restrictions	6,807,002	(6,807,002)		
Total public support, revenues, and reclassifications	12,792,164	(235,198)	1,881,587	14,438,553
EXPENSES:				
Program services:				
Academic assistance	5,164,396			5,164,396
Student assistance	1,740,952			1,740,952
Total program services	6,905,348			6,905,348
Supporting services:				
Management and general	2,071,118			2,071,118
Fundraising	565,450			565,450
Total supporting services	2,636,568			2,636,568
Total expenses	9,541,916			9,541,916
CHANGE IN NET ASSETS	3,250,248	(235,198)	1,881,587	4,896,637
NET ASSETS — Beginning of year	14,904,732	12,036,205	67,552,266	94,493,203
TRANSFERS	(7,797,263)	8,895,006	(1,097,743)	
NET ASSETS — End of year	$ 10,357,717	$ 20,696,013	$ 68,336,110	$ 99,389,840

See notes to combined financial statements.

MARSHALL UNIVERSITY

PROVIDENT — MARSHALL L.L.C.
STATEMENT OF ACTIVITIES AND COMPREHENSIVE INCOME
FOR THE PERIOD AUGUST 1, 2010 THROUGH JUNE 30, 2011

Operating revenue	
Rental revenue	$ 3,875,690
Membership fees	4,488,453
Other revenue	16,345
Total operating revenue	8,380,488
Operating expenses	
Administration and general	3,227,810
Plant operations and maintenance	482,795
Management fee	495,351
Bad debts	104,145
Total operating expenses	4,310,101
Operating income	4,070,387
Other income (expense)	
Interest income	638
Interest expense - senior bonds payable	(2,576,973)
Interest expense - subordinate bonds payable	(646,915)
Depreciation	(3,317,898)
Amortization	(52,038)
Unrealized loss on interest rate swap agreement	(11,168,396)
Total other income (expense)	(17,761,582)
Net loss	$ (13,691,195)

See notes to combined financial statements.

MARSHALL UNIVERSITY

MSH — MARSHALL L.L.C.
STATEMENT OF ACTIVITIES AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2010

	2010
REVENUES:	
Housing	$ 3,752,687
Wellness center	3,740,811
Interest income	239,748
Total revenues	7,733,246
EXPENSES:	
Interest expense	4,655,983
Depreciation and amortization	3,414,681
Payroll and related benefits	1,206,049
Letter of credit fees	831,367
Utilities	610,799
Building maintenance	531,512
Management fees	379,000
Insurance	132,368
Rental expenses	121,147
Remarketing fees	81,065
Legal and accounting	61,288
Owners fees	60,954
Office supplies and equipment	32,193
Taxes and licenses	22,124
Travel	20,849
Trustee fees	12,600
Telephone and communications	12,291
Bond rating fees	9,000
Bad debt expense	8,571
Interior unit expenses	4,412
Arbitrage rebate expense (benefit)	(65,255)
Total expenses	12,142,998
OTHER INCOME (EXPENSE):	
Realized gain on investments	566,621
Unrealized gain on investments	
Unrealized (loss) on investments	(4,397,867)
Total other income (expense)	(3,831,246)
NET LOSS	(8,240,998)
MEMBER'S DEFICIT:	
Beginning of the year	(7,656,579)
End of the year	$ (15,897,577)

See notes to combined financial statements.

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 62,574,913	$ 58,877,217
Contracts and grants	87,563,123	69,773,765
Payments to and on behalf of employees	(147,656,440)	(146,851,249)
Payments to suppliers	(58,272,191)	(52,120,273)
Payments to utilities	(8,955,864)	(8,458,098)
Payments for scholarships and fellowships	(22,528,524)	(20,541,524)
Loans issued	(912,594)	(1,042,009)
Collection of loans	928,811	994,008
Sales and service of educational activities	126,334	131,174
Auxiliary enterprise charges	28,659,258	28,125,386
Fees assessed by the Commission	(694,131)	(667,466)
Program income	1,477,726	1,342,121
Other receipts — net	7,708,468	7,421,447
Net cash used in operating activities	(49,981,111)	(63,015,501)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	69,323,375	69,106,710
State fiscal stabilization funds (federal)	3,857,032	2,691,646
Federal Pell grants	19,379,957	16,367,125
Gift receipts	916,227	1,499,860
Other nonoperating receipts		23,909
Agency fund receipts	7,824,975	7,158,093
Agency fund payments	(7,843,238)	(7,235,216)
William D. Ford direct lending receipts	79,505,109	68,616,817
William D. Ford direct lending payments	(79,504,859)	(68,617,154)
Net cash provided by noncapital financing activities	93,458,578	89,611,790
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital grants and gifts received	9,003,017	2,090,612
State capital grants (federal) received	375,764	298,900
Capital bond proceeds from the Commission	23,064	1,556,283
Capital bond proceeds from State	1,666,904	
Purchases of capital assets	(19,676,206)	(9,554,545)
Proceeds from sale of bonds	38,695,323	
Payoff on refinanced bonds	(41,697,160)	
Issuance costs on new bonds	(190,094)	
Deferred rent revenue collected		417,727
Payments on note payable	(119,565)	(160,012)
Payments on debt to MCTC	(437,500)	(262,500)
Principal paid on bonds and leases	(918,465)	(2,027,670)
Interest paid on bonds and leases	(2,088,562)	(2,480,798)
Proceeds from sale of capital assets	217,140	571,539
Principal payment on debt obligation due to the Commission	(3,160,103)	(3,024,479)
Fees assessed by the Commission	(1,150,693)	(1,283,848)
Deposits to noncurrent cash and cash equivalents	(2,504,800)	(989,136)
Withdrawals from noncurrent cash and cash equivalents	5,178,338	1,371,140
Net cash used in capital financing activities	(16,783,598)	(13,476,787)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(20,648,656)	(3,177,386)
Sales/maturities of investments	9,053	7,649,929
Investment income	691,314	480,079
Net cash (used in) provided by investing activities	(19,948,289)	4,952,622
INCREASE IN CURRENT CASH AND CASH EQUIVALENTS	6,745,580	18,072,124
CURRENT CASH AND CASH EQUIVALENTS — Beginning of year	92,108,612	74,036,488
CURRENT CASH AND CASH EQUIVALENTS — End of year	$ 98,854,192	$ 92,108,612

(Continued)

MARSHALL UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (77,702,203)	$ (89,473,130)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	12,848,716	13,382,695
Changes in assets and liabilities:		
Accounts receivable — net	31,723	(4,386,401)
Loans receivable — net	360,499	111,486
Prepaid expenses	(81,734)	16,270
Inventories	7,720	16,285
Accounts payable	2,836,339	1,162,863
Accrued liabilities	(130,385)	2,079,282
Other post employment benefits liability	11,663,719	12,450,009
Compensated absences	(586,377)	807,117
Deferred revenue	780,066	913,674
Deposits held in custody for others	(600)	(3,250)
Advances from federal sponsors	(8,594)	(92,401)
NET CASH USED IN OPERATING ACTIVITIES	$ (49,981,111)	$ (63,015,501)
NONCASH TRANSACTIONS:		
Donated capital assets	$ 4,159,043	$ 1,273,040
Loss on disposal of assets	$ 178,167	$ 67,173
Property additions in accounts payable	$ 2,011,174	$ 77,999

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 institution(s) budget requests; the duty to review, at least every five years, all academic programs offered at the institution(s); and the power to fix tuition and other fees for the different classes or categories of students enrolled at the institution(s).

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 standards (GASB), the University has included information from the Marshall University Foundation, Inc. (the "Foundation"), Provident Group — Marshall Properties, L.L.C. ("Provident — Marshall") for the period ending June 30, 2011, and MSH — Marshall, L.L.C. ("MSH — Marshall") for the period ending June 30, 2010.

On July 30, 2010 Provident — Marshall purchased the project previously owned by MSH – Marshall. MSH — Marshall recognized a gain on sale of the project, net of unamortized issuance costs, of $17 million. For additional information see Note 7 of the Provident — Marshall financial statements included in the Component Unit's Disclosures.

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 Provident — Marshall and MSH — Marshall, Provident — Marshall and MSH — Marshall are independent of the University in all respects. Provident — Marshall and MSH — Marshall are not subsidiaries of the University and are not directly or indirectly controlled by the University. Provident — Marshall is a nonprofit corporation that is operated for charitable purposes. 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 Provident — Marshall and MSH — Marshall are the exclusive property of Provident — Marshall and 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 Provident — Marshall and MSH — Marshall. The University does not have the power or authority to mortgage, pledge, or encumber the assets of Provident — Marshall and MSH — Marshall. Any income resulting from the operations of Provident — Marshall and MSH — Marshall is for the benefit of Provident — Marshall and MSH — Marshall, respectively, 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 Provident — Marshall or MSH — Marshall for any purpose without consideration of all the foregoing conditions and limitations.

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 GASB. The combined financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

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

Reporting Entity — The University is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State that are not included in the State's general fund. The University is a separate entity 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.

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 acquiring property eligible for state and federal Brownfield assistance as set forth in West Virginia State Code 18B-11-7. As of June 30, 2011 and 2010, the Center had limited financial activity, all of which is included in the accompanying combined financial statements.

The audited financial statements of the Foundation, Provident — Marshall, and MSH — Marshall are presented here as discrete component units with the University combined financial statements in accordance with GASB discretely presented component unit requirements. The Foundation is a separate, private, nonprofit organization; Provident — Marshall is a single-member, limited liability company; and MSH — Marshall is a single-member, limited liability company, and all report under FASB standards. 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 (see Notes 15, 16, 23, 24, and 25).

Financial Statement Presentation — GASB establishes standards for external financial reporting for public colleges and universities and requires 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.

The West Virginia Legislature, as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, *Fees and Other Money Collected at State Institutions of Higher Education of the West Virginia State Code*. House Bill No. 101 passed in March 2004 simplified the tuition and fees restrictions to auxiliaries and capital items. These activities are fundamental to the normal ongoing operations of the Fund. These restrictions are subject to change by future actions of the West Virginia Legislature.

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

Unrestricted Net Assets — Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the University and may be used at the discretion of the Board 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 expenses are reported 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. 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 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 had investments in two long-term funds at June 30, 2011. One fund comprised high-quality bond investments, with the other comprising long-term equity investments. At June 30, 2010, the University did not have any investments as funds were withdrawn and the cash returned to the state investment pool in June 2010 in order to comply with the July 1, 2010, expiration of S.B. 603, Section 12-1-2b, the pilot program for investments. S.B. 330, Section 12-1-12d reinstated the authorization for investments. MURC held U.S. government agency securities and invested in an intermediate term fund comprised of high-quality fixed income securities at June 30, 2010 and 2011.

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, Cash Equivalents, and Investments — Cash and investments that are (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 or settle long-term liabilities, or (3) permanently restricted net assets are classified as noncurrent assets 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 at June 30, 2010, and the University Refunding Revenue Bonds Series 2010 at June 30, 2011. 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.

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 (OPEB) — The University accounts for compensated absences in accordance with the provisions of GASB.

GASB provides 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 the West Virginia 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.

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

The University's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1 1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage, and three days extend health insurance for one month of family coverage. For employees hired after 1988, or who were hired before 1988 but did not choose such coverage until after 1988 but before July 1, 2001, 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. Additionally, all retirees have the option to purchase continued coverage regardless of their eligibility for premium credits. 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. Employees hired after July 1, 2010, receive no health insurance premium subsidy from the University. Two groups of employees hired after July 1, 2010, will not be required to pay the unsubsidized rate: 1) active employees who were originally hired before July 1, 2010, who have a break in service of fewer than two years after July 1, 2010; and 2) retired employees who retired before July 1, 2010, return to active service after July 1, 2010, and then go back into retirement. In those cases, the original hire date will apply.

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, 2011 and 2010, the balance in the escrow account was $2,056,550 and $1,538,157, respectively. Based on an actuarial valuation of this self-insurance program, the University has recorded a liability of $7,333,000 and $7,580,000 at June 30, 2011 and 2010, respectively, to reflect projected claim payments at 80% confidence level at June 30, 2011 and 2010. The receivable from University Physicians & Surgeons, Inc., for the funding it has agreed to provide for this liability was $5,276,450 and $6,041,843 at June 30, 2011 and 2010, respectively, and is included in noncurrent other accounts receivable (see Note 4).

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, such as state appropriations, Federal Pell Grants, 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 2011 and 2010, the University received and disbursed approximately $79,500,000 and $68,600,000, respectively, under the Federal Direct Student Loan Program on behalf of the U.S. Department of Education, which is not included as revenue and expense on the accompanying combined statements of revenues, expenses, and changes in net assets.

The University also distributes other student financial assistance funds on behalf of the federal government to students under the Federal Pell Grant, Supplemental Educational Opportunity Grant, and College Work Study programs. The activity of these programs is recorded in the accompanying combined financial statements. In 2011 and 2010, the University received and disbursed approximately $20,200,000 and $17,300,000, respectively, under these federal student aid programs.

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

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

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

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

Cash Flows — Any cash and cash equivalents escrowed, restricted for noncurrent assets or in funded reserves have not been included as cash and cash equivalents for the purpose of the 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 Governmental Accounting Standards Board — During 2011, the University adopted Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes new categories for reporting fund balance and revised the definitions for governmental fund types. The adoption of this statement did not have a material impact on the financial statements.

The University also adopted GASB Statement No. 59, *Financial Instruments Omnibus*. This statement improves financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards related to certain financial instruments and external investment pools. The adoption of this statement did not have a material impact on the financial statements.

Recent Statements Issued by the Governmental Accounting Standards Board — The Governmental Accounting Standards Board has issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for fiscal years beginning after December 15, 2011. This statement addresses how to account for and report service concession arrangements (SCAs) by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators. The University has not yet determined the effect that the adoption of GASB Statement No. 60 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 61, *The Financial Reporting Entity: Omnibus — an amendment of GASB Statements No. 14 and No. 34*, effective for fiscal years beginning after June 15, 2012. This statement improves financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of the entity. The University has not yet determined the effect that the adoption of GASB Statement No. 61 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for fiscal years beginning after December 15, 2011. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance included in the FASB and AICPA pronouncements issued on or before November 30, 1989. This statement will improve financial reporting by contribution to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. The University has not yet determined the effect that the adoption of GASB Statement No. 62 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for fiscal years beginning after December 15, 2011. The objective of this statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of financial position and related disclosures. The University has not yet determined the effect that the adoption of GASB Statement No. 63 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, effective for fiscal years beginning after June 15, 2011. The objective of this statement is to improve financial reporting by clarifying whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The University has not yet determined the effect that the adoption of GASB Statement No. 64 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

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

	June 30, 2011		
	Current	Noncurrent	Total
State Treasurer	$74,071,936	$ 176,000	$ 74,247,936
Trustee	12,050		12,050
State Treasurer — escrow		2,056,550	2,056,550
Money markets	23,533,753		23,533,753
In bank	1,230,792		1,230,792
On hand	5,661		5,661
	$98,854,192	$2,232,550	$101,086,742

	June 30, 2010		
	Current	Noncurrent	Total
State Treasurer	$74,491,469	$ 176,000	$ 74,667,469
Trustee	82,680	3,191,931	3,274,611
State Treasurer — escrow		1,538,157	1,538,157
Money markets	13,134,919		13,134,919
In bank	4,393,833		4,393,833
On hand	5,711		5,711
	$92,108,612	$4,906,088	$ 97,014,700

Cash held by the State Treasurer includes $1,819,294 and $2,089,265 at June 30, 2011 and 2010, respectively, of restricted cash for sponsored projects, loans, and other purposes.

Cash on deposit with Trustee represents funds reserved for refunding the University Facilities Revenue Bonds, Series 2001A and paying the costs of issuance that relate to the University Refunding Revenue Bonds, Series 2010 (see Note 9).

State Treasurer escrow represents an escrow agreement the University entered into with BRIM for malpractice insurance deductibles with a balance of $2,056,550 and $1,538,157 at June 30, 2011 and 2010, respectively.

MURC cash equivalents totaling $14,445,806 and $12,533,109 at June 30, 2011 and 2010, respectively, are held in repurchase agreements, and a business savings account collateralized at 112% and 113%, respectively. The collateral was held in the name of MURC.

The combined carrying amount of cash in bank at June 30, 2011 and 2010, was $1,230,792 and $4,393,833 as compared with the combined bank balance of $2,147,153 and $4,928,191, respectively. The difference is primarily caused by outstanding checks and items in transit. The bank balances were covered by federal depository insurance as noted below or were collateralized by securities held by the State's agent. Regarding federal depository insurance, interest-bearing accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. Non-interest bearing accounts are 100% insured through December 31, 2012.

Amounts with the State Treasurer as of June 30, 2011 and 2010, are comprised of 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 is to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of 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 in which the Commission invests, all are subject to credit risk.

WV Money Market Pool — Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For the years ended June 30, 2011 and 2010, 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 P-1 by Moody’s. The pool must have at least 15% of its assets in U.S. Treasury issues.

At June 30, 2011 and 2010, the WV Money Market Pool investments had a total carrying value of $3,018,560,000 and $2,876,711,000, respectively, of which the University’s ownership represents 2.13% and 2.37%, respectively.

WV Government Money Market Pool — Credit Risk — For the years ended June 30, 2011 and 2010, the WV Government 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 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, 2011 and 2010, the WV Government Money Market Pool investments had a total carrying value of $262,692,000 and $221,183,000, respectively, of which the University’s ownership represents 0.18% and 0.22%, respectively.

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 P-1 by Moody's. As this pool has not been rated, the following table provides information on the credit ratings of the WV Short Term Bond Pool's investments (in thousands):

Security Type	Credit Rating* Moody's	Credit Rating* S&P	2011 Carrying Value	2011 Percent of Pool Assets	2010 Carrying Value	2010 Percent of Pool Assets
Corporate asset backed securities	Aaa	AAA	$ 87,197	18.40 %	$ 24,330	5.37 %
	Aaa	NR *	19,891	4.20	10,353	2.28
	Aa3	AAA			1,000	0.22
	Aa3	AA+ **	454	0.10		
	Ba1	CC **			45	0.01
	Ba2	BB **			219	0.05
	B1	BBB **			605	0.13
	B1	CCC **	885	0.19	857	0.19
	B2	CCC **			366	0.08
	B3	B **	366	0.08	442	0.10
	B3	BBB **	631	0.13	247	0.05
	B3	CCC **			554	0.12
	Ca	CCC **	664	0.14		
	Caal	CCC **			230	0.05
	Caa2	CCC **	473	0.10	779	0.17
	Caa3	CCC **	393	0.08		
	Caa3	D **	27	0.01		
	NR *	AAA			3,538	0.78
	NR *	NR *	4,000	0.84		
			114,981	24.27	43,565	9.60
Corporate bonds and notes	Aaa	AAA			72,549	16.00
	Aaa	AA	2,043	0.43	2,060	0.46
	Aa1	AA			5,430	1.20
	Aa1	A	4,143	0.87		
	Aa2	AAA				
	Aa2	AA	11,866	2.50	6,650	1.47
	Aa3	AA	7,064	1.49	6,722	1.48
	Aa3	A	13,040	2.75	13,850	3.05
	A1	AA	8,107	1.71	15,485	3.41
	A1	A	22,731	4.80	21,098	4.65
	A2	AA	2,555	0.54		
	A2	A	23,976	5.06	41,093	9.06
	A3	A	8,770	1.85	4,158	0.92
			104,295	22.00	189,095	41.70
Commercial paper	P-1	A-1	15,995	3.38		
U.S. agency bonds	Aaa	AAA	20,017	4.22	40,180	8.86
U.S. Treasury notes***	Aaa	AAA	25,034	5.28	158,423	34.93
U.S. agency mortgage backed securities****	Aaa	AAA	97,296	20.53	4,540	1.00
Money market funds	Aaa	AAAm	96,287	20.32		
Money market funds	Aaa	AAA			17,715	3.91
			$473,905	100 %	$453,518	100 %

* NR = Not Rated

** The securities were not in compliance with BTI Investment Policy at June 30, 2011 and/or 2010. 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 mortgage backed securities are explicitly guaranteed by the United States government and are not subject to credit risk.

At June 30, 2011 and 2010, the University's ownership represents 1.78 % and 1.31%, respectively, of these amounts held by the BTI.

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

The overall weighted average maturity of the investments of the WV Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, except for government floating rate notes, which can be up to 731 days. The following table provides information on the weighted average maturities for the various asset types in the WV Money Market Pool:

	2011		2010	
Security Type	**Carrying Value (In Thousands)**	**WAM (Days)**	**Carrying Value (In Thousands)**	**WAM (Days)**
Repurchase agreements	$ 84,357	1	$ 174,980	1
U.S. Treasury notes	298,345	137	65,153	140
U.S. Treasury bills	231,051	34	476,670	35
Commercial paper	1,069,576	35	855,844	18
Certificates of deposit	140,000	58	281,000	45
U.S. agency discount notes	697,164	45	606,048	52
Corporate bonds and notes	127,000	20	20,000	19
U.S. agency bonds/notes	170,788	66	246,990	55
Money market funds	200,279	1	150,026	1
	$3,018,560	46	$2,876,711	33

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, except for government floating rate notes, which can be up to 731 days. The following table provides information on the weighted average maturities for the various asset types in the WV Government Money Market Pool:

	2011		2010	
Security Type	**Carrying Value (In Thousands)**	**WAM (Days)**	**Carrying Value (In Thousands)**	**WAM (Days)**
Repurchase agreements	$ 98,400	1	$ 66,600	1
U.S. Treasury notes	45,811	131	8,526	114
U.S. Treasury bills			29,982	72
U.S. agency discount notes	60,852	74	36,465	115
U.S. agency bonds/notes	57,498	22	79,532	30
Money market funds	131	1	78	1
	$262,692	45	$221,183	44

The overall effective duration of the investments of the WV Short Term Bond Pool cannot exceed 731 days. Maximum effective duration 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:

	2011		2010	
Security Type	**Carrying Value (In Thousands)**	**Effective Duration (Days)**	**Carrying Value (In Thousands)**	**Effective Duration (Days)**
U. S. Treasury bonds/notes	$ 25,034	227	$ 158,423	583
Commercial paper	15,995	55		
Corporate notes	104,295	234	189,095	560
Corporate asset backed securities	114,981	268	43,565	679
U.S. agency bonds/notes	20,017	85	40,180	288
U.S. agency mortgage backed securities	97,296	18	4,540	360
Money market funds	96,287	1	17,715	1
	$ 473,905	138	$ 453,518	530

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 a pool managed by the securities lending agent. 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 2011	Carrying Value 2010
Money market fund		$ 12,050	$ -
Money market fund (Credit Enhancers/Collateral 1.000 Financial Guaranty Insurance Co. Municipal Bond Insurance Policy)	Aaa		82,680
MBIA Guaranteed Investment Contract			3,191,931
		$ 12,050	$ 3,274,611

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 had an MBIA Guaranteed Investment Contract (GIC) with a fixed rate of interest of 5.18% at June 30, 2010. The GIC was closed out in November 2010 when the bonds were refinanced.

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 as of June 30, 2011 and 2010, are as follows:

	2011		
	Current	Noncurrent	Total
Student tuition and fees — net of allowance for doubtful accounts of $365,117	$ 585,470	$ -	$ 585,470
Grants and contracts receivable — net of allowance for doubtful accounts of $392,105	13,040,501		13,040,501
Due from the Commission	484,227		484,227
Due from other State agencies	2,440,756		2,440,756
Appropriations due from Primary Government	2,602,780		2,602,780
Other accounts receivable	551,844	5,293,714	5,845,558
	$ 19,705,578	$ 5,293,714	$ 24,999,292

	2010		
	Current	Noncurrent	Total
Student tuition and fees — net of allowance for doubtful accounts of $297,453	$ 769,797	$ -	$ 769,797
Grants and contracts receivable — net of allowance for doubtful accounts of $412,458	13,165,052		13,165,052
Due from the Commission	216,252		216,252
Due from other State agencies	2,715,836		2,715,836
Other accounts receivable	436,768	6,098,384	6,535,152
	$ 17,303,705	$ 6,098,384	$ 23,402,089

5. INVESTMENTS

The University had the following investments as of June 30, 2011 and 2010, as follows:

Investment Type	2011 Level 1	Level 2	Level 3	Fair Value
University:				
Commonfund — High Quality Bond Fund	$ -	$ 8,117,041	$ 174,922	$ 8,291,963
Commonfund — Equity Index Fund		2,066,196		2,066,196
MURC:				
Commonfund — Intermediate Term Fund		2,138,437	7,888	2,146,325
U.S. Government National Mortgage Association Securities		13,463,877		13,463,877
	$ -	$ 25,785,551	$ 182,810	$ 25,968,361

Investment Type	2010 Level 1	Level 2	Level 3	Fair Value
MURC:				
Commonfund — Intermediate Term Fund	$ -	$ 2,057,411	$ 9,441	$ 2,066,852
U.S. Government National Mortgage Association Securities		3,042,689		3,042,689
	$ -	$ 5,100,100	$ 9,441	$ 5,109,541

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 National Mortgage Association Securities held by MURC have an average maturity of 2.5 years and two years respectively, for fiscal year 2011 and 2010. The Intermediate Term Fund had an average maturity of 1.6 years and 1.5 years, respectively, for fiscal year 2011 and 2010. At both June 30, 2011 and 2010, MURC's investment in U.S. Government National Mortgage Association Securities were rated AAA as government backed securities and the average rating of the Intermediate Term Fund was AA at both June 30, 2011 and 2010.

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.

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

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

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

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

6. CAPITAL ASSETS

Capital asset transactions for the University for the years ended June 30, 2011 and 2010, are as follows:

	2011				
	Beginning Balance	Additions	Reductions	Other	Ending Balance
Capital assets not being depreciated:					
Land	$ 30,444,262	$ 173,136	$ -	$ -	$ 30,617,398
Antiques and artwork (inexhaustible)	132,107				132,107
Construction in progress	1,635,801	14,778,621	(10,523)	(5,837,029)	10,566,870
Total capital assets not being depreciated	$ 32,212,170	$ 14,951,757	$ (10,523)	$(5,837,029)	$ 41,316,375
Other capital assets:					
Land improvements	$ 6,658,924	$ -	$ -	$ -	$ 6,658,924
Infrastructure	24,733,392	267,555	(34,494)	155,958	25,122,411
Buildings	354,175,574			5,681,071	359,856,645
Equipment	66,159,123	6,627,176	(6,195,004)		66,591,295
Library books	8,456,133	123,354	(79,974)		8,499,513
Total other capital assets	460,183,146	7,018,085	(6,309,472)	5,837,029	466,728,788
Less accumulated depreciation for:					
Land improvements	1,643,222	443,928			2,087,150
Infrastructure	15,607,199	1,039,313	(34,494)		16,612,018
Buildings	100,198,033	6,968,049			107,166,082
Equipment	48,407,585	4,230,409	(5,799,696)		46,838,298
Library books	7,935,740	167,017	(79,974)		8,022,783
Total accumulated depreciation	173,791,779	12,848,716	(5,914,164)	-	180,726,331
Other capital assets — net	$ 286,391,367	$ (5,830,631)	$ (395,308)	$ 5,837,029	$ 286,002,457
Capital asset summary:					
Capital assets not being depreciated	$ 32,212,170	$ 14,951,757	$ (10,523)	$(5,837,029)	$ 41,316,375
Capital assets	460,183,146	7,018,085	(6,309,472)	5,837,029	466,728,788
Total cost of capital assets	492,395,316	21,969,842	(6,319,995)	-	508,045,163
Less accumulated depreciation	(173,791,779)	(12,848,716)	5,914,164		(180,726,331)
Capital assets — net	$ 318,603,537	$ 9,121,126	$ (405,831)	$ -	$ 327,318,832

	2010				
	Beginning Balance	Additions	Reductions	Other	Ending Balance
Capital assets not being depreciated:					
Land	$ 30,982,236	$ 172,936	$ (710,910)	$ -	$ 30,444,262
Antiques and artwork (inexhaustible)	132,107				132,107
Construction in progress	6,378,758	4,955,970		(9,698,927)	1,635,801
Total capital assets not being depreciated	$ 37,493,101	$ 5,128,906	$ (710,910)	$(9,698,927)	$ 32,212,170
Other capital assets:					
Land improvements	$ 6,174,781	$ -	$ -	$ 484,143	$ 6,658,924
Infrastructure	23,999,738	731,708	(22,693)	24,639	24,733,392
Buildings	345,083,408	93,120	(191,099)	9,190,145	354,175,574
Equipment	66,125,834	4,293,385	(4,260,096)		66,159,123
Library books	8,367,474	149,404	(60,745)		8,456,133
Total other capital assets	449,751,235	5,267,617	(4,534,633)	9,698,927	460,183,146
Less accumulated depreciation for:					
Land improvements	1,199,294	443,928			1,643,222
Infrastructure	14,599,457	1,030,435	(22,693)		15,607,199
Buildings	93,518,646	6,870,486	(191,099)		100,198,033
Equipment	47,138,322	4,855,836	(3,586,573)		48,407,585
Library books	7,814,475	182,010	(60,745)		7,935,740
Total accumulated depreciation	164,270,194	13,382,695	(3,861,110)	-	173,791,779
Other capital assets — net	$ 285,481,041	$ (8,115,078)	$ (673,523)	$ 9,698,927	$ 286,391,367
Capital asset summary:					
Capital assets not being depreciated	$ 37,493,101	$ 5,128,906	$ (710,910)	$(9,698,927)	$ 32,212,170
Capital assets	449,751,235	5,267,617	(4,534,633)	9,698,927	460,183,146
Total cost of capital assets	487,244,336	10,396,523	(5,245,543)	-	492,395,316
Less accumulated depreciation	(164,270,194)	(13,382,695)	3,861,110		(173,791,779)
Capital assets — net	$ 322,974,142	$ (2,986,172)	$(1,384,433)	$ -	$ 318,603,537

The University maintains certain collections of inexhaustible assets for 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.

The University has been approved to receive $17,600,000 of Education, Arts, Science, and Tourism (EAST) bond proceeds issued by the West Virginia Development Office during August 2010. As of June 30, 2011, $3,992,342 of such proceeds have been received. The West Virginia Development Office is responsible for repayment of the debt.

At June 30, 2011, the University had outstanding contractual commitments of approximately $11,900,000 for property, plant, and equipment expenditures.

7. LONG-TERM LIABILITIES

Long-term obligation transactions for the University for the year ended June 30, 2011 and 2010, are as follows:

	2011				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes, bonds, and capital leases:					
Notes payable	$ 2,780,914	$ -	$ (119,565)	$ 2,661,349	$ 121,953
Revenue bonds payable	40,690,000	38,875,128	(40,753,419)	38,811,709	915,000
Capital leases payable	8,919,407		(918,464)	8,000,943	900,000
Total notes, bonds, and capital leases	52,390,321	38,875,128	(41,791,448)	49,474,001	
Other long-term liabilities:					
Debt obligation to the Commission	24,542,639		(3,160,103)	21,382,536	3,309,689
Due to MCTC	2,930,334		(437,500)	2,492,834	350,000
OPEB liability	15,438,783	11,663,719		27,102,502	
Other noncurrent liabilities	8,574,101	1,737,265	(2,133,380)	8,177,986	
Advances from federal sponsors	6,418,460		(8,594)	6,409,866	
Total other long-term liabilities	57,904,317	13,400,984	(5,739,577)	65,565,724	
	$ 110,294,638	$ 52,276,112	$ (47,531,025)	$ 115,039,725	

	2010				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes, bonds, and capital leases:					
Notes payable	$ 2,940,926	$ -	$ (160,012)	$ 2,780,914	$ 119,565
Revenue bonds payable — including debt service reserve funds of $3,191,931	41,775,000		(1,085,000)	40,690,000	1,135,000
Capital leases payable	9,862,078		(942,671)	8,919,407	918,595
Total notes, bonds, and capital leases	54,578,004	-	(2,187,683)	52,390,321	
Other long-term liabilities:					
Debt obligation to the Commission	27,567,118		(3,024,479)	24,542,639	3,160,103
Due to MCTC	3,500,000		(569,666)	2,930,334	437,500
OPEB liability	2,988,774	12,450,009		15,438,783	
Other noncurrent liabilities	6,805,898	2,775,065	(1,006,862)	8,574,101	
Advances from federal sponsors	6,510,861	60,000	(152,401)	6,418,460	
Total other long-term liabilities	47,372,651	15,285,074	(4,753,408)	57,904,317	
	$ 101,950,655	$ 15,285,074	$(6,941,091)	$ 110,294,638	

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 was 3.2% at April 10, 2008, and will continue to and include 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.

At June 30, 2011, the scheduled maturities on notes payable are as follows:

Years Ending June 30	Principal	Interest
2012	$ 121,953	$ 85,109
2013	124,101	81,261
2014	128,072	77,289
2015	132,170	73,191
2016	136,400	68,962
2017–2021	750,332	276,475
2022–2026	878,318	148,489
2027–2028	390,003	18,788
	$2,661,349	$829,564

9. BONDS

Bonds payable at June 30, 2011 and 2010, consist of the following:

	Original Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding 2011	Principal Amount Outstanding 2010
University Refunding Revenue Bonds	2.0%–5.0%	$915,000–$2,885,000	$37,140,000	$ -
University Facilities Revenue Bonds	3.6%–5.3%	$1,135,000–$3,035,000		40,690,000
			37,140,000	40,690,000
Add Bond Premium			1,671,709	
Total			$38,811,709	$40,690,000

In June 2001, the Board sold $46,610,000 of Revenue Bonds, 2001 Housing and Parking Facilities 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 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 2001 Bonds were 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 were 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 2010 Bonds, (3) to fund debt service reserves for the 2010 Bonds, and (4) to pay a portion of the costs of issuance of the 2010 Bonds.

In November 2010, the Board sold $37,140,000 of University Refunding Revenue Bonds, Series 2010 (the "2010 Bonds"). The 2010 Bonds were issued under the authority contained in Article 10, Chapter 18B of the Code of West Virginia, 1931, as amended, and the 2010 Bonds will be secured pursuant to an Indenture dated as of November 1, 2010, by and between the Trustee. The 2010 Bonds are secured by and payable from auxiliary fees as defined in the Indenture. The proceeds of the 2010 Bonds were used to (1) advance refund $40,690,000 of State of West Virginia, Higher Education Interim Governing Board, University Facilities Revenue Bonds, Series 2001A and (2) pay the costs of issuance of the 2010 Bonds.

The above bond issues are specific to the University, although the Bonds were also issued either in the name of the Board or the State itself. As debt service is required on these bond issues, the University remits the funds to 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, 2011, is as follows:

Years Ending June 30	University Refunding Revenue Principal	University Refunding Revenue Interest
2012	$ 915,000	$ 1,645,600
2013	1,390,000	1,627,300
2014	1,430,000	1,585,600
2015	1,475,000	1,542,700
2016	1,520,000	1,498,450
2017–2021	8,675,000	6,424,650
2022–2026	10,950,000	4,141,225
2027–2030	10,785,000	1,295,450
	$ 37,140,000	$ 19,760,975

10. LEASES

Operating — Future annual minimum lease payments on operating leases for years subsequent to June 30, 2011, are as follows:

Years Ending June 30	
2012	$ 302,430
2013	145,400
2014	72,600
2015	16,500
	$ 536,930

Total rent expense for the years ended June 30, 2011 and 2010, was $447,474 and $594,811, respectively. The University does not have any noncancelable leases.

Capital — The University leases various equipment and buildings through capital leases. At June 30, 2011 and 2010, leased equipment with a net book value of $618,733 and $830,609 and leased buildings with a net book value of $10,493,242 and $10,769,107, respectively, are included in equipment and buildings.

In December 1996, the University entered into a lease agreement with the Marshall University Graduate College (MUGC) Foundation for an academic center to be used by the MUGC. The construction of the academic center was financed by the MUGC Foundation through the issuance of governmental revenue bonds. Effective September 1, 1997, the MUGC Foundation leased the academic center to the University for 20 years. Upon expiration of the lease term, the University will have the right to purchase the academic center for a sum equal to the amount required to redeem or otherwise satisfy or defease the MUGC Foundation's bonds on the date of such purchase. During the year ended June 30, 2008, all assets and liabilities of the MUGC Foundation became part of the Foundation. This lease agreement is now with the Foundation.

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

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

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

Future annual minimum lease payments for years subsequent to June 30, 2011, are as follows:

Years Ending June 30	Principal	Interest	Total
2012	$ 900,001	$ 302,518	$ 1,202,519
2013	937,646	264,874	1,202,520
2014	976,542	225,969	1,202,511
2015	923,621	186,264	1,109,885
2016	765,151	150,506	915,657
2017–2021	2,118,758	432,495	2,551,253
2022–2025	1,379,224	80,562	1,459,786
			9,644,131
Less interest			1,643,188
			$ 8,000,943

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 lease transferred to Provident — Marshall when the project was purchased from MSH — Marshall. The ground lease payments are one dollar per year.

11. OTHER POST EMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2011 and 2010, the noncurrent liability related to OPEB costs was $27,102,502 and $15,438,783, respectively. The total of OPEB expense incurred and the amount of OPEB expense that relates to retirees was $14,680,071 and $3,016,352, respectively, during 2011. The total of OPEB expense incurred and the amount of OPEB expense that relates to retirees was $15,207,924 and $2,757,915, respectively, during 2010. As of and for the years ended June 30, 2011 and 2010, there were 185 and 181, respectively, 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, 2011 and 2010, debt service assessed is as follows:

	2011	**2010**
Principal	$3,160,103	$3,024,479
Interest	1,105,380	1,238,535
Other	45,313	45,313
	$4,310,796	$4,308,327

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. State lottery funds will be used to repay the debt, although the University revenues are pledged if lottery funds prove insufficient.

During August 2010, the West Virginia Development Office issued approximately $162 million of Education, Arts, Science and Tourism (EAST) bonds. The Commission, as provided in the State Code, received 60% or $97.2 million, of the proceeds to help fund various building and campus renewal projects. The University has been authorized to receive $17,600,000 of these proceeds. The West Virginia Development office is responsible for the repayment of the debt. As of June 30, 2011, the University has recognized $4.0 million of these funds.

During December 2010, the West Virginia Higher Education Policy Commission (HEPC) issued $76,865,000 of the State of West Virginia Higher Education Policy Commission Revenue 2010 Series Bonds to fund HEPC Bond projects approved by the Commission. The University has been authorized to receive $25,000,000 of these proceeds to be specifically used for the construction of the new Biotechnology Development Center and Applied Engineering Complex. The University will begin drawing the bond proceeds for this project in FY 2012; 85% of these bond proceeds must be spent by December 2013. The University has no responsibility for repayment of this debt.

13. UNRESTRICTED NET ASSETS

The University's unrestricted net assets at June 30, 2011 and 2010, include certain designated net assets, as follows:

	2011	2010
Designated for auxiliaries	$ 1,053,910	$ 2,800,598
Designated for repairs and maintenance, debt payments, capital projects, and equipment purchases	13,185,658	6,120,052
Undesignated	64,834,643	52,585,294
Total unrestricted net assets before OPEB liability	79,074,211	61,505,944
Less OPEB liability	27,102,502	15,438,783
Total unrestricted net assets	$51,971,709	$46,067,161

A portion of the unrestricted net assets previously designated for auxiliaries have been moved to designated for repairs and maintenance in order to fund future maintenance on auxiliary facilities.

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 salary for the years ended June 30, 2011 and 2010. Required employee contributions were at the rate of 6 % of total annual salaries for the years ended June 30, 2011 and 2010. 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 five years of salary out of the last 15 years) multiplied by the number of years of service.

Total contributions to STRS for the years ended June 30, 2011, 2010, and 2009, were approximately $971,000, $1,003,000, and $1,080,000, respectively, which consisted of approximately $692,000, $715,000, and $770,000 from the University in 2011, 2010, and 2009, respectively, and approximately $279,000, $288,000, and $310,000 from covered employees in 2011, 2010, and 2009, respectively.

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

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

Total contributions to TIAA-CREF for the years ended June 30, 2011, 2010, and 2009, were approximately $12,079,000, $11,891,000, and $11,489,000, respectively, which consisted of approximately $5,973,000, $5,884,000, and $5,670,000 from the University in 2011, 2010, and 2009, respectively, and approximately $6,106,000, $6,007,000, and $5,819,000 from covered employees in 2011, 2010, and 2009, respectively.

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 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, which are not matched by the University.

Total contributions to the Educators Money for the years ended June 30, 2011, 2010, and 2009, were approximately $110,000, $152,000, and $128,000, respectively, which consisted of approximately $55,000, $76,000, and $64,000 from the University in 2011, 2010, and 2009, respectively, and approximately $55,000, $76,000, and $64,000 from covered employees in 2011, 2010, and 2009, respectively.

The University's total payroll for the years ended June 30, 2011 and 2010, was approximately $114,860,000 and $114,053,000, respectively; total covered employees salaries in the STRS, TIAA-CREF, and Educators Money were approximately $4,658,000, $99,684,000, and $914,000, respectively, in 2011 and $4,805,000, $98,357,000, and $1,268,000, respectively, in 2010.

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.

16. COMPONENT UNITS

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 University 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 for the year ended June 30, 2010 are presented as a discrete component unit of the University's combined financial statements in accordance with GASB.

On July 30, 2010, MSH — Marshall sold the project to Provident Group – Marshall Properties LLC, in accordance with the terms and conditions of the Purchase and Sale Agreement. MSH – Marshall recognized a gain on sale of the Series 2007 project, net of unamortized issuance costs, of $17 million. The University did not have any financial impact as a result of the sale.

PROVIDENT — MARSHALL PROPERTIES L.L.C.

Provident – Marshall, a West Virginia limited liability company, was created on June 4, 2010, by its sole member, Provident Resources Group, Inc. (Provident), a Georgia nonprofit corporation and organization exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986 (Code), as amended as a charitable organization described in Section 501(c)(3) of the Code. Provident — Marshall was created to own, operate and maintain a 418 unit, 812 bed, student housing facility and a 123,850 square foot student recreation/wellness center located on the campus of Marshall University, located in Huntington, West Virginia (Project). On July 30, 2010, Provident — Marshall purchased the Project from MSH – Marshall and commenced operations on that date.

Provident and Provident — Marshall promote and advance education through various means, including, without limitation, the development, construction, acquisition, ownership, management, maintenance, operation, and disposition of facilities of various types, including, but not limited to, educational, research, and student-housing facilities and through the provision of development, enrichment, counseling, tutoring, and other services and activities, so as to assist colleges and universities in fulfilling their educational mission. The Provident — Marshall financial statements for the period ending June 30, 2011 are presented as a discrete component unit of the University's combined financial statements in accordance with GASB.

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 the blended component unit requirements. They are not included in the University's accompanying combined financial statements under discretely presented component unit requirements as, they (1) are not material or (2) have dual purposes (i.e., not entirely or almost entirely for the benefit of the University).

18. RELATED PARTY TRANSACTIONS

The University continued to provide services to Mountwest Community and Technical College (MCTC) and the University recognized $2.0 million and $2.2 million in 2011 and 2010, respectively, in state contracts and grants in connection with service agreements. The Governing Boards of both institutions have agreed to extend the service agreement past July 1, 2011, on a monthly basis until MCTC's renovated campus is available for occupancy. At June 30, 2011 and 2010, related to this service agreement, the University has recorded $23,076 and $53,617, respectively, as a receivable from MCTC. Additionally, during the year ended June 30, 2010, the University had a net transfer of assets of $403,744 to MCTC.

19. 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, 2011 or 2010.

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.

20. 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.

Board of Governors of Marshall University, University Refunding Revenue Bonds, Series 2010

In November 2010, the Board sold $37,140,000 of University Refunding Revenue Bonds, Series 2010 (the "2010 Bonds"). The 2010 Bonds were issued under the authority contained in Article 10, Chapter 18B of the Code of West Virginia, 1931, as amended, and the 2010 Bonds will be secured pursuant to an Indenture dated as of November 1, 2010, by and between the Trustee. The 2010 Bonds are secured by and payable from auxiliary fees as defined in the Indenture.

The proceeds of the 2010 Bonds are being used to (1) advance refund $40,690,000 of State of West Virginia, Higher Education Interim Governing Board, University Facilities Revenue Bonds, Series 2001A and (2) pay the costs of issuance of the 2010 Bonds.

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.

The 2001 Bonds were refinanced by the 2010 Bonds.

Condensed financial information for the University's segment as of June 30, 2011 and 2010, is as follows:

	2010 Bonds	2001 Bonds
Condensed Statements of Net Assets	**2011**	**2010**
Assets:		
Current assets	$ 6,509,177	$ 8,390,747
Noncurrent assets	42,244,540	44,733,101
Total	$ 48,753,717	$ 53,123,848
Liabilities:		
Current liabilities	$ 3,869,656	$ 3,350,794
Noncurrent liabilities	39,099,792	40,303,512
Total liabilities	42,969,448	43,654,306
Net assets:		
Invested in capital assets — net of related debt	3,438,572	4,043,101
Restricted for debt service	6,309	82,679
Unrestricted	2,339,388	5,343,762
Total net assets	5,784,269	9,469,542
Total	$ 48,753,717	$ 53,123,848
Condensed Statements of Revenues, Expenses, and Changes in Net Assets		
Operating:		
Operating revenues	$ 16,916,672	$ 14,991,202
Operating expenses	(13,393,509)	(12,964,780)
Net operating income	3,523,163	2,026,422
Nonoperating:		
Nonoperating revenues	324,593	178,480
Nonoperating expenses	(1,642,779)	(2,159,303)
Total nonoperating	(1,318,186)	(1,980,823)
Net Revenues	2,204,977	45,599
Transfers from the University	3,579,292	14,388
Changes in net assets	5,784,269	59,987
Net assets — beginning of year		9,409,555
Net assets — end of year	$ 5,784,269	$ 9,469,542
Condensed Statements of Cash Flows		
Net cash provided by operating activities	$ 6,147,180	$ 3,948,173
Net cash provided by (used in) capital and related financing	206,999	(3,187,264)
Net increase in cash and cash equivalents	6,354,179	760,909
Cash and cash equivalents — beginning of year		10,660,278
Cash and cash equivalents — end of year	$ 6,354,179	$ 11,421,187

21. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The operating expenses within both natural and functional classifications for the years ended June 30, 2011 and 2010, are as follows:

2011	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Other Operating Expense	Fees Assessed by the Commission	Total
Instruction	$ 54,195,687	$19,901,088	$ 8,296,042	$ 14	$ -	$ -	$ -	$ -	$ 82,392,831
Research	6,935,345	2,476,928	7,487,348	72,225					16,971,846
Public service	10,821,597	3,224,452	6,533,971	146,767					20,726,787
Academic support	11,682,982	4,384,713	5,397,476	17,900					21,483,071
Student services	6,369,194	2,744,451	3,465,428	6,745					12,585,818
General institutional support	12,398,473	4,479,092	4,879,333	411,865					22,168,763
Operations and maintenance of plant	4,129,658	2,573,205	3,240,334	6,316,380					16,259,577
Student financial aid					22,528,524				22,528,524
Auxiliary enterprises	8,326,682	3,966,155	13,865,311	1,983,968					28,142,116
Depreciation						12,848,716			12,848,716
Other							344,282	694,131	1,038,413
Total	$114,859,618	$43,750,084	$53,165,243	$8,955,864	$22,528,524	$12,848,716	$344,282	$694,131	$257,146,462

2010	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Other Operating Expense	Fees Assessed by the Commission	Total
Instruction	$ 53,252,081	$21,177,345	$ 8,102,033	$ 937	$ -	$ -	$ -	$ -	$ 82,532,396
Research	7,989,643	2,918,049	7,645,774	245,516					18,798,982
Public service	10,495,184	3,391,828	6,853,866	125,373					20,866,251
Academic support	11,156,450	4,512,872	5,405,451	153					21,074,926
Student services	6,083,216	2,956,989	3,201,995	2,567					12,244,767
General institutional support	12,090,002	4,790,929	4,143,305	21,551					21,045,787
Operations and maintenance of plant	3,975,609	2,728,472	3,015,375	6,157,942					15,877,398
Student financial aid					20,541,524				20,541,524
Auxiliary enterprises	9,011,079	4,238,291	13,369,527	1,904,059					28,522,956
Depreciation						13,382,695			13,382,695
Other							396,241	667,466	1,063,707
Total	$114,053,264	$46,714,775	$51,737,326	$8,458,098	$20,541,524	$13,382,695	$396,241	$667,466	$255,951,389

22. SUBSEQUENT EVENT

In September 2011, the Marshall University Board of Governors approved a resolution authorizing the financing of certain capital projects through the issuance of one or more series of bonds in a principal amount not to exceed $54,000,000. The non-exclusive list of potential projects to be funded by these bonds include a multi-floor parking structure, a soccer stadium complex, a biotechnology incubator and applied engineering complex, a fine arts incubator, an indoor athletic complex, an academic instructional facility and land acquisition and building demolition.

23. COMPONENT UNIT DISCLOSURES — FOUNDATION

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

THE MARSHALL UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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 donor restricted 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 19. 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 for Marshall University departments is expensed when received and immediately donated to the University by The Marshall University Foundation, Inc.

OTHER ASSETS

Other assets consists of donated works of art and musical instruments which do not meet the definition of a collection 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 $37,598 and $23,992 for 2011 and 2010, respectively are charged to operations when incurred.

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2011 and 2010 are comprised of the following:

	2011	2010
Cash and overnight repurchase agreements	$ 3,461,883	$ 3,093,550
Short-term investments	5,530,389	4,214,624
TOTAL	$ 8,992,272	$ 7,308,174

NOTE 3 - INVESTMENTS

Investments as of June 30, 2011 and 2010 are summarized as follows:

	2011		
	Book Value	Fair Value	Unrealized Gain/(Loss)
Fixed income	$ 17,172,533	$ 17,498,749	$ 326,216
Equities	54,889,678	64,893,770	10,004,092
Other	12,974,458	8,013,946	(4,960,512)
TOTAL	$ 85,036,669	$ 90,406,465	$ 5,369,796

	2010		
	Book Value	Fair Value	Unrealized Gain/(Loss)
Fixed income	$ 21,601,410	$ 22,803,440	$ 1,202,030
Equities	45,759,840	46,419,884	660,044
Other	12,902,813	6,836,967	(6,065,846)
TOTAL	$ 80,264,063	$ 76,060,291	$ (4,203,772)

The following summarizes the investment income for the years ended June 30, 2011 and 2010 inclusive of income on cash equivalents, perpetual trusts, and the investments described above:

	2011	2010
Interest and dividends	$ 1,877,837	$ 1,954,326
Realized gain	3,816,777	1,144,812
Unrealized gain	10,016,770	3,943,219
Investment fees	(222,726)	(139,874)
Net investment return	$ 15,488,658	$ 6,902,483

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

NOTE 4 - 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, 2011, 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:

2012	$ 630,380
2013	630,382
2014	630,372
2015	630,385
2016	502,328
Total minimum lease payments due in next five years	3,023,847
Minimum lease payments due in later years	484,605
Gross investment in direct financing leases	3,508,452
Less unearned income	(406,944)
Net investment in direct financing leases	$ 3,101,508

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

NOTE 4 - DIRECT FINANCING LEASES AND BONDS PAYABLE (CONTINUED)

Bonds payable

Bonds payable are as follows at June 30, 2011 and 2010:

	2011	2010
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 leased to the State of West Virginia under direct finance lease.	$ 1,288,410	$ 1,530,370
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 leased to the State of West Virginia under direct finance lease.	1,833,769	2,076,388
The County Commission of Cabell County, West Virginia Commercial Development Revenue Bond, Series 2010, (The Marshall University Foundation, Inc. Projects) original principle amount $9,200,000, interest at LIBOR + 2% X 67%, interest is payable monthly, semi-annual installments of principle are due each August and February with the final installment due February 21, 2031, secured by real property with a book value of $10,425,095 at June 30, 2011.	9,200,000	-0-
Total bonds payable	$ 12,322,179	$ 3,606,758

Scheduled bond principal and interest payments are as follows at June 30, 2011:

Year ending June 30,	Principal	Interest	Total
2012	$ 888,736	$ 211,874	$ 1,100,610
2013	919,807	232,876	1,152,683
2014	950,848	203,601	1,154,449
2015	982,906	173,555	1,156,461
2016	911,986	142,923	1,054,909
Total due in next five years	4,654,283	964,829	5,619,112
Amounts due in later years	7,667,896	887,360	8,555,256
Total bonds payable	$ 12,322,179	$ 1,852,189	$ 14,174,368

Interest expense on bonds payable charged to operations was $275,672 and $162,729 for the years ended June 30, 2011 and 2010, respectively.

NOTE 5 - PROMISES TO GIVE

Unconditional promises to give at June 30, 2011 and 2010 are as follows:

	2011	2010
Receivable in less than one year	$ 3,410,211	$ 2,352,757
Receivable in one to five years	6,462,796	2,768,388
Receivable in more than five years	429,750	504,525
Total unconditional promises to give	10,302,757	5,625,670
Less discounts to net present value	(339,958)	(375,896)
Less allowance for uncollectible promises	(197,528)	(129,919)
Net unconditional promises to give	$ 9,765,271	$ 5,119,855

Discount rates used on long-term promises to give ranged from 0.50% to 9.5% for fiscal years ended June 30, 2011 and 2010.

NOTE 6 - PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at June 30, 2011 and 2010:

	2011	2010
Land	$ 1,642,000	$ 1,642,000
Buildings	10,771,635	10,820,563
Office equipment	1,153,645	1,138,977
	13,567,280	13,601,540
Less: Accumulated depreciation	(690,525)	(303,505)
Property and equipment, net	$ 12,876,755	$ 13,298,035

Depreciation expense charged to operations was $397,468 and $183,991 for the years ended June 30, 2011 and 2010, respectively.

NOTE 7 - CONTINGENT ASSETS

The Foundation is the beneficiary of various whole life insurance policies. Proceeds payable to the Foundation upon the demise of the insured parties totaled approximately $2,240,000 and $1,588,000 at June 30, 2011 and 2010, respectively.

NOTE 8 - INCOME TAXES

The Foundation is a tax exempt organization under Internal Revenue Code Section 501(c)(3). The Foundation does, however, engage in some activities that are considered by the Internal Revenue Service to be unrelated business activities and therefore subject to unrelated business tax at the prevailing corporate rates. The Foundation's income tax expense for the fiscal years ended June 30, 2011 and 2010 totaled $-0-.

NOTE 9 - CHARITABLE GIFT ANNUITIES

As of June 30, 2011 and 2010, 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 (3.2% at June 30, 2011), the present value of future liabilities expected to be paid by the Foundation to the beneficiaries totaled $628,641 and $690,241 as of June 30, 2011 and 2010, respectively.

Assets received under these split interest agreements are recognized at fair market value at the date of receipt. The assets have been deposited in the Foundation's regular cash and investment accounts. The difference between the fair value of the assets received and the present value of the future distributions to the donors is recorded as contribution revenue.

Contribution revenue net of change in valuation of charitable gift annuities totaled ($38,357) and ($66,573) for the years ended June 30, 2011 and 2010, respectively.

NOTE 10 - 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, 2011. At June 30, 2011 and 2010, the contribution receivable from the remainder trusts totaled $978,911 and $478,743, respectively.

Contribution revenue net of change in valuation of charitable remainder trusts totaled $500,169 and ($22,176) for the years ended June 30, 2011 and 2010, respectively.

NOTE 11 - 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, 2011 and 2010, the beneficial interest in perpetual trusts totaled $8,889,783 and $6,415,960, respectively.

The change in the beneficial interest in perpetual trusts assets is recorded in permanently restricted other income and investment income in the accompanying financial statements and totaled $839,059 and $277,454 for the years ended June 30, 2011 and 2010, respectively.

NOTE 12 - NOTES PAYABLE

As of June 30, 2010, the Foundation had drawn down $8,735,452 of a $10.0 million commercial loan with a local bank. The commercial loan was extended through December 2010 and was paid in full from the proceeds of the Revenue Bonds issued December 21, 2010.

Interest expense on Notes Payable charged to operations totaled $34,820 and $53,303 for the years ended June 30, 2011 and 2010, respectively.

NOTE 13 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2011 and 2010 are available for the following purposes or periods:

Periods after June 30,	2011	2010
Program activities		
Academic assistance	$ 18,331,234	$ 15,101,416
Student assistance	7,052,952	5,594,597
Total temporarily restricted net assets	$ 25,384,186	$ 20,696,013

Net assets were released from donor restrictions during the years ended June 30, 2011 and 2010 by incurring expenses satisfying the purpose specified by donors as follows:

Purpose restrictions accomplished:	2011	2010
Academic assistance	$ 4,212,134	$ 4,971,227
Student assistance	1,774,097	1,740,953
Fundraising	61,292	94,822
Total restrictions released	$ 6,047,523	$ 6,807,002

NOTE 14 - PERMANENTLY RESTRICTED NET ASSETS

Net assets were permanently restricted for the following purposes at June 30, 2011 and 2010:

	2011	2010
Academic assistance	$ 36,312,804	$ 27,395,996
Student assistance	43,890,299	40,940,114
Total permanently restricted net assets	$ 80,203,103	$ 68,336,110

NOTE 15 - CONCENTRATIONS OF CREDIT RISK

The Foundation receives pledges from alumni as well as other individuals and companies. The pledges are unsecured. Unconditional promises to give are recorded net of an allowance for bad debts of $197,528 and $129,919 at June 30, 2011 and 2010, respectively.

The Foundation maintains substantially all of its cash balances with three financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250,000.

NOTE 16 - RETIREMENT PLAN

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

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

Employer	6%
Employee	6%

Pension expense for the fiscal years ended June 30, 2011 and 2010 was $63,218 and $67,194, respectively.

NOTE 17 - FUNCTIONAL ALLOCATION OF EXPENSES

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

NOTE 18 - DONATED SERVICES

The Foundation receives a significant amount of donated services from unpaid volunteers who assist in fund raising activities. No amounts have been recognized in the Statement of Activities because the criteria for recognition under the Not For Profit Topic of the FASB Accounting Standards Codification have not been satisfied.

NOTE 19 - FAIR VALUE MEASUREMENTS

The Foundation determines the fair values of its financial instruments based on the fair value hierarchy established by the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification. In February, 2008, the FASB delayed the fair value measurements and disclosures requirement of certain nonfinancial assets and nonfinancial liabilities except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis. These fair value measurements and disclosures for such nonfinancial assets and nonfinancial liabilities were deferred to years beginning after November 15, 2008, and interim periods within those fiscal years. Thus, the Foundation only partially adopted the provisions of the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification in the fiscal year ended June 30, 2009. Those items affected include other assets. The Foundation fully adopted the fair value measurements and disclosures requirements on July 1, 2009 which did not have a material impact on the Foundation's fiscal year ended June 30, 2010 financial statements.

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification 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 three levels of the fair value hierarchy based on these two types of inputs are as follows:

Level 1 - Valuation is based on quoted prices in an active market for identical assets and liabilities at the measurement date.

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.

The hierarchy requires the use of observable market data when available. When determining fair value measurements, the Foundation utilizes active and observable market prices for identical assets and liabilities whenever possible and classifies such items as Level 1. When identical assets and liabilities are not traded in active markets, the Foundation utilizes market observable data for similar assets and liabilities in an active market, 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 and classifies such items as Level 2. When observable data is not available, the Foundation uses alternative valuation techniques using unobservable inputs to determine a fair value and classifies such items as Level 3. Items valued using such internally generated valuation techniques are based on the lowest level of input that is significant to the valuation.

NOTE 19 - FAIR VALUE MEASUREMENTS (CONTINUED)

Fair values of assets measured on a recurring basis at June 30, 2011 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	$ 978,911	$ 978,911	$ -0-	$ -0-
Beneficial interest in perpetual trusts	8,889,783	8,889,783	-0-	-0-
Investments				
Fixed income	17,498,749	445,861	17,052,888	-0-
Equities	64,893,770	502,915	64,390,855	-0-
Other	8,013,946	-0-	3,935,616	4,078,330
Total Assets	$ 100,275,159	$ 10,817,470	$ 85,379,359	$ 4,078,330

Fair values of assets measured on a recurring basis at June 30, 2010 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	$ 478,743	$ 478,743	$ -0-	$ -0-
Beneficial interest in perpetual trusts	6,415,960	6,415,960	-0-	-0-
Investments				
Fixed income	22,803,440	471,585	21,331,855	-0-
Equities	46,419,884	461,774	46,958,110	-0-
Other	6,836,967	-0-	3,639,783	3,197,184
Total Assets	$ 82,954,994	$ 7,828,062	$ 71,929,748	$ 3,197,184

NOTE 19 - FAIR VALUE MEASUREMENTS (CONTINUED)

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

	2011	2010
BEGINNING BALANCE	$ 3,197,184	$ 6,257,283
Investment income (loss)	(100,942)	(139,305)
Unrealized/realized gain (loss) included in changes in net assets, reported in investment income	353,443	(3,312,371)
Purchases	750,450	770,397
Sales	(121,805)	(378,820)
ENDING BALANCE	$ 4,078,330	$ 3,197,184

The amount of the total gains and losses for the period included in changes in net assets, reported in investment income, attributable to the change in unrealized gains and losses relating to assets still held at June 30, 2011 and June 30, 2010 was $280,151 and ($2,826,042), respectively.

Fair values of liabilities measured on a recurring basis at June 30, 2011 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	$ 628,641	$ 628,641	$ -0-	$ -0-
Interest rate swap	140,726	140,726	-0-	-0-
Total Liabilities	$ 769,367	$ 769,367	$ -0-	$ -0-

Fair values of liabilities measured on a recurring basis at June 30, 2010 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	$ 690,241	$ 690,241	$ -0-	$ -0-
Total Liabilities	$ 690,241	$ 690,241	$ -0-	$ -0-

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

NOTE 19 - FAIR VALUE MEASUREMENTS (CONTINUED)

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 funds 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, 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.

Interest Rate Swap
The Foundation uses quoted market prices provided by the counterparty which makes a market in interest rate swaps and, therefore, they are included in Level 1.

NOTE 19 - FAIR VALUE MEASUREMENTS (CONTINUED)

Fair values of assets measured on a nonrecurring basis at June 30, 2011 and 2010 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				
Other assets	$ 629,400	$ -0-	$ 629,400	$ -0-
Total assets	$ 629,400	$ -0-	$ 629,400	$ -0-

The following describes the valuation methodologies used to measure nonfinancial instruments at fair value on a nonrecurring basis:

Other Assets: Other assets consists of donated works of art and musical instruments. Such assets are carried on the statement of financial position at their estimated fair values at the date of donation. Fair value is determined by independent appraisals.

NOTE 20 - ENDOWMENTS

The Marshall University Foundation, Inc.'s endowment consists of approximately 645 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 on the existence or absence of donor-imposed restrictions.

Endowment Net Asset Composition by Type of Fund as of June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 1,036,562	$ 8,021,115	$ 64,132,427	$ 73,190,104
Board-designated endowment funds	10,619,830	-0-	-0-	10,619,830
Total funds	$ 11,656,392	$ 8,021,115	$ 64,132,427	$ 83,809,934

NOTE 20 - ENDOWMENTS (CONTINUED)

Endowment Net Asset Composition by Type of Fund as of June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (3,242,907)	$ 4,063,968	$ 60,372,684	$ 61,193,745
Board-designated endowment funds	10,105,089	88,658	-0-	10,193,747
Total funds	$ 6,862,182	$ 4,152,626	$ 60,372,684	$ 71,387,492

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 6,862,182	$ 4,152,626	$ 60,372,684	$ 71,387,492
Investment return:				
Investment income	234,072	1,146,643	-0-	1,380,715
Fees	(20,505)	(100,448)	-0-	(120,953)
Realized & unrealized gain (loss)	2,109,778	10,335,112	-0-	12,444,890
Total investment return	2,323,345	11,381,307	-0-	13,704,652
Contributions	364,406	133,805	3,750,704	4,248,915
Appropriation of endowment assets for expenditure	(2,061,520)	(3,469,605)	-0-	(5,531,125)
Other changes:				
Transfers in endowment classification	4,167,979	(4,177,018)	9,039	-0-
Endowment net assets, end of year	$ 11,656,392	$ 8,021,115	$ 64,132,427	$ 83,809,934

NOTE 20 - ENDOWMENTS (CONTINUED)

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 5,666,422	$ 4,643,081	$ 59,865,656	$ 70,175,159
Investment return:				
Investment income	232,315	1,140,080	29,633	1,402,028
Fees	(19,407)	(97,714)	-0-	(117,121)
Realized & unrealized gain (loss)	694,381	3,496,234	-0-	4,190,615
Total investment return	907,289	4,538,600	29,633	5,475,522
Contributions	1,147,972	94,789	1,180,929	2,423,690
Appropriation of endowment assets for expenditure	(1,181,821)	(4,105,058)	-0-	(5,286,879)
Other changes:				
Transfers out of endowments	(900,000)	(500,000)	-0-	(1,400,000)
Transfers in endowment classification	1,222,320	(518,786)	(703,534)	-0-
Endowment net assets, end of year	$ 6,862,182	$ 4,152,626	$ 60,372,684	$ 71,387,492

Permanently and Temporarily Restricted Net Assets (Endowment Only)

	2011	2010
Permanently Restricted Net Assets		
Portion of perpetual endowment funds that is required to be retained permanently by explicit donor stipulation	$ 64,132,427	$ 60,372,684
Total endowment funds classified as permanently restricted net assets	$ 64,132,427	$ 60,372,684
Temporarily Restricted Net Assets		
Term endowment funds	$ 8,021,115	$ 4,152,626
Total endowment funds classified as temporarily restricted net assets	$ 8,021,115	$ 4,152,626

NOTE 20 - ENDOWMENTS (CONTINUED)

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 $ 860,974 and $ 3,242,907 as of June 30, 2011 and 2010, respectively. 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 reviewed this policy and were in the process of addressing and expressly incorporating reference to the UPMIFA in to 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.

The revised policy provides for consideration based on the facts and circumstances of the fund, and the seven factors as outlined in the UPMIFA statute to determine whether to accumulate or appropriate available earnings if a fund is underwater.

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 net 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

NOTE 20 - ENDOWMENTS (CONTINUED)

Interpretation of Relevant Law (Continued)
During the fiscal year ending June 30, 2010, the factors to consider were expanded to include:

- The duration and preservation of the endowment fund
- The purpose of the Foundation and the endowment fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation, and
- The investment policy of the Foundation

Objective of the Endowment
The objective of the Endowment is to ensure that the future growth of the endowment is sufficient to offset normal inflation plus reasonable spending, thereby preserving the constant dollar value and purchasing power of the endowment. 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 the 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.

NOTE 20 - ENDOWMENTS (CONTINUED)

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
Equity Strategies	**45%**	**53%**	**65%**	S&P 500
Domestic Large Cap	5%	15%	30%	S&P 500
Domestic All Cap	5%	15%	30%	Russell 3000
Domestic Small Cap	0%	0%	5%	Russell 2000
Developed International	0%	5%	15%	MSCI World ex US
Emerging Markets	0%	5%	15%	MSCI EMF
Private Capital	0%	8%	0%	Russell 3000 + 4%
Distressed Debt	0%	5%	0%	ML High Yield Master + 4%
Fixed Income Strategies	**5%**	**13%**	**25%**	**Barclays US Aggregate**
Treasuries/Cash	0%	0%	5%	Barclays US Treasury
Core Bonds	5%	13%	20%	Barclays US Aggregate
Global Bonds	0%	0%	5%	World Govt Bond Index
Credit/High Yield	0%	0%	5%	ML High Yield Master
Direct/Rel. Value Strategies	**10%**	**18%**	**25%**	**S&P/LIBOR + 4%**
Directional Hedge	0%	13%	20%	LIBOR + 5%
Relative Value	0%	5%	10%	T-Bills + 4%
Real Assets	**5%**	**16%**	**25%**	**CPI + 4%**
TIPS	0%	3%	5%	Barclays TIPS
Commodities	0%	4%	10%	DJ UBS Commodities
Natural Resources	0%	4%	10%	GS Commodities + 4%
Real Estate	0%	5%	0%	NCREIF 50% leveraged

NOTE 20 - ENDOWMENTS (CONTINUED)

Investment Program Strategy (Continued)
Management implemented the asset allocation policy through the use of qualified external professional investment managers. 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 (changed to December 31 for fiscal year ending 2012), is based on a weighted average spending methodology. It is understood that this total return basis for calculating spending is sanctioned by the Uniform Prudent Management of Institutional Funds Act (UPMIFA)), under which guidelines the Foundation is permitted to spend an amount in excess of the current yield (interest and dividends earned) , including realized or 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 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Financial Instruments Topic of the FASB Accounting Standards Codification, requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial condition. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. The Financial Instruments Topic of the FASB Accounting Standards Codification 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.

NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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 receivables - The carrying amount reported in the statements of financial position for other receivables 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 statements of financial position for accounts payable approximates those liabilities' fair values.

Accrued vacation and wages - The carrying amount reported in the statements of financial position for accrued vacation and wages approximates those liabilities' fair values.

Accrued interest payable - The carrying amount reported in the statements 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.

NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Interest rate swap - Fair value for interest rate swap is based on quoted market prices provided by the counterparty which makes a market in interest rate swaps.

The estimated fair values of the Organization's financial instruments at June 30, 2011 and 2010 are as follows:

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	$ 8,992,272	$ 8,992,272	$ 7,308,174	$ 7,308,174
Unconditional promises to give, net	9,765,271	Not Practicable	5,119,855	Not Practicable
Contribution receivable from Remainder Trusts	978,911	978,911	478,743	478,743
Other receivables	48,571	48,571	25,658	25,658
Beneficial interest in Perpetual Trusts	8,889,783	8,889,783	6,415,960	6,415,960
Investments	90,406,465	90,406,465	76,060,291	76,060,291
Cash surrender value - life insurance, net	394,645	394,645	337,017	337,017
Financial Liabilities:				
Accounts payable	$ 38,501	$ 38,501	$ 439,532	$ 439,532
Accrued vacation	103,352	103,352	121,638	121,638
Accrued interest payable	35,602	35,602	40,112	40,112
Bonds payable	12,322,179	Not Practicable	3,606,758	Not Practicable
Notes payable	-0-	Not Practicable	8,735,452	Not Practicable
Annuity payable liability	628,641	628,641	690,241	690,241
Deferred revenue	270,765	270,765	236,578	236,578
Interest rate swap	140,726	140,726	-0-	-0-

NOTE 22 - DERIVATIVE FINANCIAL INSTRUMENTS

The Foundation is exposed to risks relating to the variability of future costs and cash flows caused by movements in interest rates in the normal course of its operations. The Foundation holds derivative financial instruments for the purpose of managing such risks. The Foundation does not hold or issue derivatives that are not designated as hedging instruments. In particular, interest rate swaps (which are designated as fair value hedges) are used to manage the risk associated with interest rates on certain variable-rate borrowings.

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Foundation entered into an interest rate swap agreement for a portion of its floating rate debt in December, 2010. The agreement provides for the Foundation to receive interest from the counterparty at LIBOR times 67% and to pay interest to the counterparty at a fixed interest rate of 2.64% on the notional amount of $4,600,000 at June 30, 2011. Under the agreement, the Foundation pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The agreement has optional termination dates beginning February 21, 2016, and each day thereafter, with a final termination date of February 21, 2026.

The table below presents certain information regarding the Foundation interest rate swap agreements;

	2011
Fair value of interest rate swap agreement	$ 140,726
Statement of financial position location of fair value amount	Liability
Loss recognized in change in net assets	$ 140,726
Location of loss recognized in change in net assets	Gifts, contributions and other

NOTE 23 - SUBSEQUENT EVENTS

Management has reviewed events occurring subsequent to June 30, 2011 through October 14, 2011 (the date the financial statements were available to be issued) for possible adjustment to, or disclosure in, the accompanying financial statements as required by the Subsequent Events Topic of the FASB Accounting Standards Codification.

24. COMPONENT UNIT DISCLOSURES — PROVIDENT-MARSHALL

The notes taken directly from the audited financial statements of Provident-Marshall are as follows. These notes are comparable to the predecessor component unit's 2010 notes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Provident Group - Marshall Properties, L.L.C. (Company), a West Virginia limited liability company, was created on June 4, 2010, by its sole member, Provident Resources Group, Inc. (Provident), a Georgia nonprofit corporation and organization exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986 (Code), as amended as a charitable organization described in Section 501(c)(3) of the Code. The Company was created to own, operate and maintain a 417 unit, 810 bed student housing facility and a 123,850 square foot student recreation/wellness center located on the campus of Marshall University, located in Huntington, West Virginia (Project). On July 30, 2010, the Company purchased the facilities and commenced rental operations on that date. See Note 7 for further discussion.

Mission: Provident and the Company promote and advance education through various means, including, without limitation, the development, construction, acquisition, ownership, management, maintenance, operation and disposition of facilities of various types, including, but not limited to, educational, research and student-housing facilities and through the provision of development, enrichment, counseling, tutoring and other services and activities, so as to assist colleges and universities in fulfilling their educational mission.

Basis of Accounting: The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Use of Estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: Cash and cash equivalents consist of bank deposits in accounts that are federally insured up to $250,000 per financial institution. Additionally, for purposes of the statement of cash flows, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Company has not incurred any losses from the deposits.

Assets Held by Trustee: In accordance with the loan agreement and trust indenture, the Company is required to fund monthly amounts into reserve accounts for debt service, replacement, insurance and property taxes, which are held by the trustee. As of June 30, 2011, such balances consisted of cash. Such funds may be released, as approved by the trustee, as needed, by the Company for construction, major repairs and betterments and for the payment of insurance, property taxes, and the expenses specifically noted by the trust indenture. Assets required to fund the current portion of such payments are included in current assets.

Accounts Receivable: Accounts receivable are stated at the amount billed to tenants and others. Charges are ordinarily due on the first day of the month. Charges that are past due more than one month are considered delinquent. The Company does not accrue interest on any of its accounts receivable.

Allowance for Doubtful Accounts: The allowance for doubtful accounts is determined by management based on the Company's historical losses, specific circumstances, and general economic conditions. Periodically, management reviews accounts receivable and adjusts the allowance based on current circumstances and charges off uncollectible receivables when all attempts to collect have failed.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment: Property and equipment are stated at cost on the date of acquisition. Additions and improvements are capitalized; expenditures for routine maintenance are charged to operations. Building depreciation is provided over 29 years on the straight-line method. All other depreciation is provided over the estimated useful lives of the various classes of assets on the straight-line method. The estimated useful lives are as follows:

Buildings	29 years
Building improvements and equipment	15 years
Furniture, fixtures, and equipment	5 years

Long-lived assets, such as buildings, improvements, and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the combined balance sheets. At June 30, 2011, management has concluded that they are unaware of any impairments to be recorded.

Asset Retirement Obligation: Asset retirement obligations that meet the definition of liabilities should be recognized when incurred if their fair values can be reasonably estimated. At June 30, 2011, management has concluded that they are unaware of any potential asset retirement obligations to be recorded.

Ground Lease: On July 30, 2010, the Company assumed a 40 year ground lease dated October 1, 2007 with the Board of Governors of Marshall University, on behalf of Marshall University (MU). The ground lease agreement requires the Company to pay rent of $1 annually along with additional rent, which is equal to the net available cash flow deposited into the surplus fund, as required by the Company's trust indenture. At June 30, 2011, no additional rent payment was due.

Deferred Financing Costs: Deferred financing costs incurred pursuant to issuance of the tax-exempt revenue bonds payable are being amortized using the effective interest method over the term of the debt.

Derivatives: The Company entered into an interest rate swap agreement as part of its interest rate risk management strategy, not for speculation. Although the Company believes the derivative would qualify as a hedge, it has elected for simplicity to report the instrument as a freestanding derivative. As a result, gains and losses are recognized in current earnings (see Notes 3 and 6).

The derivative is separated into current and non-current assets or liabilities based on its expected cash flows. Cash inflows expected within one year, including derivative assets that the Company intends to settle, are reported as current assets. Cash inflows expected beyond one year are reported as non-current assets. Cash outflows expected within one year, including derivative liabilities in which the counterparty has the contractual right to settle, are reported as current liabilities. Cash outflows expected beyond one year are reported as non-current liabilities.

Revenue Recognition and Deferred Revenue: Rental revenue is recognized as rentals become due or services are rendered. Rental payments or membership fees received in advance are deferred until earned and are included in accrued expenses and other current liabilities in the balance sheet.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes: The net income or loss of the Company, a disregarded entity for federal income tax purposes, is reported by its sole member, Provident. Accordingly, no provision or benefit for federal income taxes is included in the accompanying financial statements.

U.S. GAAP prescribes recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Tax benefits will be recognized only if the tax position is more-likely-than-not sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit will be recorded. Management has concluded that they are unaware of any tax benefits or liabilities to be recognized at June 30, 2011. The Company does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

The Company would recognize interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. The Company has no amounts accrued for interest or penalties as of June 30, 2011.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2011, to determine the need for any adjustments to and/or disclosures within the audited financial statements for the period ended June 30, 2011. Management has performed their analysis of subsequent events through September 30, 2011, the date the financial statements were issued. Management has determined no subsequent events have occurred requiring disclosure in these financial statements.

NOTE 2 - REVENUE BONDS PAYABLE

A summary of revenue bonds at June 30, 2011, is as follows:

Series 2010A senior tax-exempt revenue bonds payable to Cabell County, by and through the County Commission on behalf of Cabell County, West Virginia with interest at a variable rate, which adjusts weekly (0.09% at June 30, 2011). Interest on the bonds is payable on the first business day of each month commencing September 1, 2010. The bonds are secured by an irrevocable letter of credit issued by Bank of America in the amount of $80,918,562, which expires on July 30, 2012. The bonds mature July 1, 2039, but are subject to certain mandatory and optional redemption and tender provisions as stated in the Trust Indenture. Pursuant to the loan agreement, reimbursement agreement, trust indenture and ground lease, the Company is subject to certain financial covenants and other requirements. At June 30, 2011, management believes the Company was in compliance with all covenants.	$ 80,150,000
Series 2010B subordinate tax-exempt revenue bonds payable to Cabell County, by and through the County Commission on behalf of Cabell County, West Virginia with interest at a fixed rate (7.5%). Interest on the bonds is payable semi-annually on January 1st and July 1st of each year, commencing July 1, 2010. The bonds mature on July 1, 2039, but are subject to certain mandatory and optional redemption and tender provisions as stated in the Trust Indenture. Pursuant to the loan agreement, reimbursement agreement, trust indenture and ground lease, the Company is subject to certain financial covenants and other requirements. At June 30, 2011, management believes the Company was in compliance with all covenants.	9,353,000
Unamortized discount on Series 2010A bonds underlying the note payable.	(375,745)
	89,127,255
Less current maturities	125,000
	$ 89,002,255

(Continued)

NOTE 2 - REVENUE BONDS PAYABLE (Continued)

Aggregate annual maturities of the revenue bonds payable at June 30, 2011, are as follows:

2012	$ 125,000
2013	150,000
2014	167,000
2015	187,000
2016	319,000
Thereafter	88,555,000
	$ 89,503,000

Interest expense was $3,223,888 for the period ended June 30, 2011.

The bonds are subject to optional tender by the owners in accordance with the Trust Indenture. Any tendered bonds are remarketed by the Remarketing Agent pursuant to the Trust Indenture and the Remarketing Agreement. In the event the Remarketing Agent is unable to remarket the bonds, they become demand obligations and require immediate repayment.

NOTE 3 - DERIVATIVES

In connection with the issuance of the senior variable rate tax-exempt revenue bonds, the Company entered into an interest rate swap agreement with Morgan Keegan Financial Products, Inc. (Counterparty).

Interest Rate Swap Not Designated as a Hedge:

Summary information about the interest rate swap not designated as a hedge as of June 30, 2011, is as follows:

Notional amounts	$ 80,150,000
Weighted average pay rates (fixed)	3.728%
Weighted average receive rates (LIBOR x 70%)	.130%
Weighted average maturity	17 years

Derivative Fair Value: The following table presents the net amounts recorded in the statement of operations relating to the interest rate swap:

	Amounts Recognized
Unrealized loss on interest rate swap agreement	$ (11,168,396)
Interest expense - senior bonds payable	2,370,876

The net settlements on the interest rate swap agreement are included in the interest expense - senior bonds payable line above.

(Continued)

NOTE 3 - DERIVATIVES (Continued)

The following table reflects the fair value and location in the balance sheet of the interest rate swap:

Current liabilities	
Interest rate swap agreement, current portion	$ 2,777,662
Long-term liabilities	
Interest rate swap agreement	8,390,734

Though management has no intention to do so, the interest rate swap agreement can be terminated early.

NOTE 4 - RELATED PARTY TRANSACTIONS

Provident receives a fee from the Company to cover corporate administrative overhead costs. For the period ended June 30, 2011, corporate administrative overhead costs, which are included in management fees in the statements of income were $138,847. As of June 30, 2011, $12,500 remains outstanding.

NOTE 5 - MANAGEMENT AGREEMENT

The Company's housing facility is managed by Capstone On-Campus Management, LLC, an unaffiliated management agent. The management fee was $148,233 for the period ended June 30, 2011. The management agreement is for a period of fifteen years beginning on July 30, 2010. The management agreement may be terminated for cause in accordance with the provisions of the management agreement. As of June 30, 2011, $47,165 remains outstanding.

The Company's wellness center is managed by Centers, LLC, an unaffiliated management agent. The management fee was $208,271 for the period ended June 30, 2011. The management agreement is for a period of fifteen years beginning on July 30, 2010. The management agreement may be terminated for cause in accordance with the provisions of the management agreement. As of June 30, 2011, $51,312 remains outstanding.

NOTE 6 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

U.S. GAAP established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under U.S. GAAP are described below:

Basis of Fair Value Measurement

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
Level 2	Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly;
Level 3	Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

(Continued)

NOTE 6 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The fair value of the interest rate swap agreement, which is provided directly by the Counterparty, is based on the expected cash flows over the life of the trade of the instrument and was estimated using the closing mid-market rate/price environment at June 30th (Level 2 inputs - income approach). The interest rate swap agreement trades in less liquid markets with limited pricing information available, and as such, the fair value for the interest rate swap agreement is inherently more difficult. The fair value provided may differ from actual trade prices as a result of various factors, including (but not limited to) market liquidity, interest rates, credit spreads, position size, transaction and financing costs, hedging costs and risks and uses of capital, as well as certain assumptions regarding past, present and future market conditions. As a result, it is possible that a different valuation model could produce a materially different estimate of fair value. No other assets or liabilities as of June 30, 2011, were valued using Level 2.

The total amount of losses for the fiscal period ended June 30, 2011, included in expenses attributable to the change in unrealized losses relating to liabilities still held at June 30, 2011 was $11,168,396.

Management believes it is not practicable to determine the fair value of its subordinated tax-exempt revenue bonds payable. Unlike typical long-term debt, interest rates and other terms for subordinated debt are not readily available and generally involve a variety of factors, including due diligence by the debt holders. As such, it is not practicable to determine the fair value of the subordinated tax-exempt revenue bonds payable without incurring excessive cost. Management estimates the fair value of the subordinate tax-exempt revenue bonds payable, which have not been included in the interest rate swap agreement, to approximate carrying value at June 30, 2011.

The Company's carrying amount for its financial instruments other than the interest rate swap agreement and subordinate tax-exempt revenue bonds payable, which include cash and cash equivalents, accounts receivable, and assets held by trustee, approximates fair value.

(Continued)

NOTE 7 - ACQUISITION OF PROJECT

On July 30, 2010, the Company purchased certain assets and assumed various liabilities of Marshall Properties for a total purchase price of approximately $85 million. The acquisition has been accounted for as a purchase, and the acquired assets and liabilities assumed were recorded at their estimated fair values at the date of acquisition.

Assets acquired and liabilities assumed:	
Cash	$ 960,501
Receivables	1,628,591
Inventory	5,009
Prepaids	21,568
Building and improvements	76,148,931
Equipment and furniture	8,185,437
Accounts payable	(138,164)
Accrued expenses	(51,151)
Unearned revenues	(1,694,117)
	$ 85,066,605

In connection with the purchase transaction, the Company obtained debt and was required to pay issuance costs and fund additional cash deposits as shown below:

Bond proceeds received:	
Series 2010A senior tax-exempt revenue bonds	$ 80,150,000
Series 2010B subordinated tax-exempt revenue bonds	9,353,000
	$ 89,503,000
Additional uses of bond proceeds:	
Loan issuance costs	$ 988,464
Underwriter's discount	412,500
Deposits to debt service reserve fund	2,009,307
Deposits to repair and replacement fund	257,732
Deposits to operating contingency fund	750,000
	$ 4,418,003

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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, 2011, and have issued our report thereon dated October 17, 2011, 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

Management of the University is responsible for establishing and maintaining effective 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 17, 2011