

MARSHALL UNIVERSITY

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2014 AND 2013

**MARSHALL UNIVERSITY
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INDEPENDENT AUDITORS' REPORT

Governing Board
Marshall University
Huntington, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Marshall University (the "University") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these basic financial statements based on our audit. We did not audit the financial statements of Marshall University Research Corporation, a blended component unit of the University, (the "Corporation") for the year ended June 30, 2014, which represent 11%, 0%, 13%, and 12%, respectively, of total assets, total deferred outflows, total net position, and total revenues of the University in 2014. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Corporation, is based solely on the report of such other auditors. We also did not audit the financial statements of the Marshall University Foundation, Inc. (the "Foundation") or, Provident Group – Marshall Properties L.L.C. ("Provident – Marshall") (collectively, discretely presented component units of the University). Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the discretely presented financial statements of the Foundation and Provident – Marshall, is based solely on the reports of such other auditors. We, and the auditors for the Corporation, conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Foundation and Provident – 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

The 2013 financial statements of the University were audited by other auditors whose report dated October 28, 2013, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2014, 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* in considering the University's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
October 29, 2014

Marshall University
Management's Discussion and Analysis (RSI) (Unaudited)
Fiscal Year 2014

About Marshall University

Marshall University (the "University" or the "Institution") is a public, nonprofit 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 (PhD and professional doctorates) in various fields through its 14 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 more than 13,000 students from all counties in West Virginia, 45 states, and the District of Columbia, as well as about 300 students from more than 50 countries across the globe. The students are served by 749 full-time faculty and 924 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 ("Commission") since 1928. It also has earned and maintains specialized accreditation status with 38 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, pharmacy, etc.); see <http://www.marshall.edu/landing/about/accreditation.html> 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 ("State"), which determines, controls, supervises, and oversees the financial, business, and educational policies and affairs of the Institution. The Board 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 Standards Board ("GASB").

The emphasis of discussions about these financial statements will concern FY 2014 data explaining, with the use of approximate dollar amounts, the significant changes from the financial statements presented for the year ended June 30, 2013 and 2012, 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., and Provident – Marshall, L.L.C. are included; however, these discretely presented component units are controlled and managed by independent 501(c) (3) corporations, with separate independent Boards of Directors. The University does not control these resources, and therefore, discussion and analyses of these organizations are not included.

Marshall University
Management's Discussion and Analysis (RSI) (Unaudited)
Fiscal Year 2014

The University's financial report consists of three financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the 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.

Statement of Net Position

The statements of net position present the assets (current and noncurrent) and deferred outflows, liabilities (current and noncurrent) and deferred inflows, and net position (assets and deferred outflows minus liabilities and deferred inflows) of the University as of the end of the fiscal year. Assets denote the resources available to continue the operations of the University. Deferred outflows represent a component of net position that will be consumed over future fiscal years. Liabilities indicate how much the University owes vendors, employees, and lenders. Deferred inflows represent a component of net position that will be acquired over future fiscal years. Net position measures the equity or the available funds of the University for future periods.

Net Position is displayed in three major categories:

Net investment in capital assets. This category represents the University's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. If debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted net position. This category includes net position, 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 position** includes 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 position** includes resources for which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted net position. 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 position is 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.

Marshall University
Management's Discussion and Analysis (RSI) (Unaudited)
Fiscal Year 2014

Condensed Combined Schedules of Net Position
(In thousands of dollars)

	FY 2014	FY 2013	FY 2012 as amended
Assets and Deferred Outflows:			
Current Assets	\$ 108,639	\$ 124,441	\$ 120,496
Other noncurrent assets	100,703	106,839	107,675
Capital Assets, net	<u>414,830</u>	<u>361,737</u>	<u>341,350</u>
Total Assets	624,172	593,017	569,521
Deferred Outflows of resources	<u>1,316</u>	<u>1,457</u>	<u>1,600</u>
Total	<u>\$ 625,488</u>	<u>\$ 594,474</u>	<u>\$ 571,121</u>
Liabilities and Deferred Inflows:			
Current liabilities	\$ 42,367	\$ 43,223	\$ 41,241
Noncurrent liabilities	<u>165,633</u>	<u>167,361</u>	<u>172,002</u>
Total Liabilities	208,000	210,584	213,243
Deferred Inflows of resources	<u>1,282</u>	<u>1,532</u>	<u>1,674</u>
Total	<u>\$ 209,282</u>	<u>\$ 212,116</u>	<u>\$ 214,917</u>
Net Position			
Net investment in capital assets	\$ 301,072	\$ 279,465	\$ 266,827
Restricted-nonexpendable	15,176	15,176	9,114
Restricted-expendable	19,061	18,871	21,231
Unrestricted	<u>80,897</u>	<u>68,846</u>	<u>59,032</u>
Total	<u>\$ 416,206</u>	<u>\$ 382,358</u>	<u>\$ 356,204</u>

Marshall University
Management's Discussion and Analysis (RSI) (Unaudited)
Fiscal Year 2014

Changes to Total Assets

Total assets of the Institution increased by \$31.2 million in FY 2014. The major components of this increase are:

- The total current and noncurrent cash and cash equivalents balances decreased \$24.2 million, which is comprised of a \$19.4 million decrease for the University and a \$4.8 million decrease in cash at MURC. Cash on deposit with the state decreased \$25.2 million primarily due to the transfer of additional funds to investments. Cash with the trustee for the 2011 bond funds decreased by the spending of \$7.6 million on construction projects. Cash equivalents for the University increased \$13.6 million due to additional investments using funds that were previously on deposit with the state. Cash equivalents for MURC decreased \$4.8 million primarily due to the transfer of funds to investments.
- Investments increased \$0.2 million in total with the University's investments decreasing \$6.8 million and MURC's investments increasing \$7.0 million. University investments with Commonfund and Jefferies increased \$22.3 million due to additional amounts invested and earnings/market value increases. The unspent bond proceeds invested by the trustee for the University's 2011 bond issue at June 30, 2013 totaling \$29.1 million all matured during 2014 and the proceeds were spent for construction projects. Investments at MURC increased \$7 million due to additional amounts invested.
- Total current and noncurrent accounts receivable increased \$1.6 million, including decreases in State Appropriations, bond draws, and other receivables from State agencies of \$4.1 million, and increases in student and other receivables of \$6.7 million primarily due to capital gifts receivable from the MU Foundation for construction projects of \$5.0 million, and an increase of \$0.4 million receivable from Marshall Health (formerly University Physicians & Surgeons) related to the BRIM self-insurance. MURC receivables, net of eliminations with the University, decreased \$1.4 million.
- Loans receivable, inventories, and other current and noncurrent assets increased a total of \$0.4 million.
- Capital assets, net of depreciation, increased \$53.1 million as a result of asset additions of \$67.3 million, offset by disposals and depreciation totaling \$14.2 million. Asset additions are discussed further in the Capital Asset and Debt Administration section.

Total assets of the Institution increased by \$23.5 million in FY 2013. The major components of this increase are:

- The total cash and cash equivalents balances increased \$3.0 million, which is comprised of a \$4.3 million increase for the University primarily due to a \$3.8 million increase in cash on deposit with the state and a \$1.3 million decrease in cash at MURC.
- Investments decreased \$1.6 million in total with the University's investments decreasing \$7.9 million and MURC's investments increasing \$6.3 million.
 - University investments with Commonfund and Jefferies increased \$3.5 million due to earnings/market value increases.
 - The unspent bond proceeds invested by the trustee for the University's 2011 bond issue, decreased \$11.4 million, from \$40.5 million to \$29.1 million due to the maturing of investments intended for construction projects.
 - Investments at MURC increased \$6.3 million due to additional amounts invested from the receipt of the State match of the West Virginia Research Trust Fund.
- Total current and noncurrent accounts receivable increased \$2.1 million, including increases in State Appropriations, bond draws, and other receivables from State agencies of \$0.9 million, and \$0.2 million receivable from Marshall Health (formerly University Physicians & Surgeons) related to the BRIM self-insurance. MURC receivables, net of eliminations with the University, increased \$0.8 million.
- Loans receivable, inventories, and other current and noncurrent assets decreased a total of \$0.4 million.

Marshall University
Management's Discussion and Analysis (RSI) (Unaudited)
Fiscal Year 2014

- Capital assets, net of depreciation, increased \$20.4 million as a result of asset additions of \$34.0 million, offset by disposals and depreciation totaling \$13.6 million.

Changes to Deferred Outflows of Resources

The deferred outflows of resources for the University decreased \$0.1 million in FY 2014 and FY 2013 due to the decrease in the deferred loss on refunding when the 2010 Bonds were issued to refinance a previous bond issue. This amount will continue to decrease over the life of the 2010 Bonds.

Changes to Total Liabilities

Total liabilities of the Institution decreased \$2.6 million in FY 2014. The major components of the decrease are:

- Current and noncurrent debt on notes, bonds, capital leases, the debt obligation to the Commission and the amount due to Mountwest Community and Technical College ("MCTC") decreased by \$4.2 million due to principal payments made during FY 2014 net of capital lease additions.
- Other Postemployment Benefits ("OPEB") liability increased \$0.9 million. This represents the unfunded liability the University is not currently required to pay. The additional liability was significantly less for FY 2014 and FY 2013 than in previous years due to additional funding that will be provided by the State in future years, as well as changes in the discount rate and other factors used in the actuarial study that the West Virginia Public Employees Insurance Agency ("PEIA") uses to determine the Annual Required Contribution ("ARC"). In FY 2014 the ARC was \$94 per policy per month, in FY 2013 the ARC was \$79, and in FY 2012 the ARC was \$794. See Notes 2 and 11 for more information on OPEB.
- Other noncurrent liability increased \$1.9 million due to an increase in the BRIM escrow liability of \$0.8 million and a new liability for stadium renovation projects of \$1.1 million.
- Unearned revenue, accrued liabilities, and accrued interest increased a total of \$1.1 million, offset by decreases in accounts payable and compensated absences totaling \$2.2 million.
- The accrued service concession liability decreased \$0.1 million. This liability is for insurance and maintenance related to the service concession arrangement mentioned below in the Deferred Inflows section.

Total liabilities of the Institution decreased \$2.7 million in FY 2013. The major components of the decrease are:

- Current and noncurrent debt on notes, bonds, capital leases, the debt obligation to the Commission and the amount due to MCTC decreased by \$5.3 million due to principal payments made during FY 2013.
- Other Postemployment Benefits (OPEB) liability increased \$0.7 million. This represents the unfunded liability the University is not currently required to pay. The additional liability was significantly less for FY 2013 than in previous years due to additional funding that will be provided by the State in future years, as well as changes in the discount rate and other factors used in the actuarial study that the West Virginia Public Employees Insurance Agency (PEIA) uses to determine the Annual Required Contribution (ARC).
- Accounts payable, accrued liabilities, compensated absences, and advances from federal sponsors increased a total of \$3.1 million, offset by decreases in unearned revenue, accrued interest, and other noncurrent liabilities totaling \$1.0 million.

Marshall University
Management's Discussion and Analysis (RSI) (Unaudited)
Fiscal Year 2014

- Other accrued service concession liability decreased \$0.1 million. This liability is for insurance and maintenance related to the service concession arrangement mentioned below in the Deferred Inflows section.

Changes to Deferred Inflows of Resources

The deferred inflows of resources for the University decreased \$0.2 million due to resources from the service concession arrangement with the food service provider (Sodexo). Capital improvements paid for by Sodexo are being amortized over the life of the contract. See Note 20 for more information on the University's service concession arrangements.

Changes to Net Position

The final section of the statement of net position reflects the net position 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 resources are available to be used.

The net position category "Net investment in capital assets" reflects overall changes to the buildings, equipment, and other capital assets net of depreciation and net of the liabilities associated with those assets. Net investment in capital assets increased \$21.6 million in FY 2014 compared to an increase of \$12.6 million in FY 2013. For the University, the increase is \$22.8 million, offset by a decrease at MURC of \$1.2 million.

Endowments, which are recorded as restricted nonexpendable net position, did not change in FY 2014 compared to an increase of \$6.1 million in FY 2013. This increase was at MURC for amounts received in connection with the "Bucks for Brains" West Virginia Research Trust fund.

Total restricted expendable net position increased \$0.2 million in FY 2014 compared to a decrease of \$2.4 million in FY 2013, primarily due to decreased grant activity at MURC.

The unrestricted net position balance of \$80.9 million in FY 2014 represents a \$12 million increase from FY 2013. Unrestricted resources decreased \$0.1 million for MURC and increased \$12.1 million for the University.

Marshall University
Management's Discussion and Analysis (RSI) (Unaudited)
Fiscal Year 2014

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

	FY 2014	FY 2013	FY 2012
Operating revenues	\$ 174,808	\$ 175,825	\$ 175,031
Operating expenses	<u>(257,373)</u>	<u>(256,275)</u>	<u>(264,014)</u>
Operating loss	(82,565)	(80,450)	(88,983)
Nonoperating revenues	97,220	99,638	96,098
Nonoperating expenses	<u>(3,145)</u>	<u>(4,967)</u>	<u>(4,891)</u>
Income before other revenues, expenses, gains, or losses	11,510	14,221	2,224
Other revenues, expenses, gains, or losses	<u>22,338</u>	<u>11,932</u>	<u>16,700</u>
Increase in net position	<u><u>\$ 33,848</u></u>	<u><u>\$ 26,153</u></u>	<u><u>\$ 18,924</u></u>

Statement of Revenues, Expenses, and Changes in Net Position

The purpose of the Statement of Revenues, Expenses, and Changes in Net Position 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 \$174.8 million in FY 2014 represents a \$1 million decrease from FY 2013. This decrease is primarily the result of:

- Tuition and fee revenue, net of scholarship allowances, increased \$2.2 million. Tuition for full-time undergraduate students increased \$143 per semester for resident students, \$308 per semester for metro students, and \$258 per semester for nonresident students. Tuition for full-time graduate students increased \$155 per semester for resident students, \$321 per semester for metro students, and \$271 per semester for nonresident students.
- Grant and contract revenue decreased a total of \$5.8 million, including a \$3 million decrease in Federal, and a \$6.5 million decrease in State, offset by a \$3.7 million increase in local and private grants and contracts. The Federal and State changes are primarily related to grant and contract activity at MURC. Local and private grants and contracts increased \$2.1 million for the University and \$1.6 million for MURC.
- Auxiliary enterprise revenue and other operating revenue increased a total of \$2.7 million. This increase includes a \$0.4 million increase in housing revenue and an increase in athletic revenues of \$1.5 million primarily as a result of increased revenue distributions from Conference USA (C-USA), the opening of the new sky suites, and participating in the C-USA championship game offset by other decreases.

Marshall University
Management's Discussion and Analysis (RSI) (Unaudited)
Fiscal Year 2014

Operating revenues of \$175.8 million in FY 2013 represents a \$0.8 million increase from FY 2012. This increase is primarily the result of:

- Tuition and fee revenue, net of scholarship allowances, increased \$1.4 million. Tuition for full-time undergraduate students increased \$141 per semester for resident students, \$285 per semester for metro students, and \$225 per semester for nonresident students. Tuition for full-time graduate students increased \$145 per semester for resident students, \$300 per semester for metro students, and \$235 per semester for nonresident students.
- Grant and contract revenue increased a total of \$1.0 million, including a \$1.7 million decrease in Federal, a \$4.8 million increase in State, a \$0.4 million decrease in local, and a \$1.7 million decrease in private grants and contracts. The Federal and State changes are primarily related to grant and contract activity at MURC. The University had decreases in local and private grants and contracts.
- Auxiliary enterprise revenue and other operating revenue decreased a total of \$1.6 million. This decrease is primarily due to a decrease in athletic revenues of \$1.2 million as a result of reductions in ticket sales and other revenues related to not having a bowl game in FY 2013.

Operating Expenses

Operating expenses are for goods and services acquired to carry out the mission of the Institution. Operating expenses of \$257.4 million in FY 2014 represents a \$1.1 million increase from FY 2013. This increase is primarily the result of:

- Salaries and wages increased \$2.5 million as a result of an increase in University salaries of \$2.7 million which include faculty increases to minimum salaries per rank and the addition of faculty salaries primarily related to the startup of new programs for Pharmacy and the College of Health Professions. MURC salaries decreased \$0.2 million as the result of a decline in grant activity.
- Benefits expense decreased \$0.3 million primarily due to decreases in compensated absences and employee tuition waivers, which was offset by increases in health insurance premiums and the employer matching on FICA and retirement.
- Increases in depreciation expense of \$0.6 million, were offset by decreases in expenses for fees assessed by the Commission, scholarships, supplies and other services, and other operating expenses, totaling \$0.9 million.
- Utilities expense decreased \$0.8 million due to electric rate reductions, gas usage reductions, installation of energy efficient equipment in several buildings, and building mechanics ensuring that existing equipment is running efficiently.

Operating expenses of \$256.3 million in FY 2013 represents a \$7.7 million decrease from FY 2012. This decrease is primarily the result of:

- Salaries and wages increased \$2.9 million as a result of an increase in University salaries of \$3.5 million primarily due to raises for classified staff in June 2012 to fully fund the salary schedule and faculty salaries related to the startup of the new programs for Pharmacy and Physical Therapy. MURC salaries decreased \$0.6 million as the result of a decline in federal grant activity.

Marshall University
Management's Discussion and Analysis (RSI) (Unaudited)
Fiscal Year 2014

- A decrease of \$11.2 million in benefits is primarily due to the reduction of the OPEB expense. The net ARC charged in FY 2013 was \$0.7 million as compared to \$11.7 million in FY12. See Notes 2 and 11 and the liabilities section above, for more information on OPEB. Other benefits changes include increases in health insurance premiums and the employer matching on FICA and retirement, offset by decreases in compensated absences for annual leave and employee tuition waivers.
- Increases in supplies and other services expense of \$0.8 million, depreciation expense of \$0.2 million, and utilities of \$0.1 million, were offset by decreases in expenses for fees assessed by the Commission, scholarships, and other operating expenses totaling \$0.5 million.

Nonoperating Revenues and Expenses

Revenues for which goods and services are not provided are reported as nonoperating revenues. Nonoperating revenues for FY 2014 were \$97.2 million, which is a decrease of \$2.4 million from FY 2013 as a result of:

- State appropriations decreased \$6.5 million due to State budget cuts. Decreases in the appropriations for SOM were \$0.3 million and the University decreases totaled \$6.2 million.
- Income from investments increased \$3.5 million due to favorable performance of the investments as well as earnings on additional investments.
- Other changes to nonoperating revenues include an increase of \$0.6 million in gift revenue.

Nonoperating revenues for FY 2013 were \$99.6 million, which is an increase of \$3.5 million from FY 2012 as a result of:

- State appropriations increased \$2.0 million due to increases in the general appropriations for SOM of \$1.3 million and the University of \$0.2 million, and a special appropriation for the School of Pharmacy of \$0.5 million.
- Income from investments increased \$2.1 million due to favorable performance of the investments.
- Other changes to nonoperating revenues include a decrease in Pell grant revenue of \$0.2 million and a decrease of \$0.3 million in gift revenue.

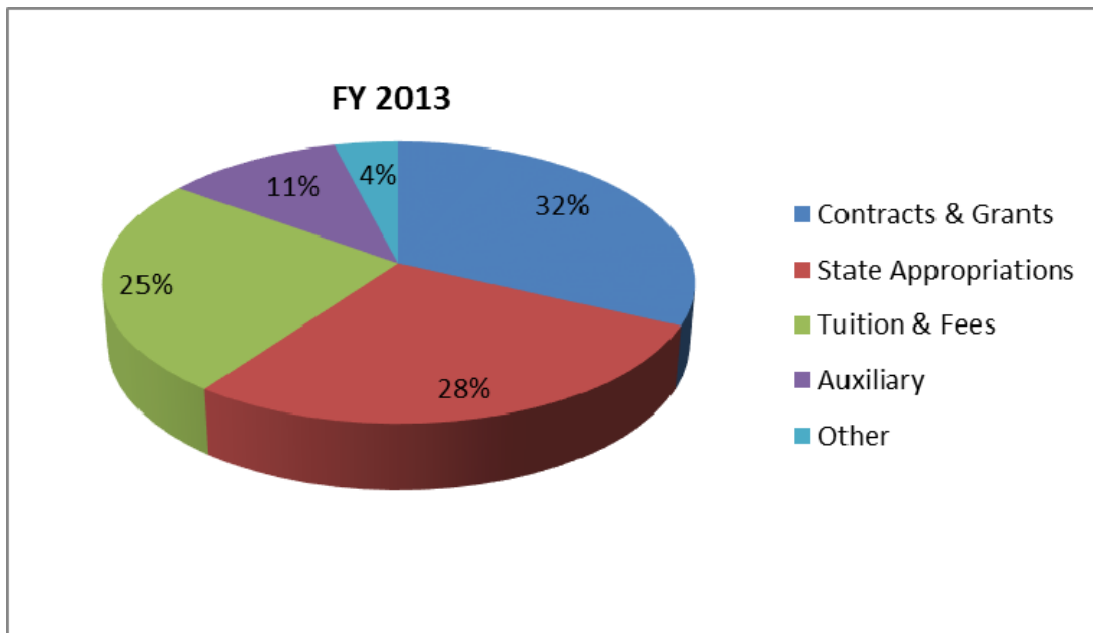
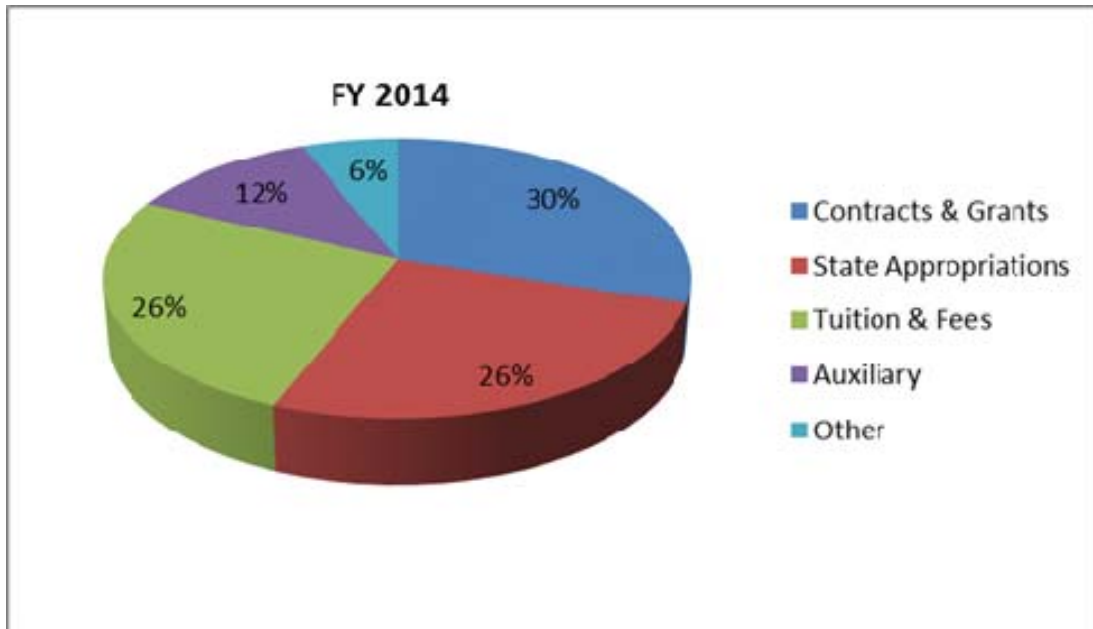
Nonoperating expenses for FY 2014 were \$3.1 million, which is a decrease of \$1.9 million from FY 2013 primarily as a result of a reduction in interest on indebtedness. The interest expense incurred is reduced by the amount of interest that is capitalized when new construction projects are in progress. In FY 2014 the capitalized interest amount was \$1.9 million as compared to \$0.3 million in FY2013.

Total operating and nonoperating revenue for the Institution was \$272 million in FY 2014 as compared to \$275.5 million in FY 2013. Revenues as a percentage for FY 2014 and 2013 are shown on Graph A.

Total operating and nonoperating expense for the Institution was \$260.5 million in FY 2014 as compared to \$261.2 million in FY 2013. Expenses as a percentage for FY 2014 and 2013 are shown by object of expenditure in Graph B and by functional classification in Graph C.

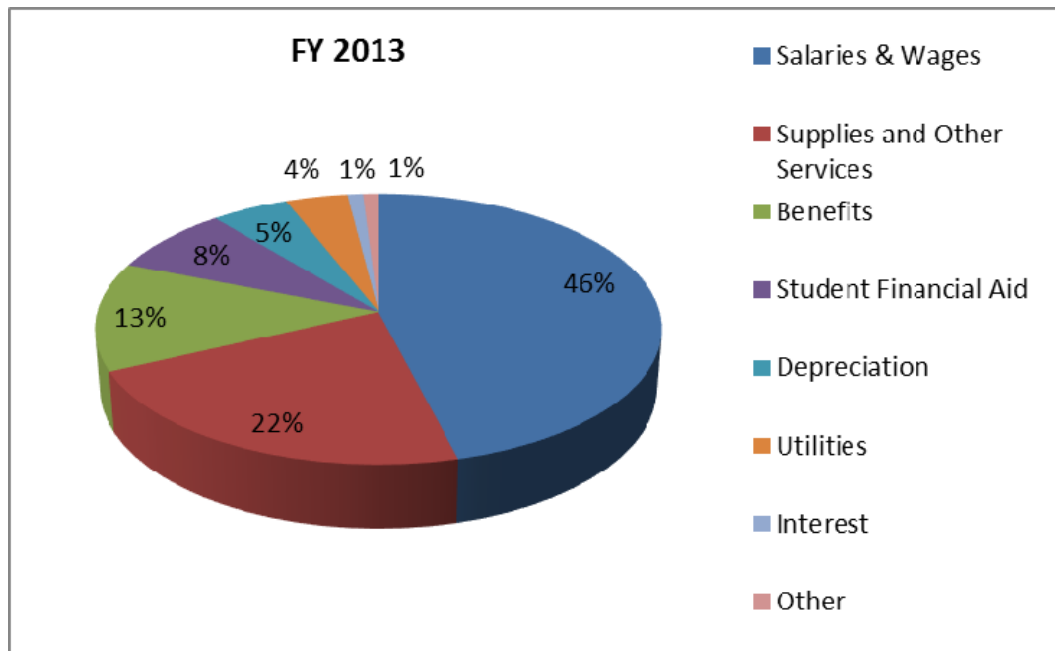
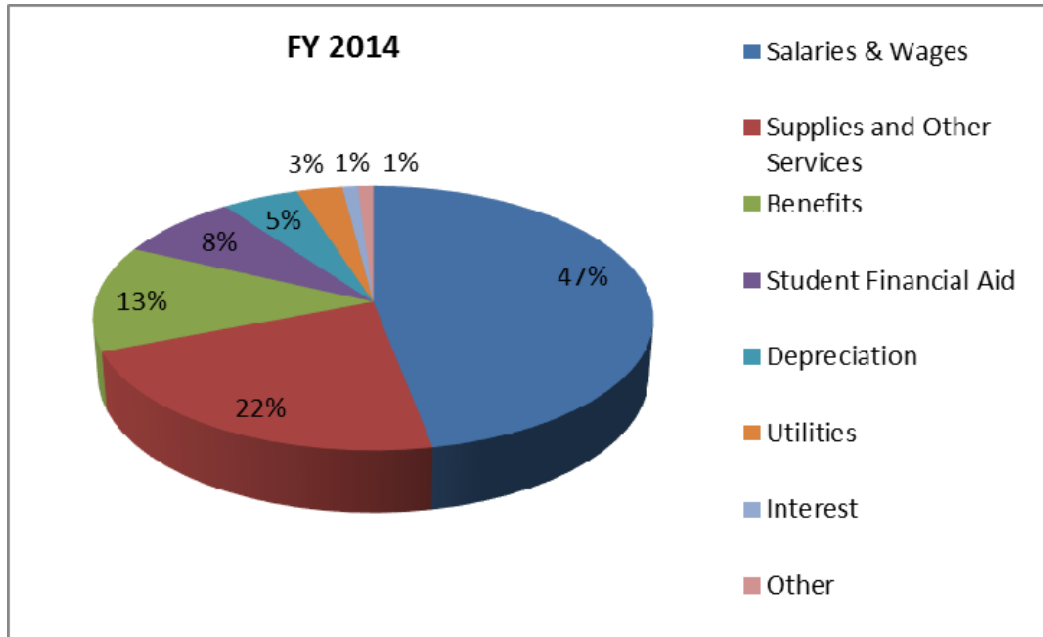
Marshall University
Management's Discussion and Analysis (RSI) (Unaudited)
Fiscal Year 2014

Total Operating and Nonoperating Revenues
(Graph A)



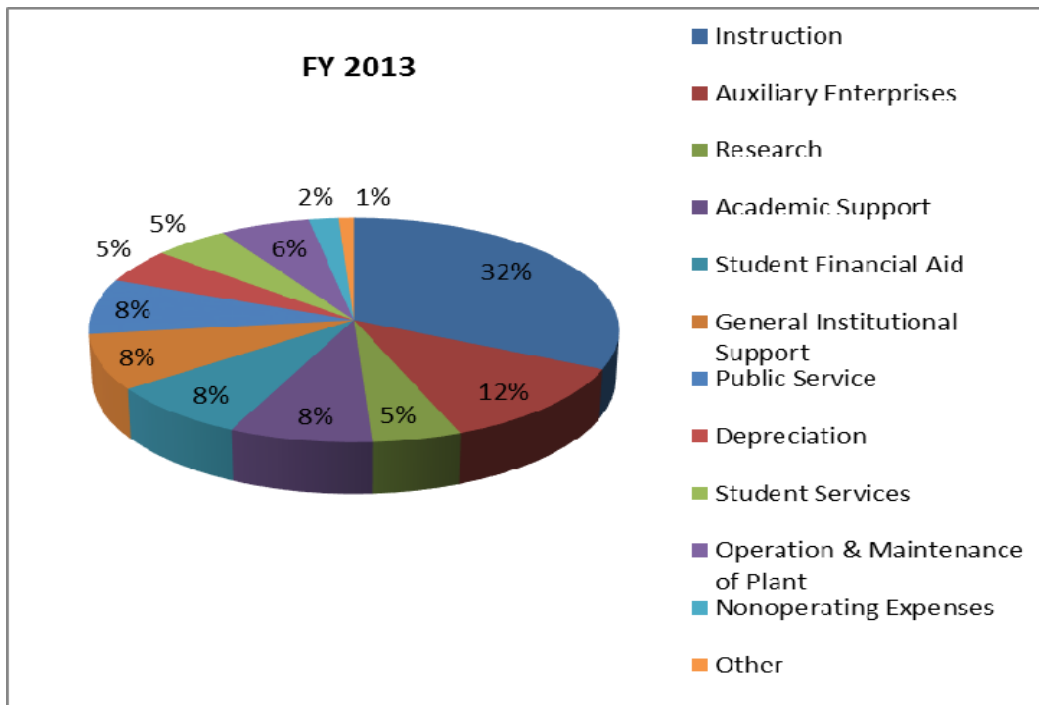
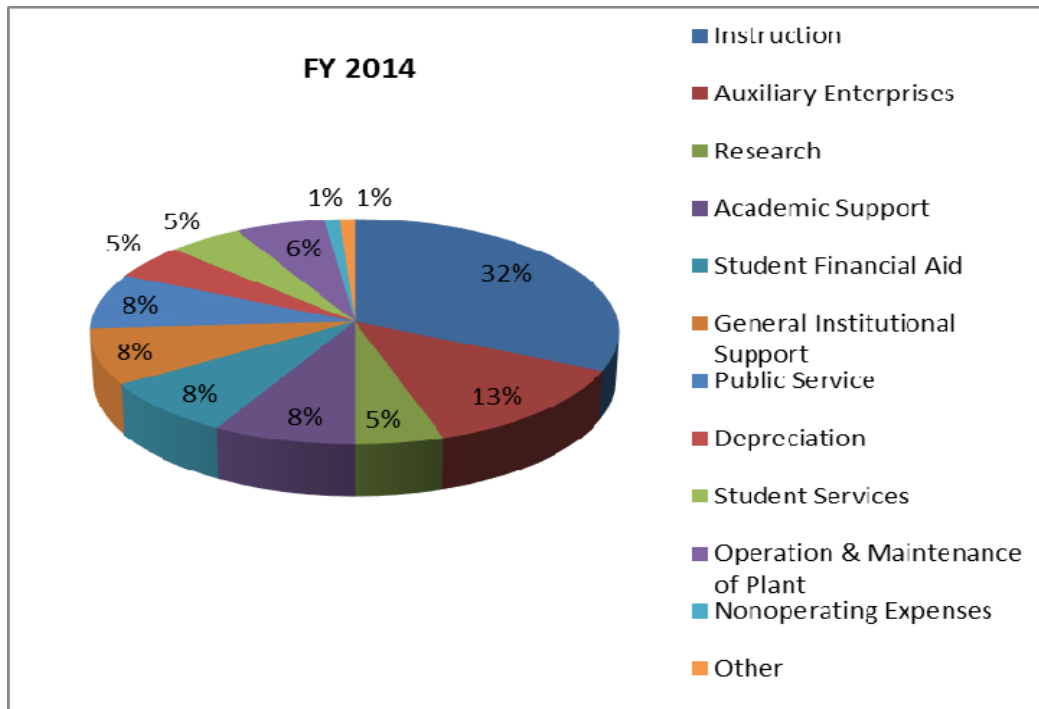
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Total Operating and Nonoperating Revenues
(Graph B)



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**Total Operating and Nonoperating Expenses
By Function (Graph C)**



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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 2014, there was a net increase of \$11.5 million for the institution. Of this total, the University had a net increase of \$12.7 million while MURC had a net decrease of \$1.2 million. Note, if the unfunded portion of OPEB expense were excluded, the total Institution would show a \$12.4 million net increase in FY 2014 as compared to \$14.9 million increase for FY 2013.

Changes to Net Position

The increase in net position of \$33.8 million is \$7.6 million more than the net increase in FY 2013. The net position increase includes capital grants and gifts of \$8.4 million and \$13.9 million of capital bond proceeds from the Economic Development Authority and the Higher Education Policy Commission.

Statement of Cash Flows

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

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

	FY 2014	FY 2013	FY 2012
Cash flows provided by (used in):			
Operating activities	\$ (72,741)	\$ (68,468)	\$ (59,033)
Noncapital financing activities	91,513	95,497	92,199
Capital and related financing activities	(43,088)	(30,194)	27,269
Investing activities	<u>7,357</u>	<u>5,629</u>	<u>(57,338)</u>
Net Change in current cash	(16,959)	2,464	3,097
Current cash, beginning of year	<u>104,415</u>	<u>101,951</u>	<u>98,854</u>
Current cash, end of year	<u><u>\$ 87,456</u></u>	<u><u>\$ 104,415</u></u>	<u><u>\$ 101,951</u></u>

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.

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- 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 FY 2014, financed by State-issued bond proceeds, University-issued bond proceeds, gifts, and other University funds.

Projects that were completed in FY 2014 include the Veterans Memorial Soccer Complex, as well as various renovation and maintenance projects at the Medical Education building, Forensic Science Center, East Hall, Joan C. Edwards Stadium, Welcome Center, Science Hall, Buskirk Hall, and Twin Towers. New projects that were initiated in FY 2014 were various renovation and maintenance projects. Major construction projects that continued through FY 2014 include the Applied Engineering Complex, the Indoor Athletic Complex and the Visual Arts Center.

At June 30, 2014, the University had outstanding contractual commitments of \$28.7 million for property, plant and equipment expenditures. Most of these commitments will be funded by gifts from fundraising conducted by the MU Foundation as well as other University funds.

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, \$14.7 million is reported as debt service assessment payable to the Commission by the University.

During FY 2012, the University issued new Series 2011 Bonds to be used for the construction of new facilities including the Applied Engineering Complex, a multi-floor parking structure, an indoor athletic complex and a soccer complex, as well as land acquisition and renovation projects. At June 30, 2014, all of these bond proceeds had been spent and any projects that were not yet completed are being paid from capital gift proceeds raised by the MU Foundation and other University funds.

Economic Outlook

Presently, Marshall University's financial position continues to remain closely intertwined with that of the State of West Virginia; however, in October of 2013 Marshall University initiated a long-range strategic planning process designed to significantly reduce this dependency over the next decade. Specifics of the resultant action plan and its implementation will be outlined in this narrative.

The University continues to be at risk for reductions in State appropriations resulting from insufficient annual State revenues to offset State expenditure obligations. Absent action by the legislative and executive branches to implement alternative strategies for generating additional state revenues (*e.g.*, closing some existing sales tax loopholes; rethinking specific commodity tax rates, like the one for liquor, which have rates established more than sixty years ago), this pattern likely will continue to impede progress toward stabilizing public higher education funding.

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The University has been subject to two consecutive years of reductions to its appropriations from the State, with the cuts for FY2014 and FY2015 totaling 11.25%, and a FY2015 midyear reduction still possible. Although no budget cuts are currently forecast for FY2016, the state's recent cuts to public higher education already are equal to almost \$900 less funding per WV resident student at Marshall.

It is important to note that the State of West Virginia spent 22 percent less on higher education per student for FY 2014 than it did in FY 2008, and is one of eight states that continues to make cuts. The other 42 states have begun to restore higher education funding to what it was before the onset of the 2008 recession.

As mentioned, due to the uncertainty of future State appropriations the University has taken proactive steps to lower its dependency on the State through initiatives that will help transition it to greater self-reliance and self-sustainability through revenue diversification. Student affordability remains a crucial consideration in the strategic rebalancing process that has been initiated.

The process of diversifying revenues sources actually began in earnest in 2008 with a Legislative initiative to create the WV Research Trust Fund, which over a subsequent five-year interval established a \$30 million endowment to support research at Marshall. A comprehensive update of the University's strategic initiatives for FY 2010 through December of 2013 has been prepared for reference prior to taking action on the University's most recent strategic plan (http://www.marshall.edu/president/strategic/Strategic_Initiatives_Update_FY2010-Mid-FY14.pdf).

The University is now more focused than ever on cost controls, value creation, organizational structure-function efficiencies, judicious spending, utility conservation measures, targeted improvements to the physical plant, growth in extramural grant funding, expanding student enrollment strategically (including improving student retention rates and growing international student enrollments) and diversified revenue enhancements. Key components of the *20/20 Plan* include budget model realignment, multi-year pro forma development, comprehensive academic and services portfolio reviews to identify hidden unnecessary costs for elimination, and establishing performance targets across the University (*i.e.*, key performance indicators) to enable greater performance accountability. To foster the constructive engagement of large numbers of university constituents, a leading consulting expert in university organizational redesign, Rick Staisloff from RPK Group, was brought in to facilitate the work. This partnership is ongoing.

The realigning and fundamentally reshaping of the University's business model to conform to contemporary realities and prudent assumptions about funding sources and their sustainability is well underway. This process is not only enhancing to the synergy between mission, priorities, and budget, it is also improving the financial transparency of University transactions.

Comprehensive reviews of the University's services portfolio and academic portfolio have involved a substantial cross-section of University constituents. The preliminary reports have identified potential annual expenditure savings across the University in excess of \$15 million with no disruption to either the service or academic platform. These measures are already showing success. More than \$86 million in Marshall University revenue bonds this year had their "AA-" ratings affirmed by Fitch Ratings **with a stable outlook**. In the affirmation document, Fitch said that the rating reflects "historically stable student enrollment and demand for auxiliary facilities." It also said that it expects Marshall to manage effectively through any cuts in State operating appropriations. Similarly, in March of 2014 Moody's Investors Service affirmed Marshall's A1 rating on its Series 2010 and Series 2011 revenue bonds with a stable outlook.

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Further progress highlights are noted below.

Last October, the University launched a university-wide strategic planning process called *Marshall 20/20*. The resultant 20/20 Action Plan process focused on comprehensive reviews of the University's academic programs and services with the goal of identifying all potential opportunities for cost savings and revenue enhancement. Teams of faculty, staff and students also were tasked with addressing some of the structural issues that prevent delivery of top-notch programs and services to students, faculty and staff. The next phase, implementation of the recommendations, begins this fall.

In addition, a Budget Work Group made up of representatives from across the University community has worked for the past year to develop a budget and planning model that will more effectively support short- and long-term planning and decision-making, and foster entrepreneurial behavior at the department and college level. Through the collaborative work of the group members and campus leaders, the University was able to achieve a balanced budget with faculty and staff pay raises without furloughs or layoffs, in spite of the significant cuts to the University's State funding.

The University also has undertaken a series of initiatives designed to articulate the value proposition associated with earning a degree from Marshall. These efforts are favorably repositioning the University in the higher education marketplace with respect to its position in an increasingly competitive student recruitment environment. These initiatives include pioneering work with the Higher Learning Commission as a member of the Degree Qualifications Profile Cohort 3 and as a founding member of the Education Advisory Board's Student Success Collaborative.

The INTO Marshall international student recruitment initiative has entered its second year. The joint venture partnership between the Foundation and INTO University Partnerships, Ltd. is designed to increase significantly the population of full fee-paying undergraduate and graduate international students on the University's Huntington campus and holds considerable promise for the future. This initiative ties directly the University's goal of growing student enrollment at the undergraduate level and in selective graduate professional programs while contributing to meeting the global challenge of improving educational attainment levels for the citizenry of the world. Currently, over 220 international students from more than 20 different countries are enrolled at Marshall through this program [top six countries of origin are: China, Brazil, Saudi Arabia, Japan, South Korea, and Vietnam]. The program operates year-round and there are three new enrollment cycles scheduled per year.

The University's Board of Governors this year voted to approve a Master of Public Health program offered through the College of Health Professions. The master's degree in public health is a logical addition that complements Marshall's professional doctoral schools in health care, including medicine, pharmacy and physical therapy and builds on the University's reputation for serving the region's rural communities.

The Marshall University School of Pharmacy, which welcomed its first class in 2012, this year, earned "candidate" accreditation status from the Accreditation Council for Pharmacy Education ("ACPE"), the national accrediting body for schools of pharmacy in the United States. Candidate accreditation status is the second step of a three-step process that culminates with graduation of the first class and adherence to all ACPE accreditation standards.

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Fiscal Year 2014

Similarly, Marshall University's School of Physical Therapy welcomed its third class of doctoral students. The class that entered in May 2014 completes the phased start-up of this program. The inaugural class will graduate in May of 2015. The significance of this milestone is that the D.P.T. program will reach self-funding status from a budgetary standpoint, releasing the University from further subsidization. The expectation is that the startup investment in this program will be paid back to the University over the next eight years. Once fully subscribed, the same expectation applies to the School of Pharmacy.

The University's 10-year campus master plan was completed, providing a roadmap for future development and investment in Marshall properties. The emphasis of the plan is on flexible and adaptive reinvestment—reinvesting, improving, and where needed, expanding current facilities and infrastructure to better serve students and the entire campus community.

Deferred Maintenance: This year saw renovation projects in the Gullickson Hall wellness center, Old Main, Buskirk Hall, Twin Towers West Residence Hall, Harris Hall and Smith Hall. Ten smart classroom upgrades were completed, including new furniture, new white boards, painting, cleaning and repairing ceilings.

Four sky suites and an elevator were added to the Joan C. Edwards Stadium and repairs were made to the two existing elevators.

Sidewalks and lights were replaced along the Third and Fifth Avenue pedestrian corridors proximal to the University and new plantings around the campus were added as part of an ongoing beautification project.

The University's bond issue of \$52.1 million issued November 2011 has enabled a series of new capital construction and major renovation projects, some of which have already been completed. These new buildings are a mix of modern academic, clinical research and athletic venues that will augment the University's student recruitment and retention efforts. The University is rapidly approaching its private fundraising goal of \$15 million for the new academic buildings.

Construction continues on the \$55 million Arthur Weisberg Family Applied Engineering Complex, located on Third Avenue between the Arthur Weisberg Family Engineering Laboratories and the Robert C. Byrd Biotechnology Science Center. The project is expected to be completed in spring 2015 and fully operational for the fall 2015 term.

The \$13 million renovation of the former Stone & Thomas building in downtown Huntington to create a state-of-the-art educational space for Marshall's visual arts program neared completion in FY 2014 and opened for students in the Fall semester of 2014. The Visual Arts Center will house studios and classrooms, plus ground-floor retail and gallery space. The facility was dedicated in September 2014.

In addition, more than \$20 million has been raised through the Vision Campaign for Athletics to fund the University's new Veterans Memorial Soccer Complex, Indoor Athletic Facility, Sports Medicine Translational Research Center, Hall of Fame Atrium and Student-Athlete Academic Center. The Veterans Memorial Soccer Complex was dedicated in August 2013 and is widely considered one of the finest soccer facilities in the country. The Indoor Athletic Facility is nearing completion and was dedicated in September 2014, followed over the next few months by the openings of the sports medicine clinical research facility, Hall of Fame and academic center.

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Fiscal Year 2014

Research and Private Fund-Raising: Major research program development is occurring in targeted areas that build on the University's existing strengths. Four new NIH funded investigators have been added to the University. The areas of research focus 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 spectrum). The endowment-based Marshall Institute for Interdisciplinary Research (MIIR) is funded through proceeds from private, endowed gifts that were matched by funds from the State's West Virginia Research Trust Fund.

In addition to the progress that has been achieved in the area of external research, private donor fund-raising efforts have yielded significant results with almost \$12.4 million of gifts and pledges in FY 2014. An ambitious fundraising goal was surpassed in June, helping the MU Foundation finish the fiscal year on a strong note. A one-month campaign, called "MU Challenge 630 by 6/30," raised more than \$78,000—including two endowed scholarship gifts totaling \$32,000. Overall, the Marshall University Foundation has embraced the challenge of building an additional \$350 million scholarship endowment fund over the next seven years to assist students at Marshall in fulfilling their goal of earning a college degree. A key objective of this initiative is to mitigate to the greatest extent possible future tuition discounting by the University to ensure affordable cost of attendance by our students.

Both the University and Foundation are committed to maintaining and growing this level of support.

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, greater leveraging of institutional financial aid, increasing the number of transfer and adult students, and improved retention rates across all levels to achieve six-year graduation rates for undergraduates that exceed 60%.

Recent success include a 4.2% increase in freshman-sophomore retention for the 2013 freshman class. In addition, for Fall 2014, Marshall's market share of students, both nationally and from West Virginia, will have increased over last year. In fact, the West Virginia share is projected to be the largest in at least the past eight years.

Going forward, the University has identified the following priorities:

- 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; the professional doctoral program in Physical Therapy (Doctorate in Physical Therapy, D.P.T.), both of which have earned initial accreditation (Candidate status) and the establishment of new degree programs in Public Health (M.P.H. and B.S. in Public Health) and Forensic Science (BS and MS in Digital Forensics – Marshall has the only accredited program in the world in this area). Other degree programs in the planning phase include a new BS in Mechanical Engineering, B.S. in Electrical Engineering, BS Health Sciences, BS and MS in Cybersecurity/ Information Security.

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Management's Discussion and Analysis (RSI) (Unaudited)
Fiscal Year 2014

- Continued management of financial resources with a goal to improve faculty and staff compensation.
- Addressing major deferred maintenance challenges on campus and funding new capital project priorities, with major emphasis and private fund-raising and development of strategic public-private partnerships.
- Continued implementation of a comprehensive plan for campus wide modernization involving upgrades to furnishings, instructional space refurbishing, and instructional technology capabilities with funding for the plan on a life cycle basis.

This is a pivotal time for Marshall University. As the nation continues to struggle with economic recovery difficulties, higher educational attainment continues to be a priority for our nation and many families. A key challenge for the University is to continue to plan for the short term and the long term, while maintaining strong leadership that encourages teamwork, collaboration and relationship building with a steadfast commitment to excellence. Innovation through unconventional, integrative thinking that transcends traditional assumptions is of paramount importance. With this foundation in place, Marshall University will succeed in advancing the creativity, adaptability and capacity of our citizenry to continue to think, learn, relearn and transform their marketability in a world economy that is increasingly dominated by accelerating global change. Although these are unpredictable economic times and there are stern challenges ahead of us, the University continues to successfully sustain its commitment to providing distinctive learning experiences and outcomes valued by those we serve at an affordable cost. The remarkable progress that has been achieved at Marshall over the last decade has been enhancing to its academic reputation and Marshall is increasingly gaining recognition as a high value institution, a leading public higher education innovator not only in West Virginia but across the nation and around the globe.

MARSHALL UNIVERSITY
STATEMENTS OF NET POSITION – PRIMARY INSTITUTION
JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 87,456,005	\$ 104,414,932
Accounts Receivable - Net	19,164,121	17,950,806
Loans Receivable	934,380	902,300
Inventories	680,993	723,165
Other Current Assets	403,414	449,572
Total Current Assets	<u>108,638,913</u>	<u>124,440,775</u>
NONCURRENT ASSETS		
Cash and Cash Equivalents	2,074,551	9,300,906
Investments	83,828,005	83,646,812
Accounts Receivable	7,697,449	7,259,972
Loans Receivable - Net of Allowance of \$2,350,289 in 2014 and \$2,315,837 in 2013	7,102,793	6,364,065
Other Assets	-	267,357
Capital Assets - Net	414,829,869	361,737,183
Total Noncurrent Assets	<u>515,532,667</u>	<u>468,576,295</u>
Total Assets	624,171,580	593,017,070
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss on Refunding	<u>1,316,450</u>	<u>1,456,518</u>
Total Assets and Deferred Outflows	<u>\$ 625,488,030</u>	<u>\$ 594,473,588</u>

(continued)

MARSHALL UNIVERSITY
STATEMENTS OF NET POSITION – PRIMARY INSTITUTION
JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable	\$ 9,745,263	\$ 11,631,068
Due to MCTC - Current Portion	350,000	350,000
Accrued Liabilities	9,044,874	8,950,561
Accrued Interest	688,213	670,831
Unearned Revenue	8,123,558	7,099,455
Deposits	678,733	678,733
Notes, Capital Lease, and Bonds Payable - Current Portion	2,792,141	2,686,796
Compensated Absences	9,108,453	9,393,268
Debt Obligations to the Commission - Current Portion	<u>1,835,254</u>	<u>1,762,185</u>
Total Current Liabilities	42,366,489	43,222,897
NONCURRENT LIABILITIES		
Notes, Capital Lease, and Bonds Payable	93,026,599	95,224,338
Advances from Federal Sponsors	6,345,285	6,345,285
Other Noncurrent Liabilities	11,412,570	9,523,576
Accrued Service Concession Liability	429,100	533,124
Other Post Employment Benefits Liability	40,395,938	39,525,519
Due to MCTC	1,092,834	1,442,834
Debt Obligations to the Commission	<u>12,930,759</u>	<u>14,766,013</u>
Total Noncurrent Liabilities	<u>165,633,085</u>	<u>167,360,689</u>
Total Liabilities	207,999,574	210,583,586
DEFERRED INFLOWS OF RESOURCES		
Service Concession Arrangement	<u>1,282,075</u>	<u>1,532,235</u>
Total Liabilities and Deferred Inflows	209,281,649	212,115,821
NET POSITION		
Net Investment in Capital Assets	301,072,582	279,464,803
Restricted for:		
Nonexpendable	15,176,000	15,176,000
Expendable:		
Scholarships	194,540	153,125
Sponsored Projects	16,853,303	16,787,078
Loans	2,005,219	1,925,799
Debt Service	<u>7,921</u>	<u>4,478</u>
Total Restricted Expendable	<u>19,060,983</u>	<u>18,870,480</u>
Unrestricted	<u>80,896,816</u>	<u>68,846,484</u>
Total Net Position	<u>416,206,381</u>	<u>382,357,767</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 625,488,030</u>	<u>\$ 594,473,588</u> (concluded)

See accompanying Notes to Financial Statements

MARSHALL UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – PRIMARY INSTITUTION
YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Student Tuition and Fees - Net of Scholarship Allowance of \$30,578,373 in 2014 and \$27,572,016 in 2013	\$ 70,013,168	\$ 67,806,106
Contracts and Grants:		
Federal	22,480,530	25,519,060
State	19,056,907	25,692,529
Local	5,303,190	3,259,896
Private	16,165,533	14,504,149
Interest on Loans Receivable	161,629	149,559
Sales and Services of Educational Activities	138,030	149,460
Auxiliary Enterprise Revenue - Net of Scholarship Allowance of \$4,279,930 in 2014 and \$4,795,779 in 2013	33,661,356	31,378,831
Other Operating Revenues	<u>7,827,294</u>	<u>7,365,181</u>
Total Operating Revenues	174,807,637	175,824,771
OPERATING EXPENSES		
Salaries and Wages	122,560,796	120,044,911
Benefits	33,534,750	33,866,515
Supplies and Other Services	56,676,493	57,343,422
Utilities	8,261,744	9,029,757
Student Financial Aid - Scholarships and Fellowships	21,428,046	21,582,700
Depreciation	14,015,195	13,440,143
Other Operating Expenses	160,257	224,810
Fees Assessed by the Commission for Operations	735,660	742,866
Total Operating Expenses	<u>257,372,941</u>	<u>256,275,124</u>
OPERATING LOSS	(82,565,304)	(80,450,353)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	70,257,283	76,725,756
State Lottery Appropriations	629,701	691,498
Federal Pell Grants	17,639,860	17,670,894
Gifts	1,133,692	507,136
Investment Income	7,559,362	4,042,832
Interest on Indebtedness	(2,179,534)	(3,939,163)
Fees Assessed by the Commission for Debt Service	(767,963)	(842,703)
Other Nonoperating Revenues (Expenses) - Net	(196,621)	(184,716)
Net Nonoperating Revenues	<u>94,075,780</u>	<u>94,671,534</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	11,510,476	14,221,181
CAPITAL GRANTS AND GIFTS	8,454,185	691,475
CAPITAL BOND PROCEEDS FROM THE COMMISSION	13,883,953	9,745,240
CAPITAL BOND PROCEEDS FROM STATE	<u>-</u>	<u>1,495,439</u>
INCREASE IN NET POSITION	33,848,614	26,153,335
NET POSITION - BEGINNING OF YEAR	<u>382,357,767</u>	<u>356,204,432</u>
NET POSITION - END OF YEAR	<u><u>\$ 416,206,381</u></u>	<u><u>\$ 382,357,767</u></u>

See accompanying Notes to Financial Statements

MARSHALL UNIVERSITY
STATEMENTS OF CASH FLOWS – PRIMARY INSTITUTION
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Student Tuition and Fees	\$ 69,625,027	\$ 67,266,867
Contracts and Grants	67,071,354	71,662,589
Payments to and on Behalf of Employees	(155,091,353)	(152,239,997)
Payments to Suppliers	(64,750,685)	(62,661,469)
Payments to Utilities	(8,261,744)	(9,029,757)
Payments for Scholarships and Fellowships	(21,428,046)	(21,582,700)
Loans Issued	(1,923,526)	(1,138,705)
Collection of Loans	992,462	969,720
Sales and Service of Educational Activities	138,030	149,460
Auxiliary Enterprise Charges	33,292,422	30,841,619
Fees Assessed by the Commission	(735,660)	(742,866)
Program Income	1,078,570	1,420,272
Other Receipts - Net	7,252,526	6,616,916
Net Cash Used by Operating Activities	(72,740,623)	(68,468,051)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	72,726,397	77,226,209
Federal Pell Grants	17,639,860	17,670,894
Gift Receipts	1,133,692	522,136
Agency Fund Receipts	8,155,203	8,081,123
Agency Fund Payments	(8,142,541)	(8,002,492)
William D. Ford Direct Lending Receipts	78,672,424	77,783,639
William D. Ford Direct Lending Payments	(78,672,426)	(77,784,255)
Net Cash Provided by Noncapital Financing Activities	91,512,609	95,497,254
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital Grants and Gifts Received	3,100,000	431,077
Capital Bond Proceeds from the Commission	16,147,736	8,455,670
Capital Bond Proceeds from State	85,639	2,029,856
Purchases of Capital Assets	(59,713,980)	(30,438,510)
Unearned Rent Revenue Collected	-	(49,705)
Payments on Note Payable	(162,957)	(124,101)
Payments on Debt to MCTC	(350,000)	(350,000)
Principal Paid on Bonds and Leases	(2,767,297)	(3,199,521)
Interest Paid on Bonds and Leases	(4,173,142)	(3,932,044)
Proceeds from Sale of Capital Assets	49,643	19,410
Principal Payment on Debt Obligation Due to the Commission	(1,732,185)	(1,649,649)
Fees Assessed by the Commission	(767,963)	(842,703)
Principal Payment on Loan from the Commission	(30,000)	(30,000)
Deposits to Noncurrent Cash and Cash Equivalents	(2,002,247)	(13,171,021)
Withdrawals from Noncurrent Cash and Cash Equivalents	9,228,603	12,657,363
Net Cash Used by Capital Financing Activities	(43,088,150)	(30,193,878)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(29,357,848)	(18,847,059)
Sales/Maturities of Investments	35,355,893	23,527,208
Investment Income	1,359,192	948,908
Net Cash Provided by Investing Activities	7,357,237	5,629,057
(DECREASE) INCREASE IN CURRENT CASH AND CASH EQUIVALENTS	(16,958,927)	2,464,382
Current Cash and Cash Equivalents - Beginning of Year	104,414,932	101,950,550
CURRENT CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 87,456,005</u>	<u>\$ 104,414,932</u>

(continued)

See accompanying Notes to Financial Statements

MARSHALL UNIVERSITY
STATEMENTS OF CASH FLOWS – PRIMARY INSTITUTION
YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH		
USED BY OPERATING ACTIVITIES		
Operating Loss	\$ (82,565,304)	\$ (80,450,353)
Adjustments to Reconcile Net Operating Loss to Net Cash		
Used by Operating Activities:		
Depreciation Expense	14,015,195	13,440,143
Changes in Assets and Liabilities:		
Accounts Receivable - Net	(612,622)	(555,756)
Loans Receivable - Net	(770,808)	(55,824)
Prepaid Expenses	295,515	174,474
Inventories	42,172	16,049
Accounts Payable	(5,271,745)	(1,734,045)
Accrued Liabilities	686,972	555,372
Other Post Employment Benefits Liability	864,729	738,573
Compensated Absences	(279,125)	178,033
Unearned Revenue	854,398	(834,717)
Advances from Federal Sponsors	-	60,000
Net Cash Used by Operating Activities	<u><u>\$ (72,740,623)</u></u>	<u><u>\$ (68,468,051)</u></u>
NONCASH TRANSACTIONS		
Donated Capital Assets	<u><u>\$ -</u></u>	<u><u>\$ 450,384</u></u>
Loss on Disposal of Assets	<u><u>\$ 196,619</u></u>	<u><u>\$ 222,435</u></u>
Property Additions in Accounts Payable	<u><u>\$ 7,223,436</u></u>	<u><u>\$ 4,356,323</u></u>
Acquisition of Fixed Assets under Capital Lease Arrangements	<u><u>\$ 790,213</u></u>	<u><u>\$ -</u></u>
		(Concluded)

See accompanying Notes to Financial Statements

MARSHALL UNIVERSITY
THE MARSHALL UNIVERSITY FOUNDATION, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – COMPONENT UNIT
JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 15,487,295	\$ 18,682,011
Unconditional promises to give, less allowance for uncollectible promises of \$758,011 and \$831,435 in 2014 and 2013, respectively	23,196,515	26,889,112
Contributions receivable from remainder trusts	874,687	1,019,178
Other receivables	57,156	32,870
Beneficial interest in perpetual trust	9,792,769	8,937,360
Investments	119,945,069	100,032,880
Net investment in direct financing leases	1,514,067	2,065,975
Property and equipment - net	13,935,533	14,358,755
Cash surrender value-life insurance, net of policy loans	464,718	433,734
Prepays	41,238	23,013
Other assets	<u>15,500</u>	<u>15,500</u>
TOTAL ASSETS	\$ <u>185,324,547</u>	\$ <u>172,490,388</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 24,865	\$ 38,577
Accrued vacation and wages	125,967	142,765
Accrued interest payable	44,799	29,842
Bonds payable	9,562,787	10,490,975
Notes payable	300,000	300,000
Annuity payment liability	295,032	376,580
Deferred revenue	223,894	343,675
Fair value of interest rate swap	<u>169,121</u>	<u>218,602</u>
TOTAL LIABILITIES	<u>10,746,465</u>	<u>11,941,016</u>
 NET ASSETS		
Unrestricted	19,901,648	17,671,287
Temporarily restricted	62,127,699	55,664,356
Permanently restricted	<u>92,548,735</u>	<u>87,213,729</u>
TOTAL NET ASSETS	<u>174,578,082</u>	<u>160,549,372</u>
 TOTAL LIABILITIES AND NET ASSETS	\$ <u>185,324,547</u>	\$ <u>172,490,388</u>

See accompanying Notes to Financial Statements

MARSHALL UNIVERSITY
THE MARSHALL UNIVERSITY FOUNDATION, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES – COMPONENT UNIT
YEAR ENDED JUNE 30, 2014

	<u>2014</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
PUBLIC SUPPORT, REVENUES AND RECLASSIFICATIONS				
Gifts, contributions and other	\$ 705,858	\$ 9,212,782	\$ 3,038,653	\$ 12,957,293
Investment income	2,364,486	11,932,391	2,174,427	16,471,304
Net assets released from restrictions				
Satisfaction of program restrictions	<u>12,713,971</u>	<u>(12,713,971)</u>	<u>-0-</u>	<u>-0-</u>
TOTAL PUBLIC SUPPORT, REVENUES AND RECLASSIFICATIONS	<u>15,784,315</u>	<u>8,431,202</u>	<u>5,213,080</u>	<u>29,428,597</u>
EXPENSES				
PROGRAM SERVICES				
Academic assistance	9,223,262	-0-	-0-	9,223,262
Student assistance	<u>3,408,662</u>	<u>-0-</u>	<u>-0-</u>	<u>3,408,662</u>
TOTAL PROGRAM SERVICES	<u>12,631,924</u>	<u>-0-</u>	<u>-0-</u>	<u>12,631,924</u>
SUPPORTING SERVICES				
Management and general	1,998,710	-0-	-0-	1,998,710
Fundraising	<u>769,253</u>	<u>-0-</u>	<u>-0-</u>	<u>769,253</u>
TOTAL SUPPORTING SERVICES	<u>2,767,963</u>	<u>-0-</u>	<u>-0-</u>	<u>2,767,963</u>
LOSS ON EQUITY INVESTMENT	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
TOTAL EXPENSES	<u>15,399,887</u>	<u>-0-</u>	<u>-0-</u>	<u>15,399,887</u>
CHANGE IN NET ASSETS	384,428	8,431,202	5,213,080	14,028,710
NET ASSETS AS OF BEGINNING OF YEAR	17,671,287	55,664,356	87,213,729	160,549,372
TRANSFERS	<u>1,845,933</u>	<u>(1,967,859)</u>	<u>121,926</u>	<u>-0-</u>
NET ASSETS AS OF END OF YEAR	\$ <u>19,901,648</u>	\$ <u>62,127,699</u>	\$ <u>92,548,735</u>	\$ <u>174,578,082</u>

See accompanying Notes to Financial Statements

MARSHALL UNIVERSITY
THE MARSHALL UNIVERSITY FOUNDATION, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES – COMPONENT UNIT
YEAR ENDED JUNE 30, 2013

	2013			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
PUBLIC SUPPORT, REVENUES AND RECLASSIFICATIONS				
Gifts, contributions and other	\$ 541,612	\$ 15,165,695	\$ 8,463,686	\$ 24,170,993
Investment income	1,397,479	7,703,560	1,601,909	10,702,948
Net assets released from restrictions				
Satisfaction of program restrictions	<u>6,557,627</u>	<u>(6,557,627)</u>	<u>-0-</u>	<u>-0-</u>
TOTAL PUBLIC SUPPORT, REVENUES AND RECLASSIFICATIONS	<u>8,496,718</u>	<u>16,311,628</u>	<u>10,065,595</u>	<u>34,873,941</u>
EXPENSES				
PROGRAM SERVICES				
Academic assistance	3,496,039	-0-	-0-	3,496,039
Student assistance	<u>3,017,380</u>	<u>-0-</u>	<u>-0-</u>	<u>3,017,380</u>
TOTAL PROGRAM SERVICES	<u>6,513,419</u>	<u>-0-</u>	<u>-0-</u>	<u>6,513,419</u>
SUPPORTING SERVICES				
Management and general	2,011,871	-0-	-0-	2,011,871
Fundraising	<u>702,207</u>	<u>-0-</u>	<u>-0-</u>	<u>702,207</u>
TOTAL SUPPORTING SERVICES	<u>2,714,078</u>	<u>-0-</u>	<u>-0-</u>	<u>2,714,078</u>
LOSS ON EQUITY INVESTMENT	<u>250,000</u>	<u>-0-</u>	<u>-0-</u>	<u>250,000</u>
TOTAL EXPENSES	<u>9,477,497</u>	<u>-0-</u>	<u>-0-</u>	<u>9,477,497</u>
CHANGE IN NET ASSETS	(980,779)	16,311,628	10,065,595	25,396,444
NET ASSETS AS OF BEGINNING OF YEAR	14,159,630	38,552,162	82,441,136	135,152,928
TRANSFERS	<u>4,492,436</u>	<u>800,566</u>	<u>(5,293,002)</u>	<u>-0-</u>
NET ASSETS AS OF END OF YEAR	<u>\$ 17,671,287</u>	<u>\$ 55,664,356</u>	<u>\$ 87,213,729</u>	<u>\$ 160,549,372</u>

See accompanying Notes to Financial Statements

MARSHALL UNIVERSITY
PROVIDENT GROUP – MARSHALL PROPERTIES L.L.C.
BALANCE SHEETS – COMPONENT UNIT
JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current assets		
Cash	\$ 878,531	\$ 557,948
Assets held by trustee, current portion	1,722,905	2,069,531
Accounts receivable, net of allowance; 2014 - \$210,600 and 2013 - \$148,500	133,669	123,646
Prepaid insurance and other current assets	<u>92,575</u>	<u>73,981</u>
Total current assets	<u>2,827,680</u>	<u>2,825,106</u>
Assets held by trustee and deposits		
Assets held by trustee, net of current portion	<u>3,514,033</u>	<u>3,514,034</u>
Total assets held by trustee and deposits	<u>3,514,033</u>	<u>3,514,034</u>
Property and equipment		
Buildings and improvements	77,453,449	77,435,998
Equipment and furniture	<u>7,276,198</u>	<u>7,053,604</u>
	84,729,647	84,489,602
Less accumulated depreciation	<u>14,213,532</u>	<u>10,571,381</u>
Total property and equipment	<u>70,516,115</u>	<u>73,918,221</u>
Other asset		
Deferred financing costs, net of accumulated amortization; 2014 - \$177,373 and 2013 - \$132,555	<u>816,700</u>	<u>861,518</u>
Total assets	<u>\$ 77,674,528</u>	<u>\$ 81,118,879</u>
LIABILITIES AND MEMBER'S DEFICIT		
Current liabilities		
Revenue bonds payable, current portion	\$ 187,000	\$ 79,825,073
Accounts payable	286,695	267,305
Accrued interest	6,511	8,951
Interest rate swap agreement, current portion	2,870,354	2,834,619
Accrued expenses and other current liabilities	<u>894,762</u>	<u>807,923</u>
Total current liabilities	<u>4,245,322</u>	<u>83,743,871</u>
Long-term liabilities		
Revenue bonds payable, net of current portion	88,535,444	9,046,000
Deferred interest - subordinate bonds payable	681,125	690,851
Interest rate swap agreement, net of current portion	<u>12,990,043</u>	<u>12,320,466</u>
Total long-term liabilities	<u>102,206,612</u>	<u>22,057,317</u>
Total liabilities	<u>106,451,934</u>	<u>105,801,188</u>
Member's deficit	<u>(28,777,406)</u>	<u>(24,682,309)</u>
Total liabilities and member's deficit	<u>\$ 77,674,528</u>	<u>\$ 81,118,879</u>

See accompanying Notes to Financial Statements

MARSHALL UNIVERSITY
PROVIDENT GROUP – MARSHALL PROPERTIES L.L.C.
STATEMENTS OF OPERATIONS – COMPONENT UNIT
YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Operating revenue		
Rental revenue	\$ 4,209,632	\$ 4,074,122
Membership fees	5,099,941	4,884,802
Other revenue	26,431	55,760
Total operating revenue	<u>9,336,004</u>	<u>9,014,684</u>
Operating expenses		
Administration and general	4,045,344	3,979,410
Plant operations and maintenance	604,910	554,986
Management fee	603,127	585,185
Bad debts	68,665	45,669
Total operating expenses	<u>5,322,046</u>	<u>5,165,250</u>
Operating income	<u>4,013,958</u>	<u>3,849,434</u>
Other income (expense)		
Interest income	301	325
Interest expense - senior bonds payable	(2,964,128)	(3,015,885)
Interest expense - subordinate bonds payable	(681,125)	(690,851)
Depreciation	(3,682,903)	(3,632,483)
Amortization	(63,189)	(63,681)
Loss on disposal of fixed assets	(12,699)	-
Unrealized gain (loss) on interest rate swap agreement	(705,312)	8,562,418
Total other income (expense)	<u>(8,109,055)</u>	<u>1,159,843</u>
Net income (loss)	<u>\$ (4,095,097)</u>	<u>\$ 5,009,277</u>

See accompanying Notes to Financial Statements

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 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 ("GASB"), the University has included information from the Marshall University Foundation, Inc. (the "Foundation") and Provident Group — Marshall Properties, L.L.C. ("Provident — Marshall") for the years ended June 30, 2014 and 2013.

On July 30, 2010, Provident — Marshall purchased the project previously owned by MSH — Marshall, LLC ("MSH — Marshall"). MSH — Marshall recognized a gain on sale of the project, net of unamortized issuance costs, of \$17 million.

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 the State of West Virginia (the "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 (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.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 1 ORGANIZATION (CONTINUED)

Although the University benefits from the activities of Provident — Marshall, Provident — Marshall is independent of the University in all respects. Provident — Marshall is not a subsidiary of the University and is not directly or indirectly controlled by the University. Provident — Marshall is a nonprofit corporation that is operated for charitable purposes. The assets of Provident — Marshall are the exclusive property of Provident — 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. The University does not have the power or authority to mortgage, pledge, or encumber the assets of Provident — Marshall. Any income resulting from the operations of Provident — Marshall is for the benefit of Provident — Marshall, and is not distributed to the University. Third parties dealing with the University, the Board, and the State (or any agency thereof) should not rely upon the financial statements of Provident — Marshall for any purpose without consideration of all the foregoing conditions and limitations.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the University have been prepared in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”), as prescribed by GASB. The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the University’s assets, deferred inflows of resources, liabilities, deferred outflows of resources net position, revenues, expenses, changes in net position, and cash flows.

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 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 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 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.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity (Continued)

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, 2014 and 2013, the Center had limited financial activity, all of which is included in the accompanying financial statements.

The audited financial statements of the Foundation and Provident — Marshall, are presented here as discretely presented component units with the University 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 both report under Financial Accounting Standards Board ("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, 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 position is classified into four categories according to external donor restrictions or availability of assets for satisfaction of University obligations. The University's net position is classified as follows:

Net Investments in Capital Assets— 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 net investments in capital assets.

Restricted Net Position, 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 University. These restrictions are subject to change by future actions of the West Virginia Legislature.

Restricted Net Position, 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.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (Continued)

Unrestricted Net Position — Unrestricted net position represents 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 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 statements of net position, 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 University may invest in. These pools have been structured as multiparticipant variable net position 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 audited financial report. A copy of that annual audited financial report can be obtained from the following address: 1900 Kanawha Blvd. East, Room E-122, Charleston, WV 25305 or <http://www.wvbt.com>.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The University had investments in six long-term funds comprised of bond, equity, commodities, and fixed-income investments, with Commonfund at June 30, 2014 and 2013, eight and four investment funds with Jefferies Group, bond proceeds invested in zero and one U.S. government securities by the bond trustee, at June 30, 2014 and 2013, respectively. MURC held U.S. government agency securities and four investment funds with Jefferies Group at June 30, 2014 and 2013.

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 is not readily marketable and the estimated value is subject to uncertainty, the reported value may differ from the value that would have been used had a ready market existed.

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

Investments are made in accordance with and subject to the provisions of the Uniform Prudent Investor Act codified as article six-c, chapter forty-four of the West Virginia Code.

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 collectability 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, cash equivalents, 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 position are classified as noncurrent assets in the accompanying statements of net position.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Interest on related borrowings, net of interest earnings on invested proceeds, is capitalized during the period of construction and was \$1,959,866 and \$311,240 for the years ended June 30, 2014 and 2013, respectively. 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, seven years for library books, and three 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.

Unearned Revenue

Revenues for programs or activities to be conducted primarily in the next fiscal year are classified as unearned 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)

GASB provides 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 and its stand-alone financial statements 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.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences and Other Post Employment Benefits (OPEB) (Continued)

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 statements of revenues, expenses, and changes in net position.

Deferred Outflows of Resources

Consumption of net position by the University that is applicable to a future fiscal year is reported as a deferred outflow of resources on the statement of net position. Deferred outflows are accreted over the periods of the refinancing bond issue related to the deferred loss on refinancing.

Deferred Inflows of Resources

An acquisition of net position by the University that is applicable to a future fiscal year is reported as a deferred inflow of resources on the statement of net position. Deferred inflows are accreted over the periods of the service concession arrangements ("SCAs").

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.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk Management (Continued)

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, 2014 and 2013, the balance in the escrow account was \$1,898,551 and \$1,518,028, respectively. Based on an actuarial valuation of this self-insurance program, the University has recorded a liability of \$9,596,000 and \$8,778,000 at June 30, 2014 and 2013, respectively, to reflect projected claim payments at 80% confidence level and a discount rate of 3% at June 30, 2014 and 2013. The receivable from University Physicians & Surgeons, Inc., for the funding it has agreed to provide for this liability was \$7,697,449 and \$7,259,972 at June 30, 2014 and 2013, 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, investment income, and sale of capital assets (including natural resources).

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

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Restricted Net Position

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 position 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 statements of net position since the loans are repayable directly to the U.S. Department of Education. In 2014 and 2013, the University received and disbursed approximately \$79,000,000 and \$78,000,000, 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 statements of revenues, expenses, and changes in net position.

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 financial statements. In both 2014 and 2013, the University received and disbursed approximately \$18,385,000 and \$18,450,000, 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 statements of revenues, expenses, and changes in net position. 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 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 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.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Service Concession Arrangements

The University has SCAs for the operation of bookstores and food services. Renovations made to University facilities by service concession vendors are capitalized and revenues are deferred and accreted over the life of the contract.

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 or restricted for noncurrent assets have not been included as cash and cash equivalents for the purpose of the statements of cash flows.

Use of Estimates

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

Risk and Uncertainties

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

Reclassifications

Certain reclassifications have been made to the 2013 amounts to conform to the 2014 presentation.

Recent Statements Issued by the Governmental Accounting Standards Board (GASB)

The GASB has issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68* effective for fiscal years beginning after June 15, 2014. These statements enhances the information provided in the financial statements regarding the effects of pension-related transactions, the pension obligations of the entity, and the resources available to satisfy those obligations. The University has not yet determined the effect that the adoption of GASB Statement Nos. 68 and 71 may have on its financial statements.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Statements Issued by the Governmental Accounting Standards Board (GASB)(Continued)

The GASB has also issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for fiscal years beginning after June 15, 2013. Early application is encouraged. This statement requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. In addition, the Statement requires: (1) A government guarantor to consider qualitative factors when determining if a payment on its guarantee is more likely than not to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization; (2) An issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government is released, the government would recognize revenue as a result of being relieved of the obligation; and (3) A government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees. The adoption of this statement did not have a material impact on the financial statements.

NOTE 3 CASH AND CASH EQUIVALENTS

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

	June 30, 2014		
	Current	Noncurrent	Total
State Treasurer	\$ 56,686,568	\$ 176,000	\$ 56,862,568
Trustee	19	-	19
State Treasurer - Escrow	-	1,898,551	1,898,551
Cash Equivalents	29,845,346	-	29,845,346
In Bank	913,966	-	913,966
On Hand	10,106	-	10,106
Total	<u>\$ 87,456,005</u>	<u>\$ 2,074,551</u>	<u>\$ 89,530,556</u>
	June 30, 2013		
	Current	Noncurrent	Total
State Treasurer	\$ 81,926,144	\$ 176,000	\$ 82,102,144
Trustee	18	7,606,878	7,606,896
State Treasurer - Escrow	-	1,518,028	1,518,028
Cash Equivalents	21,034,464	-	21,034,464
In Bank	1,444,020	-	1,444,020
On Hand	10,286	-	10,286
Total	<u>\$ 104,414,932</u>	<u>\$ 9,300,906</u>	<u>\$ 113,715,838</u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)

Cash held by the State Treasurer includes \$1,958,576 and \$2,177,481 at June 30, 2014 and 2013, respectively, of restricted cash for sponsored projects, loans, and other purposes.

Cash on deposit with Trustee represents funds reserved for debt payments on the University Refunding Revenue Bonds, Series 2010 (the "2010 Bonds") and project expenditures, and debt payments on the University Revenue Bonds, Series 2011 (the "2011 Bonds") (see Note 9).

State Treasurer escrow represents an escrow agreement the University entered into with BRIM for malpractice insurance deductibles with a balance of \$1,898,551 and \$1,518,028 at June 30, 2014 and 2013, respectively.

MURC cash equivalents totaling \$11,530,921 and \$16,169,757 at June 30, 2014 and 2013, respectively, are held in repurchase agreements and a business savings account, both collateralized at 110%. The collateral was held in the name of MURC. Remaining cash equivalents primarily relate to amounts held in money markets.

The carrying amount of cash in bank at June 30, 2014 and 2013, was \$913,966 and \$1,444,020 as compared with the bank balance of \$1,029,100 and \$1,814,525, 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 up to \$250,000. Non-interest-bearing accounts are 100% insured through December 31, 2014.

Amounts with the State Treasurer as of June 30, 2014 and 2013, are comprised of three investment pools, the WV Money Market Pool, the WV Government Money Market Pool and the WV Short Term Bond Pool.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following table provides information on the Standard & Poor's rating of the investment pools as of June 30:

External Pool	2014		2013	
	Carrying Value (in Thousands)	S & P Rating	Carrying Value (in Thousands)	S & P Rating
WV Money Market Pool	\$ 55,232	AAAm	\$ 76,162	AAAm
WV Government Money Market Pool	459	AAAm	518	AAAm
WV Short Term Bond Pool	1,172	Not Rated	5,422	Not Rated

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)

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.

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 amounts with the State Treasurer are subject to interest rate risk. The following table provides information on the weighted-average maturities for the WV Money Market Pool and the WV Government Money Market Pool:

External Pool	2014		2013	
	Carrying Value (in Thousands)	WAM (Days)	Carrying Value (in Thousands)	WAM (Days)
WV Money Market Pool	\$ 55,232	36	\$ 76,162	52
WV Government Money Market Pool	459	37	518	50

The following table provides information on the effective duration for the WV Short Term Bond Pool:

External Pool	2014		2013	
	Carrying Value (in Thousands)	Effective Duration (Days)	Carrying Value (in Thousands)	Effective Duration (Days)
WV Short Term Bond Pool	\$ 1,172	407	\$ 5,422	358

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.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)

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.

<u>Investment Type</u>	Carrying Value	
	2014	2013
Money Market Fund	\$ 19	\$ 7,606,896

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 does not have a formal custodial credit risk policy.

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. The University does not have a formal interest rate risk policy.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 4 ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2014 and 2013, are as follows:

	2014		
	Current	Noncurrent	Total
Student Tuition and Fees - Net of Allowance for Doubtful Accounts of \$192,156	\$ 714,673	\$ -	\$ 714,673
Grants and Contracts Receivable - Net of Doubtful Accounts of \$369,633	6,729,526	-	6,729,526
Due from the Commission	24,348	-	24,348
Due from Other State Agencies	214,760	-	214,760
Appropriations due from Primary Government	2,916,179	-	2,916,179
Other Accounts Receivable	8,564,635	7,697,449	16,262,084
Total	<u>\$ 19,164,121</u>	<u>\$ 7,697,449</u>	<u>\$ 26,861,570</u>

	2013		
	Current	Noncurrent	Total
Student Tuition and Fees - Net of Allowance for Doubtful Accounts of \$195,371	\$ 510,345	\$ -	\$ 510,345
Grants and Contracts Receivable - Net of Doubtful Accounts of \$339,686	7,883,240	-	7,883,240
Due from the Commission	2,663,465	-	2,663,465
Due from Other State Agencies	121,153	-	121,153
Appropriations due from Primary Government	4,755,592	-	4,755,592
Other Accounts Receivable	2,017,011	7,259,972	9,276,983
Total	<u>\$ 17,950,806</u>	<u>\$ 7,259,972</u>	<u>\$ 25,210,778</u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 5 INVESTMENTS

The University had the following investments as of June 30, 2014 and 2013, as follows:

Investment Type	2014		
	University	MURC	Fair Value
Commonfund			
High Quality Bond Fund	\$ 3,714,255	\$ -	\$ 3,714,255
Equity Index Fund	1,722,470	-	1,722,470
Intermediate Term Fund	577,453	-	577,453
Multi-Strategy Equity Fund	16,341,344	-	16,341,344
Multi-Strategy Bond Fund	5,947,200	-	5,947,200
Multi-Strategy Commodities Fund	775,635	-	775,635
Jefferies & Company, Inc.			
BHR Offshore Fund	4,496,450	1,268,838	5,765,288
Salsman Offshore Fund	4,522,463	1,154,700	5,677,163
Z Capital Loan Op Offshore Fund	1,205,815	883,453	2,089,268
Mudrick Dist Opportunity Fund	4,579,466	696,447	5,275,913
RBR European Fund	2,245,552	-	2,245,552
Han Mid Term Fund	1,004,752	-	1,004,752
Operating Fund	2,007,793	-	2,007,793
Mid Term Fund	3,590,942	-	3,590,942
U.S. Government National			
Mortgage Association Securities	-	27,092,977	27,092,977
Total	<u>\$ 52,731,590</u>	<u>\$ 31,096,415</u>	<u>\$ 83,828,005</u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 5 INVESTMENTS (CONTINUED)

Investment Type	2013		
	University	MURC	Fair Value
Commonfund			
High Quality Bond Fund	\$ 3,521,547	\$ -	\$ 3,521,547
Equity Index Fund	1,384,341	-	1,384,341
Intermediate Term Fund	569,987	-	569,987
Multi-Strategy Equity Fund	13,986,818	-	13,986,818
Multi-Strategy Bond Fund	4,817,872	-	4,817,872
Multi-Strategy Commodities Fund	674,234	-	674,234
Jefferies & Company, Inc.			
BHR Offshore Fund	1,665,800	988,111	2,653,911
Salsman Offshore Fund	1,650,046	880,024	2,530,070
Harvest Volatility Alpha Fund	1,041,431	520,715	1,562,146
Z Capital Loan Op Offshore Fund	1,113,239	667,944	1,781,183
United Bank			
U.S. Government Securities	29,131,853	-	29,131,853
U.S. Government National			
Mortgage Association Securities	-	21,032,850	21,032,850
Total	<u>\$ 59,557,168</u>	<u>\$ 24,089,644</u>	<u>\$ 83,646,812</u>

The University's investments with United Bank in 2013 are bond proceeds from the 2011 Revenue Bond issue that have been invested by the bond trustee in accordance with the bond indenture. All these bond proceeds were spent by June 30, 2014.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 5 INVESTMENTS (CONTINUED)

Credit Risk

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. At June 30, 2014, the High Quality Bond Fund had an average maturity of 7.12 years and a rating of A+, the Intermediate Term Fund had an average maturity of 1.96 years and a rating of AA, the Multi-Strategy Bond Fund had an average maturity of 7.20 years and a rating of A+, and the Multi-Strategy Commodities Fund had an average maturity of .93 years and a rating of A; all other University investments do not have an assigned rating. At June 30, 2013, the High Quality Bond Fund had an average maturity of 8.4 years and a rating of AA-, the Intermediate Term Fund had an average maturity of 2.5 years and a rating of AA, the Multi-Strategy Bond Fund had an average maturity of 7.6 years and a rating of A+, and the Multi-Strategy Commodities Fund had an average maturing of 0.5 years and a rating of AAA, all other University investments do not have an assigned rating.

The U.S. Government National Mortgage Association Securities held by MURC have an average maturity of 4 years and 3 years, respectively, for fiscal year 2014 and 2013, respectively. At both June 30, 2014 and 2013, MURC's investment in the U.S. Government National Mortgage Association Securities, were AAA/AA+/AAA rated government-backed securities. The investments held by Jeffries & Company do not have an assigned rating.

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 portfolio strategy includes three investment pools, the Long Term Investment Pool, the Mid Term Investment Pool, and the Operating Investment Pool. The objective of the University's portfolio strategy is to enhance the Investment Pool's long-term viability by maximizing the value with a prudent, balanced level of risk.

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.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 6 CAPITAL ASSETS

Capital asset transactions for the years ended June 30, 2014 and 2013 are as follows:

	2014				
	Beginning Balance	Additions	Reductions	Other	Ending Balance
Capital Assets not being Depreciated:					
Land	\$ 32,436,357	\$ -	\$ -	\$ -	\$ 32,436,357
Antiques and Artwork (Inexhaustible)	132,107	-	-	-	132,107
Construction in Progress	37,262,307	64,205,470	-	(25,273,733)	76,194,044
Total Capital Assets not being Depreciated	<u>\$ 69,830,771</u>	<u>\$ 64,205,470</u>	<u>\$ -</u>	<u>\$ (25,273,733)</u>	<u>\$ 108,762,508</u>
Other Capital Assets:					
Land Improvements	\$ 6,546,924	\$ -	\$ -	\$ 1,390,677	\$ 7,937,601
Infrastructure	25,451,258	119,128	(4,879)	700,176	26,265,683
Buildings	385,235,441	780,846	(855,161)	23,182,920	408,344,046
Equipment	66,392,706	2,176,948	(13,957,722)	-	54,611,932
Library Books	8,964,161	71,751	(141,175)	-	8,894,737
Total Other Capital Assets	492,590,490	3,148,673	(14,958,937)	25,273,773	506,053,999
Less Accumulated Depreciation for:					
Land Improvements	2,846,940	431,779	-	-	3,278,719
Infrastructure	18,580,734	965,325	(4,879)	-	19,541,180
Buildings	121,786,190	8,608,588	(748,266)	-	129,646,512
Equipment	49,117,892	3,837,863	(13,818,355)	-	39,137,400
Library Books	8,352,322	171,640	(141,175)	-	8,382,787
Total Accumulated Depreciation	<u>200,684,078</u>	<u>14,015,195</u>	<u>(14,712,675)</u>	<u>-</u>	<u>199,986,598</u>
Other Capital Assets - Net	<u>\$ 291,906,412</u>	<u>\$ (10,866,522)</u>	<u>\$ (246,262)</u>	<u>\$ 25,273,773</u>	<u>\$ 306,067,401</u>
Capital Asset Summary:					
Capital Assets not being Depreciated	\$ 69,830,771	\$ 64,205,470	\$ -	\$ (25,273,773)	\$ 108,762,468
Capital Assets	<u>492,590,490</u>	<u>3,148,673</u>	<u>(14,958,937)</u>	<u>25,273,773</u>	<u>506,053,999</u>
Total Cost of Capital Assets	562,421,261	67,354,143	(14,958,937)	-	614,816,467
Less Accumulated Depreciation	<u>(200,684,078)</u>	<u>(14,015,195)</u>	<u>14,712,675</u>	<u>-</u>	<u>(199,986,598)</u>
Capital Assets - Net	<u>\$ 361,737,183</u>	<u>\$ 53,338,948</u>	<u>\$ (246,262)</u>	<u>\$ -</u>	<u>\$ 414,829,869</u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 6 CAPITAL ASSETS (CONTINUED)

	2013				
	Beginning Balance	Additions	Reductions	Other	Ending Balance
Capital Assets not being Depreciated:					
Land	\$ 32,240,931	\$ 195,426	\$ -	\$ -	\$ 32,436,357
Antiques and Artwork (Inexhaustible)	132,107	-	-	-	132,107
Construction in Progress	18,809,204	29,295,297	-	(10,842,194)	37,262,307
Total Capital Assets not being Depreciated	<u>\$ 51,182,242</u>	<u>\$ 29,490,723</u>	<u>\$ -</u>	<u>\$ (10,842,194)</u>	<u>\$ 69,830,771</u>
Other Capital Assets:					
Land Improvements	\$ 6,658,924	\$ -	\$ (112,000)	\$ -	\$ 6,546,924
Infrastructure	25,368,288	71,828	(44,534)	55,676	25,451,258
Buildings	374,461,091	599,314	(611,482)	10,786,518	385,235,441
Equipment	66,608,788	3,542,958	(3,759,040)	-	66,392,706
Library Books	8,609,290	364,311	(9,440)	-	8,964,161
Total Other Capital Assets	481,706,381	4,578,411	(4,536,496)	10,842,194	492,590,490
Less Accumulated Depreciation for:					
Land Improvements	2,527,345	431,595	(112,000)	-	2,846,940
Infrastructure	17,611,839	1,013,429	(44,534)	-	18,580,734
Buildings	114,525,040	7,777,657	(516,507)	-	121,786,190
Equipment	48,699,136	4,030,926	(3,612,170)	-	49,117,892
Library Books	8,175,226	186,536	(9,440)	-	8,352,322
Total Accumulated Depreciation	<u>191,538,586</u>	<u>13,440,143</u>	<u>(4,294,651)</u>	<u>-</u>	<u>200,684,078</u>
Other Capital Assets - Net	<u>\$ 290,167,795</u>	<u>\$ (8,861,732)</u>	<u>\$ (241,845)</u>	<u>\$ 10,842,194</u>	<u>\$ 291,906,412</u>
Capital Asset Summary:					
Capital Assets not being Depreciated	\$ 51,182,242	\$ 29,490,723	\$ -	\$ (10,842,194)	\$ 69,830,771
Capital Assets	<u>481,706,381</u>	<u>4,578,411</u>	<u>(4,536,496)</u>	<u>10,842,194</u>	<u>492,590,490</u>
Total Cost of Capital Assets	532,888,623	34,069,134	(4,536,496)	-	562,421,261
Less Accumulated Depreciation	<u>(191,538,586)</u>	<u>(13,440,143)</u>	<u>4,294,651</u>	<u>-</u>	<u>(200,684,078)</u>
Capital Assets - Net	<u>\$ 341,350,037</u>	<u>\$ 20,628,991</u>	<u>\$ (241,845)</u>	<u>\$ -</u>	<u>\$ 361,737,183</u>

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.

At June 30, 2014, the University had outstanding contractual commitments of approximately \$28,730,000 for property, plant, and equipment expenditures. These commitments will be funded through a combination of bond proceeds, donations, and University resources.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 7 LONG-TERM LIABILITIES

Long-term obligation transactions for the years ended June 30, 2014 and 2013 are as follows:

	2014				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes, Bonds and Capital Leases:					
Notes Payable	\$ 2,415,271	\$ -	\$ (161,018)	\$ 2,254,253	\$ 161,018
Revenue Bonds Payable	89,196,740	-	(1,621,192)	87,575,548	1,475,000
Capital Leases Payable	6,299,123	790,213	(1,100,397)	5,988,939	1,156,123
Total Notes, Bonds and Capital Leases	97,911,134	790,213	(2,882,607)	95,818,740	2,792,141
Other Long-Term Liabilities:					
Debt Obligation to the Commission	16,423,198	-	(1,732,185)	14,691,013	1,805,254
Loan Payable to the Commission	105,000	-	(30,000)	75,000	30,000
Due to MCTC	1,792,834	-	(350,000)	1,442,834	350,000
OPEB Liability	39,525,519	1,256,216	(385,797)	40,395,938	-
Other Noncurrent Liabilities	9,523,576	4,011,944	(1,910,269)	11,625,251	212,681
Accrued Service Concession Liability	637,148	-	(104,024)	533,124	104,024
Advances from Federal Sponsors	6,345,285	-	-	6,345,285	-
Total Other Long-Term Liabilities	74,352,560	5,268,160	(4,512,275)	75,108,445	
Total Long-Term Liabilities	<u>\$ 172,263,694</u>	<u>\$ 6,058,373</u>	<u>\$ (7,394,882)</u>	<u>\$ 170,927,185</u>	
	2013				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes, Bonds and Capital Leases:					
Notes Payable	\$ 2,539,398	\$ -	\$ (124,127)	\$ 2,415,271	\$ 161,018
Revenue Bonds Payable	90,781,460	-	(1,584,720)	89,196,740	1,430,000
Capital Leases Payable	7,913,924	-	(1,614,801)	6,299,123	1,095,778
Total Notes, Bonds and Capital Leases	101,234,782	-	(3,323,648)	97,911,134	2,686,796
Other Long-Term Liabilities:					
Debt Obligation to the Commission	18,072,847	-	(1,649,649)	16,423,198	1,732,185
Loan Payable to the Commission	135,000	-	(30,000)	105,000	30,000
Due to MCTC	2,142,834	-	(350,000)	1,792,834	350,000
OPEB Liability	38,786,947	1,125,908	(387,336)	39,525,519	-
Other Noncurrent Liabilities	9,713,281	1,917,464	(2,107,169)	9,523,576	-
Accrued Service Concession Liability	741,172	-	(104,024)	637,148	104,024
Advances from Federal Sponsors	6,285,285	60,000	-	6,345,285	-
Total Other Long-Term Liabilities	75,877,366	3,103,372	(4,628,178)	74,352,560	
Total Long-Term Liabilities	<u>\$ 177,112,148</u>	<u>\$ 3,103,372</u>	<u>\$ (7,951,826)</u>	<u>\$ 172,263,694</u>	

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 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 semiannually 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. Any remaining principal balance shall be payable in full on April 10, 2028.

However, any unspent mortgage proceeds would go to pay the first amounts due for interest and principal. The rate for the period of April 10, 2013, through April 10, 2018, is 1.6415%. The interest rate is subject to change 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.

Scheduled maturities on notes payable as of June 30, 2014, are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 161,018	\$ 37,004
2016	161,018	34,360
2017	161,018	31,717
2018	161,018	29,074
2019	161,018	26,431
2020-2024	805,090	92,509
2025-2028	644,073	26,431
Total	<u>\$ 2,254,253</u>	<u>\$ 277,526</u>

NOTE 9 BONDS

Bonds payable as of June 30, 2014 and 2013 consist of the following:

	<u>Original Interest Rate</u>	<u>Annual Principal Installment Due</u>	<u>Principal Amount Outstanding</u>	
			<u>2014</u>	<u>2013</u>
University Revenue Bonds	2.0% - 5.0%	\$1,190,000 - \$3,375,000	\$ 51,910,000	\$ 51,910,000
University Refunding Revenue Bonds	2.0% - 5.0%	\$915,000 - \$2,885,000	33,405,000	34,835,000
			85,315,000	86,745,000
Add Bond Premium			2,260,548	2,451,740
Total			<u>\$ 87,575,548</u>	<u>\$ 89,196,740</u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 9 BONDS (CONTINUED)

In November 2010, the Board sold \$37,140,000 of University Refunding Revenue Bonds, Series 2010. 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 University and United Bank, Inc., Charleston, West Virginia, as 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 Bonds and (2) pay the costs of issuance of the 2010 Bonds. The indenture allows for additional bonds to be issued on a parity as to lien and source of payment with the 2010 Bonds.

In November 2011, the Board sold \$51,910,000 of 2011 Bonds. The 2011 Bonds were issued under the authority contained in Chapter 18, Article 18B of the Code of West Virginia, 1931, as amended, and the 2011 Bonds are secured pursuant to a Trust Indenture dated as of November 1, 2011, between the University and United Bank, Inc., Charleston, West Virginia, as the Trustee. The 2011 Bonds are secured by and payable from certain revenues as defined Trust Indenture. The proceeds of the 2011 Bonds will be used to (1) finance various capital improvement projects and (2) to pay the costs of issuance of the 2011 Bonds. These bonds were issued on parity with the 2010 Bonds, with additional revenues pledged in the indenture.

The above bond issues (collectively, the "Bonds") 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 the Bonds, the University remits the funds to a commercial bank for payment to the trustees of the bond issues 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.

The Bonds are special obligations of the State and are not general obligations or a debt of the State. Neither the credit nor the taxing power of the State is pledged for the payment of the Bonds. The above bond issues are fully insured as to principal and interest by the Federal Guaranty Insurance Company.

The Bonds covenants require that the schedules of rent, charges, and fees shall at all times be adequate to produce revenues from the auxiliary facilities sufficient to pay operating expenses and when with E&G Capital Fees, Medical Center Rental Income, and Athletic Facility Enhancement Fee Revenues (as defined in the indenture) to make the prescribed payments into the funds and accounts created hereunder, and that such schedule or schedules of rents, charges, and fees that shall be revised from time to time to provide for all reasonable operating expenses and leave net revenues, when with other monies legally available to be used for such purposes, each year equal at least 110% the maximum annual debt service of the Bonds. During the years ended June 30, 2014 and 2013, net revenues, when combined with other monies legally available for payment of debt service, was 3.36 times and 2.78 times the maximum annual debt service, respectively.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 9 BONDS (CONTINUED)

A summary of the annual aggregate principal and interest payments for years subsequent to June 30, 2014, is as follows:

Year Ending June 30,	2010 Bonds		2011 Bonds		Combined	
	University Revenue		University Refunding Revenue			
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 1,475,000	\$ 1,542,700	\$ -	\$ 2,333,925	\$ 1,475,000	\$ 3,876,625
2016	1,520,000	1,498,450	-	2,333,925	1,520,000	3,832,375
2017	1,585,000	1,437,650	1,190,000	2,333,925	2,775,000	3,771,575
2018	1,645,000	1,374,250	1,215,000	2,310,125	2,860,000	3,684,375
2019	1,725,000	1,292,000	1,265,000	2,261,525	2,990,000	3,553,525
2020-2024	9,980,000	5,116,000	7,130,000	10,499,250	17,110,000	15,615,250
2025-2029	12,590,000	2,505,900	8,940,000	8,690,950	21,530,000	11,196,850
2030-2034	2,885,000	135,525	11,315,000	6,313,750	14,200,000	6,449,275
2035-2039	-	-	14,245,000	3,382,056	14,245,000	3,382,056
2040-2041	-	-	6,610,000	439,875	6,610,000	439,875
Total	<u>\$ 33,405,000</u>	<u>\$ 14,902,475</u>	<u>\$ 51,910,000</u>	<u>\$ 40,899,306</u>	<u>\$ 85,315,000</u>	<u>\$ 55,801,781</u>

NOTE 10 LEASES

Operating

Future annual minimum lease payments on operating leases for years subsequent to June 30, 2014, are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2015	\$ 815,151
2016	798,651
2017	798,651
2018	793,051
2019	789,051
2020-2024	2,459,393
2025-2027	<u>1,306,933</u>
Total	<u>\$ 7,760,881</u>

In May 2012, the University entered into a lease agreement with St. Mary's Hospital to lease space in the St. Mary's Medical Center Education Building for use by the Physical Therapy Program. The University will pay rent in the amount of \$38,439 per month for the period of May 1, 2012, through April 30, 2027.

Total rent expense for the years ended June 30, 2014 and 2013, was \$576,051 and \$913,181, respectively. The University does not have any noncancelable leases.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 10 LEASES (CONTINUED)

Capital

The University leases various equipment and buildings through capital leases. At June 30, 2014 and 2013, leased equipment with a net book value of \$502,198 and \$654,765 and leased buildings with a net book value of \$10,437,199 and \$9,941,514, 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 MUGC'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 and land: \$700,000), and the 21-year lease term commenced with the MUGC'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.

In 2012, the University entered into three new capital leases for mailing, telecommunications, and printing equipment totaling \$827,836. These leases are for terms of three to five years and ownership of the equipment transfers to the University at the end of the lease term. The University did not enter into any new leases in 2013. In 2014, the University entered into a new capital lease for the stadium turf replacement.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 10 LEASES (CONTINUED)

Future annual minimum lease payments for years subsequent to June 30, 2014, are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,156,123	\$ 207,722	\$ 1,363,845
2016	898,426	166,330	1,064,756
2017	740,534	134,773	875,307
2018	587,203	106,436	693,639
2019	443,588	88,516	532,104
2020-2024	2,093,252	210,943	2,304,195
2025-2026	69,813	351	70,164
			<u>6,904,010</u>
Less Interest			<u>915,071</u>
Total			<u><u>\$ 5,988,939</u></u>

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.

NOTE 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, 2014, 2013, and 2012, the noncurrent liability related to OPEB costs was \$40,395,938, \$39,525,519, and \$38,786,947, respectively. The total of OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$4,365,373 and \$3,494,954, respectively, during 2014, or 80.1%. The total of OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$4,239,937 and \$3,501,365, respectively, during 2013, or 82.6%. The total of OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$14,614,888 and \$2,930,443, respectively, during 2012, or 20.1%. As of and for the years ended June 30, 2014, 2013, and 2012, there were 204, 191, and 190, respectively, retirees receiving these benefits.

NOTE 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.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 12 STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS (CONTINUED)

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 of West Virginia 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.

Debt service assessed for the years ended June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Principal	\$ 1,732,185	\$ 1,649,649
Interest	721,880	796,621
Other	46,083	46,082
Total	<u>\$ 2,500,148</u>	<u>\$ 2,492,352</u>

During September 2011, the Commission loaned the University \$150,000 from the Energy and Water Savings Revolving Loan Fund to upgrade existing systems in order to reduce future utility costs. The loan is to be repaid in 10 semiannual installments of \$15,000 each, over five years and is interest free.

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, 2014, the University has recognized \$17.6 million of these funds as revenue.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 12 STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS (CONTINUED)

During December 2010, the 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 began 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. As of June 30, 2014, the University has recognized \$25 million of these funds as revenue.

During June 2012, the HEPC refunded a portion of the outstanding principal amount of the State of West Virginia Higher Education Policy Commission Revenue Refunding Bonds 2004 Series B Lottery Revenue Bonds and received approximately \$8 million in bond proceeds from the refunding. The Commission approved a list of high-priority capital projects to be funded from the bond proceeds. The University had two projects approved for this funding and entered into an agreement with the Commission to receive \$462,500 of these proceeds with a 100% matching requirement. Subsequent changes to budgeted costs reduced the approved amount to \$427,330. As of June 30, 2014, the University has recognized \$399,000 of these funds as revenue.

NOTE 13 UNRESTRICTED NET POSITION

The University's unrestricted net position as of June 30, 2014 and 2013 include certain designated net position as follows:

	2014	2013
Designated for Auxiliaries	\$ 3,393,054	\$ 1,553,301
Designated for Auxiliaries Repairs and Maintenance Debt Payments, Capital Projects, and Equipment Purchases	8,927,590	8,910,962
Designated for Other Repairs and Maintenance, Debt Payments, Capital Projects, and Equipment Purchases	7,773,240	12,398,643
Undesignated	<u>101,198,870</u>	<u>85,509,097</u>
Total Unrestricted Net Position before OPEB Liability	121,292,754	108,372,003
Less OPEB Liability	<u>40,395,938</u>	<u>39,525,519</u>
Total Unrestricted Net Position	<u><u>\$ 80,896,816</u></u>	<u><u>\$ 68,846,484</u></u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 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 Equity Funds (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 onetime 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 and 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, 2014 and 2013. Required employee contributions were at the rate of 6% of total annual salaries for the years ended June 30, 2014 and 2013. 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, 2014, 2013, and 2012 were approximately \$736,000, \$788,000, and \$916,000, respectively, which consisted of approximately \$526,000, \$563,000, and \$653,000 from the University in 2014, 2013, and 2012, respectively, and approximately \$210,000, \$225,000, and \$263,000 from covered employees in 2014, 2013, and 2012, 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 cost-sharing 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, 2014, 2013, and 2012, were approximately \$12,857,000, \$12,653,000, and \$12,390,000, respectively, which consisted of approximately \$6,378,000, \$6,277,000, and \$6,134,000 from the University in 2014, 2013, and 2012, respectively, and approximately \$6,479,000, \$6,376,000, and \$6,256,000 from covered employees in 2014, 2013, and 2012, respectively.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 14 RETIREMENT PLANS (CONTINUED)

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, 2014, 2013, and 2012 were approximately \$216,000, \$210,000, and \$154,000, respectively, which consisted of approximately \$108,000, \$105,000, and \$77,000 each from the University and the covered employees in 2014, 2013, and 2012, respectively.

The University's total payroll for the years ended June 30, 2014, 2013, and 2012 was approximately \$122,561,000, \$120,045,000, and \$117,146,000, respectively; total covered employees' salaries in the STRS, TIAA-CREF, and Educators Money were approximately \$3,562,000, \$106,350,000, and \$1,792,000, respectively, in 2014; \$3,807,000, \$104,705,000, and \$1,748,000 respectively, in 2013; and \$4,324,000, \$102,358,000, and \$1,281,000, respectively, in 2012.

NOTE 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 a discretely presented component unit of the University's financial statements in accordance with GASB.

Total funds expended by the Foundation in support of University activities totaled \$12,631,924 and \$6,513,419 during the years 2014 and 2013, respectively. This support and related expenditures are recorded in the University's financial statements.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 16 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 (the “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 education mission. The Provident – Marshall financial statements are presented as a discretely presented component unit of the University’s financial statements in accordance with GASB.

NOTE 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 financial statements under the blended component unit requirements. They are not included in the University’s accompanying 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).

NOTE 18 RELATED-PARTY TRANSACTIONS

The University provided services to Mountwest Community and Technical College (MCTC) through August 16, 2012, when MCTC moved to their renovated campus. The University recognized \$91,000 in State contracts and grants in connection with service agreements in 2013.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 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 Code establishes rules and regulations for arbitrage rebates. No arbitrage rebate liabilities have been recorded in the accompanying financial statements as of June 30, 2014 or 2013.

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.

NOTE 20 SERVICE CONCESSION ARRANGEMENTS

The University has adopted GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The University has identified two contracts for services that meet the four criteria of a SCA. SCAs are defined as a contract between a government and an operator, another government or a private entity, in which the operator provides services, the operator collects and is compensated by fees from third parties, the government still has control over the services provided, and the government retains ownership of the assets at the end of the contract. The contracts are with Sodexo America, LLC ("Sodexo") and Follett Higher Education Group ("Follett").

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 20 SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

The University has a contract with Sodexo to provide food services within University facilities on the Huntington campus. These services provide the University with the best, most accurate, and appropriate campus dining program that enhances the student's quality of life and is supportive of the education experience. The current contract began on August 16, 2009, and allows for nine annual renewals. Sodexo provides meal plans to students through the University as well as offering cash sales to the University community. The University receives annual commission payments from Sodexo calculated as a contractually agreed percentage of cash sales and the University pays Sodexo for the meal plans from fees collected by the University from students. In 2014 and 2013, the University received \$590,161 and \$580,577, respectively, in commissions from Sodexo. Renovations to the University facilities of \$108,735 were made by Sodexo and capitalized by the University in 2013, no renovations were made by Sodexo in 2014. Sodexo also made renovations that were capitalized by the University totaling \$1,759,541 in prior years of the contract. These renovations are accreted over the remaining life of the contract and if the contract is not renewed the University will be required to pay Sodexo for the unaccreted portion of these renovations. At June 30, 2014 and 2013, the University has a deferred inflow of \$1,282,075 and \$1,532,235, respectively, for the unaccreted inflow for renovations, and an accrued service concession liability of \$429,100, and \$533,124, respectively, for estimated insurance and maintenance costs that the University will be required to pay through the end of the contract.

The University contracts with Follett to operate bookstores located within University facilities on the Huntington, South Charleston, and Mid-Ohio Valley campuses. These services provide the University community with a professional bookstore that will provide the highest caliber of services to Marshall University's campuses. The current contract began on April 15, 2005 and allows for nine annual renewals. The University receives annual commission payments calculated as a contractually agreed percentage of bookstore revenue. In 2014 and 2013, the University received \$496,888 and \$660,401, respectively, in commissions from Follett. No significant renovations to University facilities were made by Follett in either 2014 or 2013.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 21 CONDENSED COMPONENT UNIT INFORMATION

Condensed component unit information for MURC, the University's blended component unit, for the years ended June 30, 2014 and 2013, is as follows:

Condensed Statements of Net Position		
	2014	2013
Assets		
Current Assets	\$ 18,792,967	\$ 24,994,179
Receivable from University	311,818	416,784
Capital Assets, Net	15,892,797	17,263,730
Other Assets	31,096,415	24,357,001
Total Assets	66,093,997	67,031,694
Liabilities		
Current Liabilities	7,800,637	7,316,767
Long-term Liabilities	2,793,475	2,999,829
Total Liabilities	10,594,112	10,316,596
Net Position		
Net Investment in Capital Assets	13,621,862	14,838,546
Restricted		
Nonexpendable	15,000,000	15,000,000
Sponsored Projects	15,734,406	15,645,445
Unrestricted	11,143,617	11,231,107
Total Net Position	\$ 55,499,885	\$ 56,715,098
Condensed Statements of Revenues, Expenses, and Changes in Net Position		
	2014	2013
Operating Revenues		
Federal, State, Local Grants	\$ 31,178,120	\$ 38,364,579
Other Operating Revenues	3,974,219	4,247,082
Total Operating Revenues	35,152,339	42,611,661
Operating Expenses		
Operations	34,838,514	36,278,015
Depreciation	2,639,767	2,628,922
Total Operating Expenses	37,478,281	38,906,937
Operating Income (Loss)	(2,325,942)	3,704,724
Nonoperating Revenues (Expenses)		
Investment Income	1,227,180	107,074
Other Nonoperating Expenses	(116,451)	(148,526)
Total Nonoperating Revenues	1,110,729	(41,452)
Increase (Decrease) in Net Position	(1,215,213)	3,663,272
Net Position - Beginning of Year	56,715,098	53,051,826
Net Position - End of Year	\$ 55,499,885	\$ 56,715,098

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 21 CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)

	Condensed Statements of Cash Flows	
	<u>2014</u>	<u>2013</u>
Net Cash Provided (Used) By:		
Operating Activities	\$ 2,484,984	\$ 7,356,473
Noncapital Financing Activities	-	15,000
Capital Financing Activities	(1,538,871)	(2,463,448)
Investing Activities	<u>(5,779,595)</u>	<u>(6,213,975)</u>
Decrease in Current Cash and Cash Equivalents	(4,833,482)	(1,305,950)
Current Cash and Cash Equivalents - Beginning of Year	<u>16,380,877</u>	<u>17,686,827</u>
Current Cash and Cash Equivalents - End of Year	<u><u>\$ 11,547,395</u></u>	<u><u>\$ 16,380,877</u></u>

NOTE 22 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 Revenue Bonds, Series 2011

In November 2011, the Board sold \$51,910,000 of 2011 Bonds. The 2011 Bonds were issued under the authority contained in Chapter 18, Article 18B of the Code of West Virginia, 1931, as amended, and the 2011 Bonds are secured pursuant to a Trust Indenture dated as of November 1, 2011, between the Board and United Bank, Inc., Charleston, West Virginia, as the Trustee. The 2011 Bonds were issued on parity with the 2010 Bonds and are secured by and payable from certain revenues as defined in the Trust Indenture.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 22 SEGMENT INFORMATION (CONTINUED)

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

In November 2010, the Board sold \$37,140,000 of 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 are 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.

Condensed accrual basis financial information for the University's segment as of June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Condensed Schedules of Position		
Assets		
Current Assets	\$ 14,733,073	\$ 13,185,343
Noncurrent Assets	<u>93,975,696</u>	<u>94,738,145</u>
Total Assets	108,708,769	107,923,488
Deferred Outflows of Resources	<u>1,316,450</u>	<u>1,456,518</u>
Total	<u><u>\$ 110,025,219</u></u>	<u><u>\$ 109,380,006</u></u>
Liabilities and Deferred Inflows:		
Current Liabilities	\$ 3,060,503	\$ 5,311,308
Noncurrent Liabilities	<u>88,536,498</u>	<u>90,264,720</u>
Total Liabilities	91,597,001	95,576,028
Deferred Inflows of Resources	<u>1,173,290</u>	<u>1,423,450</u>
Total	92,770,291	96,999,478
Net Position:		
Net Investment in Capital Assets	6,010,185	2,859,772
Restricted for Debt Service	18	18
Unrestricted	<u>11,244,725</u>	<u>9,520,738</u>
Total Net Position	<u>17,254,928</u>	<u>12,380,528</u>
Total	<u><u>\$ 110,025,219</u></u>	<u><u>\$ 109,380,006</u></u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 22 SEGMENT INFORMATION (CONTINUED)

	<u>2014</u>	<u>2013</u>
Condensed Schedules of Revenues, Expenses, and Changes in Net Position		
Operating:		
Operating Revenues	\$ 26,038,908	\$ 25,802,200
Operating Expenses	<u>(15,297,710)</u>	<u>(15,610,125)</u>
Net Operating Income	10,741,198	10,192,075
Nonoperating:		
Nonoperating Revenues	416,791	521,385
Nonoperating Expenses	<u>(4,809,856)</u>	<u>(6,874,392)</u>
Total Nonoperating	<u>(4,393,065)</u>	<u>(6,353,007)</u>
Net Revenues	6,348,133	3,839,068
Transfers from the University	<u>(1,473,733)</u>	<u>21,027</u>
Changes in Net Position	4,874,400	3,860,095
Net Position - Beginning of Year	<u>12,380,528</u>	<u>8,520,433</u>
Net Position - End of Year	<u><u>\$ 17,254,928</u></u>	<u><u>\$ 12,380,528</u></u>
	<u>2014</u>	<u>2013</u>
Condensed Schedules of Cash Flows		
Net Cash Provided by Operating Activities	\$ 2,959,135	\$ 8,359,613
Net Cash Provided (Used) by Capital and Related Financing	<u>(9,097,407)</u>	<u>(6,316,786)</u>
Net Increase in Cash and Cash Equivalents	(6,138,272)	2,042,827
Cash and Cash Equivalents - Beginning of Year	<u>20,655,850</u>	<u>18,613,023</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 14,517,578</u></u>	<u><u>\$ 20,655,850</u></u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 23 NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The operating expenses within both natural and functional classifications for the years ended June 30, 2014 and 2013 are as follows:

|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 24 COMPONENT UNIT DISCLOSURES - FOUNDATION

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

THE MARSHALL UNIVERSITY FOUNDATION, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of The Marshall University Foundation, Inc. and its wholly owned for profit subsidiary, Marshall Services Corporation. Intercompany transactions and balances have been eliminated in consolidation.

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.

Marshall Services Corporation was established in October, 2012 to enter into a joint venture called INTO Marshall, LLC to operate an international student center and provide marketing and student recruitment for the benefit of Marshall University.

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 consolidated 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 consolidated 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.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

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

INVESTMENTS

Investments are reported in the consolidated financial statements at fair value. The current year increase or decrease in fair value over book value is recognized currently in the consolidated 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 consolidated 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 \$41,270 and \$20,037 for 2014 and 2013, respectively are charged to operations when incurred.

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2014 and 2013 are comprised of the following:

	<u>2014</u>	<u>2013</u>
Cash and overnight repurchase agreements	\$ 4,255,296	\$ 6,317,656
Short-term investments	<u>11,231,999</u>	<u>12,364,355</u>
TOTAL	\$ <u>15,487,295</u>	\$ <u>18,682,011</u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 3 - INVESTMENTS

Investments as of June 30, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
	<u>Fair</u> <u>Value</u>	<u>Fair</u> <u>Value</u>
Fixed income	\$ 22,907,904	\$ 18,275,389
Equities	60,185,289	50,297,990
Other	<u>36,851,876</u>	<u>31,459,501</u>
TOTAL	\$ <u>119,945,069</u>	\$ <u>100,032,880</u>

See Note 19 for further breakdown by each individual investment or group of investments that represent a significant concentration of market risk.

The following summarizes the investment income for the years ended June 30, 2014 and 2013 inclusive of income on cash equivalents, perpetual trusts, the investments described above, and interest rate swap:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 350,489	\$ 1,456,497
Realized gain	1,973,775	11,739,371
Unrealized gains (losses)	14,391,933	(2,207,684)
Investment fees	<u>(244,893)</u>	<u>(285,236)</u>
Net investment return	\$ <u>16,471,304</u>	\$ <u>10,702,948</u>

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.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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

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, 2014, 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:

2015	\$ 604,773
2016	527,940
2017	323,071
2018	<u>161,535</u>
Gross investment in direct financing leases	1,617,319
Less unearned income	<u>(103,252)</u>
Net investment in direct financing leases	\$ <u>1,514,067</u>

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

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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

Bonds payable

Bonds payable are as follows at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
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.	\$ 492,130	\$ 747,170
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.	1,045,657	1,318,805
The County Commission of Cabell County, West Virginia Commercial Development Revenue Bond, Series 2010, (The Marshall University Foundation, Inc. Projects) original principal amount \$9,200,000, interest at LIBOR + 2% X 67%, interest is payable monthly, semi-annual installments of principal are due each August and February with the final installment due February 21, 2031, secured by real property with a book value of \$11,185,340 at June 30, 2014.	8,025,000	8,425,000
Total bonds payable	\$ <u>9,562,787</u>	\$ <u>10,490,975</u>

Scheduled bond principal and interest payments are as follows at June 30, 2014:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 982,906	\$ 165,072	\$ 1,147,978
2016	911,986	139,899	1,051,885
2017	729,519	118,458	847,977
2018	588,376	99,918	688,294
2019	438,000	90,495	528,495
Total due in next five years	3,650,787	613,842	4,264,629
Amounts due in later years	5,912,000	554,437	6,466,437
Total bonds payable	\$ <u>9,562,787</u>	\$ <u>1,168,279</u>	\$ <u>10,731,066</u>

Interest expense on bonds payable charged to operations was \$316,085 and \$344,110 for the years ended June 30, 2014 and 2013, respectively.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 5 - NOTES PAYABLE

On November 14, 2012, Marshall Services Corporation entered into a memorandum of understanding with the Marshall University Research Corporation to provide a \$300,000 loan to use for its initial capital contribution to INTO MARSHALL, LLC, a West Virginia limited liability company, and to defray the formation, start-up and initial administrative costs of Marshall Services Corporation.

Payments on the loan including interest on the outstanding balance at a rate of 5% per annum, compounded annually, are to be paid from any profits, distributions, dividends, or payments that Marshall Services Corporation receives from INTO MARSHALL, LLC after the payment of any taxes and reasonable and customary operating and administrative expenses of Marshall Services Corporation. No interest or principal payments were made on the loan during the years ended June 30, 2014 and 2013. The outstanding loan balance totaled \$300,000 at June 30, 2014 and 2013.

Interest expense on notes payable charged to operation was \$15,312 and \$6,250 for the years ended June 30, 2014 and 2013, respectively.

NOTE 6 - PROMISES TO GIVE

Unconditional promises to give at June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Receivable in less than one year	\$ 8,099,107	\$ 7,035,151
Receivable in one to five years	10,823,526	14,389,159
Receivable in more than five years	<u>5,413,882</u>	<u>6,770,775</u>
Total unconditional promises to give	24,336,515	28,195,085
Less discounts to net present value	(381,989)	(474,538)
Less allowance for uncollectible promises	<u>(758,011)</u>	<u>(831,435)</u>
Net unconditional promises to give	\$ <u>23,196,515</u>	\$ <u>26,889,112</u>

Discount rates used on long-term promises to give ranged from 0.50% to 8.25% for fiscal years ended June 30, 2014 and 2013.

NOTE 7 - PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Land	\$ 2,442,000	\$ 2,442,000
Buildings	12,304,863	12,300,838
Office equipment	<u>1,181,066</u>	<u>1,172,360</u>
	15,927,929	15,915,198
Less: Accumulated depreciation	<u>(1,992,396)</u>	<u>(1,556,443)</u>
Property and equipment, net	\$ <u>13,935,533</u>	\$ <u>14,358,755</u>

Depreciation expense charged to operations was \$ 441,813 and \$440,250 for the years ended June 30, 2014 and 2013, respectively.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 8 - CONTINGENT ASSETS

The Foundation is the beneficiary of various whole life insurance policies. Proceeds payable to the Foundation upon the demise of the insured parties totaled approximately \$ 2,170,827 at June 30, 2014 and \$2,215,000 at June 30, 2013.

NOTE 9 - INCOME TAXES

The Foundation is a tax exempt organization under Internal Revenue Code Section 501(c)(3). The Foundation does, however, engage in some activities that are considered by the Internal Revenue Service to be unrelated business activities and therefore subject to unrelated business tax at the prevailing corporate rates. The Foundation's income tax expense for the fiscal years ended June 30, 2014 and 2013 totaled \$-0-. Management believes the Organization is no longer subject to income tax examinations for years prior to 2011.

The Foundation's subsidiary, Marshall Services Corporation, is a for profit entity and, therefore, is subject to federal and state income taxation. The company files its own federal and state income tax returns. Marshall Services Corporation incurred a net loss in its operations for 2014 and 2013 and, therefore, no income tax expense (benefit) is recognized in the accompanying consolidated financial statements.

Management evaluates all of its material tax positions and they have determined there is no impact to the entity's consolidated financial statements related to uncertain tax positions. As a result, no amounts have been recognized or incurred, inclusive of penalties and interest, related to unrecognized tax benefits.

NOTE 10 - CHARITABLE GIFT ANNUITIES

As of June 30, 2014 and 2013, the Foundation had liabilities under irrevocable charitable gift annuities. The Foundation agrees to pay to the donors quarterly annuity payments until the donors' deaths. Based on the donors' life expectancy and the IRS discount rate (2.2% at June 30, 2014), the present value of future liabilities expected to be paid by the Foundation to the beneficiaries totaled \$ 295,032 and \$376,580 as of June 30, 2014 and 2013, 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 \$83,314 and \$78,540 for the years ended June 30, 2014 and 2013, respectively.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 11 - CHARITABLE REMAINDER TRUSTS

The Foundation is named as the residual beneficiary of five charitable remainder unitrusts. Under the terms of the unitrusts, a primary beneficiary receives annual distributions of a certain percentage of the net fair market value of the trust as of the first day of the taxable year. At the death of the primary beneficiary the Foundation receives all of the principal and income of the trust. Because these unitrusts are administered by third-party trustees, the Foundation records this as a contribution receivable and contribution revenue for the present value of the future benefits expected to be received from the trusts. The present value is calculated based on IRS actuarial formulas based on the primary beneficiary's life expectancy utilizing a rate of 2.2 % at June 30, 2014. At June 30, 2014 and 2013, the contribution receivable from the remainder trusts totaled \$874,687 and \$1,019,178, respectively.

Contribution revenue net of change in valuation of charitable remainder trusts totaled \$(144,491) and \$150,420 for the years ended June 30, 2014 and 2013, respectively.

NOTE 12 - PERPETUAL TRUSTS HELD BY THIRD PARTIES

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

The Foundation records its beneficial interest in the perpetual trust assets at fair market value with a corresponding entry to permanently restricted contribution revenue. At June 30, 2014 and 2013, the beneficial interest in perpetual trusts totaled \$ 9,792,769 and \$8,937,360, respectively.

The change in the beneficial interest in perpetual trusts assets is recorded in permanently restricted other income and investment income in the accompanying consolidated financial statements and totaled \$843,977 and \$424,658 for the years ended June 30, 2014 and 2013, respectively.

NOTE 13 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2014 and 2013 are available for the following purposes or periods:

Periods after June 30, Program activities	<u>2014</u>	<u>2013</u>
Academic assistance	\$ 50,935,240	\$ 47,927,072
Student assistance	<u>11,192,459</u>	<u>7,737,284</u>
Total temporarily restricted net assets	\$ <u>62,127,699</u>	\$ <u>55,664,356</u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 13 - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

Net assets were released from donor restrictions during the years ended June 30, 2014 and 2013 by incurring expenses satisfying the purpose specified by donors as follows:

Purpose restrictions accomplished:

	<u>2014</u>	<u>2013</u>
Academic assistance	\$ 9,202,416	\$ 3,461,252
Student assistance	3,392,424	3,017,381
Fundraising	<u>119,131</u>	<u>78,994</u>
Total	\$ <u>12,713,971</u>	\$ <u>6,557,627</u>

NOTE 14 - PERMANENTLY RESTRICTED NET ASSETS

Net assets were permanently restricted for the following purposes at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Academic assistance	\$ 36,455,942	\$ 34,357,016
Student assistance	<u>56,092,793</u>	<u>52,856,713</u>
Total permanently restricted net assets	\$ <u>92,548,735</u>	\$ <u>87,213,729</u>

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 \$758,011 and \$831,435 at June 30, 2014 and 2013, respectively.

The Foundation maintains substantially all of its cash balances with four financial institutions. At June 30, 2014 and 2013, accounts at these financial institutions were fully insured by the Federal Deposit Insurance Corporation or collateralized by securities pledged by the respective financial institutions.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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	<u>6%</u>
Employee	<u>6%</u>

Pension expense for the fiscal years ended June 30, 2014 and 2013 was \$66,803 and \$61,392, 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 consolidated 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 consolidated 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 which 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.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 19 - FAIR VALUE MEASUREMENTS (CONTINUED)

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.

Fair values of assets measured on a recurring basis at June 30, 2014 are as follows:

		Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<u>Fair Value</u>			
ASSETS				
Contributions Receivable				
From Remainder Trusts	\$ 874,687	\$ 874,687	\$ -0-	\$ -0-
Beneficial Interest In				
Perpetual Trusts	9,792,769	9,792,769	-0-	-0-
Investments				
Fixed Income				
Commingled Global Fixed	15,014,001	-0-	-0-	15,014,001
U.S. Government Bonds	55,500	55,500	-0-	-0-
Domestic Mutual Funds	306,378	306,378	-0-	-0-
International Mutual Funds	<u>7,532,025</u>	<u>7,532,025</u>	<u>-0-</u>	<u>-0-</u>
Total Fixed Income	<u>22,907,904</u>	<u>7,893,903</u>	<u>-0-</u>	<u>15,014,001</u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 19 - FAIR VALUE MEASUREMENTS (CONTINUED)

		Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<u>Fair Value</u>			
Equities				
Publicly Traded Equity	\$ 89,090	\$ 89,090	\$ -0-	\$ -0-
Domestic Mutual Funds	1,967,708	1,967,708	-0-	-0-
International Mutual Funds	1,963,682	1,963,682	-0-	-0-
Commingled Global Equity	56,156,559	-0-	-0-	56,156,559
Other	8,250	8,250	-0-	-0-
Total Equities	<u>60,185,289</u>	<u>4,028,730</u>	<u>-0-</u>	<u>56,156,559</u>
Other				
Commingled Hedge Funds	15,531,395	-0-	-0-	15,531,395
Commingled Real Asset Fund	14,201,470	-0-	-0-	14,201,470
Private Capital				
Commingled Private				
Capital Fund	967,683	-0-	-0-	967,683
Private Real Estate	9,183	-0-	-0-	9,183
Private Equity	2,034,535	-0-	-0-	2,034,535
Natural Resources	725,626	-0-	-0-	725,626
Venture	1,884,338	-0-	-0-	1,884,338
Distressed Debt	<u>1,497,646</u>	<u>-0-</u>	<u>-0-</u>	<u>1,497,646</u>
Total Other	<u>36,851,876</u>	<u>-0-</u>	<u>-0-</u>	<u>36,851,876</u>
Total Assets	\$ <u>130,612,525</u>	\$ <u>22,590,089</u>	\$ <u>-0-</u>	\$ <u>108,022,436</u>

Fair values of assets measured on a recurring basis at June 30, 2013 are as follows:

		Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<u>Fair Value</u>			
ASSETS				
Contributions Receivable				
From Remainder Trusts	\$ 1,019,178	\$ 1,019,178	\$ -0-	\$ -0-
Beneficial Interest In				
Perpetual Trusts	8,937,360	8,937,360	-0-	-0-

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 19 - FAIR VALUE MEASUREMENTS (CONTINUED)

	<u>Fair Value</u>	<u>Quoted Prices In Active Markets For Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments				
Fixed Income				
Commingled Global Fixed	\$ 13,705,363	\$ -0-	\$ -0-	\$ 13,705,363
U.S. Government Bonds	55,500	55,500	-0-	-0-
Domestic Mutual Funds	303,446	303,446	-0-	-0-
International Mutual Funds	<u>4,211,080</u>	<u>4,211,080</u>	<u>-0-</u>	<u>-0-</u>
Total Fixed Income	<u>18,275,389</u>	<u>4,570,026</u>	<u>-0-</u>	<u>13,705,363</u>
Equities				
Publicly Traded Equity	54,254	54,254	-0-	-0-
Domestic Mutual Funds	864,503	864,503	-0-	-0-
International Mutual Funds	439,954	439,954	-0-	-0-
Commingled Global Equity	48,931,029	-0-	-0-	48,931,029
Other	<u>8,250</u>	<u>8,250</u>	<u>-0-</u>	<u>-0-</u>
Total Equities	<u>50,297,990</u>	<u>1,366,961</u>	<u>-0-</u>	<u>48,931,029</u>
Other				
Commingled Hedge Funds	12,268,556	-0-	1,981,919	10,286,637
Commingled Real Asset Fund	12,640,263	-0-	-0-	12,640,263
Private Capital				
Commingled Private				
Capital Fund	678,058	-0-	-0-	678,058
Private Real Estate	60,028	-0-	-0-	60,028
Private Equity	1,700,686	-0-	-0-	1,700,686
Natural Resources	671,538	-0-	-0-	671,538
Venture	1,295,144	-0-	-0-	1,295,144
Distressed Debt	<u>2,145,228</u>	<u>-0-</u>	<u>-0-</u>	<u>2,145,228</u>
Total Other	<u>31,459,501</u>	<u>-0-</u>	<u>1,981,919</u>	<u>29,477,582</u>
Total Assets	\$ <u>109,989,418</u>	\$ <u>15,893,525</u>	\$ <u>1,981,919</u>	\$ <u>92,113,974</u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 19 - FAIR VALUE MEASUREMENTS (CONTINUED)

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

	<u>2014</u>	<u>2013</u>
BEGINNING BALANCE	\$ 92,113,974	\$ 5,768,595
Investment income (loss)	(49,536)	(114,090)
Unrealized/realized gain (loss) included in changes in net assets, reported in investment income	14,239,284	3,861,899
Purchases	9,940,913	83,962,004
Sales	<u>(8,222,199)</u>	<u>(1,364,434)</u>
ENDING BALANCE	\$ <u>108,022,436</u>	\$ <u>92,113,974</u>

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, 2014 and June 30, 2013 was \$12,843,664 and \$3,762,868, respectively.

Fair values of liabilities measured on a recurring basis at June 30, 2014 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices In Active Markets For Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
LIABILITIES				
Annuity payment liability	\$ 295,032	\$ 295,032	\$ -0-	\$ -0-
Interest rate swap	<u>169,121</u>	<u>169,121</u>	<u>-0-</u>	<u>-0-</u>
Total Liabilities	\$ <u>464,153</u>	\$ <u>464,153</u>	\$ <u>-0-</u>	\$ <u>-0-</u>

Fair values of liabilities measured on a recurring basis at June 30, 2013 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices In Active Markets For Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
LIABILITIES				
Annuity payment liability	\$ 376,580	\$ 376,580	\$ -0-	\$ -0-
Interest rate swap	<u>218,602</u>	<u>218,602</u>	<u>-0-</u>	<u>-0-</u>
Total Liabilities	\$ <u>595,182</u>	\$ <u>595,182</u>	\$ <u>-0-</u>	\$ <u>-0-</u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 19 - FAIR VALUE MEASUREMENTS (CONTINUED)

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:

Contribution Receivable from Remainder Trusts

The Foundation uses quoted market prices of the underlying investments of contributions receivable from remainder trusts adjusted for the present 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, alternative assets, 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, alternative assets 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 commingled hedge 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 commingled global fixed, commingled global equity, commingled hedge funds, commingle real asset fund, and private capital funds. Fair values of the investments in these entities are based on the latest available information at the consolidated 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 consolidated financial statements taken as a whole.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 19 - FAIR VALUE MEASUREMENTS (CONTINUED)

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, and domestic and international 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.

Fair values of assets measured on a nonrecurring basis at June 30, 2014 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices In Active Markets For Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
ASSETS				
Other assets	\$ <u>15,500</u>	\$ <u>-0-</u>	\$ <u>15,500</u>	\$ <u>-0-</u>
Total assets	\$ <u>15,500</u>	\$ <u>-0-</u>	\$ <u>15,500</u>	\$ <u>-0-</u>

Fair values of assets measured on a nonrecurring basis at June 30, 2013 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices In Active Markets For Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
ASSETS				
Other assets	\$ <u>15,500</u>	\$ <u>-0-</u>	\$ <u>15,500</u>	\$ <u>-0-</u>
Total assets	\$ <u>15,500</u>	\$ <u>-0-</u>	\$ <u>15,500</u>	\$ <u>-0-</u>

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 consolidated statement of financial position at their estimated fair values at the date of donation. Fair value is determined by independent appraisals.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 20 - ENDOWMENTS

The Marshall University Foundation, Inc.'s endowment consists of approximately 769 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, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 2,258,866	\$ 2,449,980	\$ 89,392,874	\$ 94,101,720
Board-designated endowment funds	<u>12,182,430</u>	<u>-0-</u>	<u>-0-</u>	<u>12,182,430</u>
Total funds	\$ <u>14,441,296</u>	\$ <u>2,449,980</u>	\$ <u>89,392,874</u>	\$ <u>106,284,150</u>

Endowment Net Asset Composition by Type of Fund as of June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 2,062,419	\$ 2,079,777	\$ 75,565,493	\$ 79,707,689
Board-designated endowment funds	<u>10,929,295</u>	<u>-0-</u>	<u>-0-</u>	<u>10,929,295</u>
Total funds	\$ <u>12,991,714</u>	\$ <u>2,079,777</u>	\$ <u>75,565,493</u>	\$ <u>90,636,984</u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 20 – ENDOWMENTS (CONTINUED)

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ <u>12,991,714</u>	\$ <u>2,079,777</u>	\$ <u>75,565,493</u>	\$ <u>90,636,984</u>
Investment return:				
Investment income	(2,761)	(19,459)	-0-	(22,220)
Fees	(5,969)	(42,273)	-0-	(48,242)
Realized & unrealized gain (loss)	<u>1,743,509</u>	<u>12,321,200</u>	<u>-0-</u>	<u>14,064,709</u>
Total investment return	<u>1,734,779</u>	<u>12,259,468</u>	<u>-0-</u>	<u>13,994,247</u>
Contributions	133,178	173,484	5,562,026	5,868,688
Appropriation of endowment assets for expenditure	(605,986)	(3,609,783)	-0-	(4,215,769)
Other changes:				
Transfers in endowment classification	<u>187,611</u>	<u>(8,452,966)</u>	<u>8,265,355</u>	<u>-0-</u>
Endowment net assets, end of year	\$ <u>14,441,296</u>	\$ <u>2,449,980</u>	\$ <u>89,392,874</u>	\$ <u>106,284,150</u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 20 – ENDOWMENTS (CONTINUED)

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ <u>10,048,875</u>	\$ <u>4,950,177</u>	\$ <u>68,120,142</u>	\$ <u>83,119,194</u>
Investment return:				
Investment income	141,391	808,922	-0-	950,313
Fees	(19,917)	(113,805)	-0-	(133,722)
Realized & unrealized gain (loss)	<u>1,300,222</u>	<u>7,395,892</u>	<u>-0-</u>	<u>8,696,114</u>
Total investment return	<u>1,421,696</u>	<u>8,091,009</u>	<u>-0-</u>	<u>9,512,705</u>
Contributions	179,133	30,206	7,188,815	7,398,154
Appropriation of endowment assets for expenditure	(689,652)	(8,703,417)	-0-	(9,393,069)
Other changes:				
Transfers in endowment classification	<u>2,031,662</u>	<u>(2,288,198)</u>	<u>256,536</u>	<u>-0-</u>
Endowment net assets, end of year	\$ <u>12,991,714</u>	\$ <u>2,079,777</u>	\$ <u>75,565,493</u>	\$ <u>90,636,984</u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 20 - ENDOWMENTS (CONTINUED)

Permanently and Temporarily Restricted Net Assets (Endowment Only)

	<u>2014</u>	<u>2013</u>
Permanently Restricted		
Net Assets		
Portion of perpetual endowment funds		
that is required to be retained permanently		
by explicit donor stipulation	\$ <u>89,392,874</u>	\$ <u>75,565,493</u>
Total endowment funds classified		
as permanently restricted net assets	\$ <u>89,392,874</u>	\$ <u>75,565,493</u>
Temporarily Restricted		
Net Assets		
Term endowment funds	\$ <u>2,449,980</u>	\$ <u>2,079,777</u>
Total endowment funds classified		
as temporarily restricted net assets	\$ <u>2,449,980</u>	\$ <u>2,079,777</u>

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 \$2,961 and \$220,721 as of June 30, 2014 and 2013, respectively. These deficiencies resulted from unfavorable market fluctuations.

Interpretation of Relevant Law

The state in which the Foundation operates, the State of West Virginia, has enacted the Uniform Prudent Management of Institutional Funds Act. 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:

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 20 - ENDOWMENTS (CONTINUED)

- 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 (NACUBO-Commonfund Study of Endowments).

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.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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:

<u>Asset Class</u>	<u>Minimum Weight</u>	<u>Target Weight</u>	<u>Maximum Weight</u>
Global Equity Strategies	30%	45%	60%
Global Fixed Income Strategies	0%	10%	20%
Absolute Return	5%	15%	25%
Real Assets	5%	15%	25%
Private Capital	0%	15%	25%

The Endowment seeks to attain an annual average total return over a full market cycle (typically 5-7 years) in excess of a policy benchmark that is composed of a blend of two broad-based indices:

70% weight of the MSCI All Country World Return Net Index from Morgan Stanley Capital International (the "MSCI ACWI"); and

30% weight of the Barclays Capital Global Aggregate Bond Index (the "Barclays Capital GAI").

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.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 20 - ENDOWMENTS (CONTINUED)

Spending Policy

Balancing the investment of endowments for Intergenerational Equity with the current programmatic needs supported by the endowments, the Marshall University Foundation spending policy is designed to comply with the provisions of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as adopted by the WV legislature in June, 2008.

UPMIFA provides for the prudent management of endowments for both investment and spending. Unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the Foundation.

The spending allocation for the endowment pool is applied ratably to the underlying funds in the endowment pool. The spending allocation is calculated for the total endowment pool based on the following formula:

- The twelve quarter moving average of the market value of the endowment times 4 percent (4%),
- Measured with the quarter ending September 30 for the following fiscal year.

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 consolidated statement of financial position. 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 consolidated statements of financial position for cash and cash equivalents approximate those assets' fair values.

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.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

Deferred revenue - The carrying amount reported in the consolidated 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, 2014 and 2013 are as follows:

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

	<u>2014</u>		<u>2013</u>	
	<u>Carrying</u>	<u>Fair</u>	<u>Carrying</u>	<u>Fair</u>
	<u>Amount</u>	<u>Value</u>	<u>Amount</u>	<u>Value</u>
Financial Assets:				
Cash and cash Equivalents	\$ 15,487,295	\$ 15,487,295	\$ 18,682,011	\$ 18,682,011
Unconditional promises to give, net	23,196,515	Not Practicable	26,889,112	Not Practicable
Contribution receivable from Remainder Trusts	874,687	874,687	1,019,178	1,019,178
Other receivables	57,156	57,156	32,870	32,870
Beneficial interest in Perpetual Trusts	9,792,769	9,792,769	8,937,360	8,937,360
Investments	119,945,069	119,945,069	100,032,880	100,032,880
Cash surrender value - life insurance, net	464,718	464,718	433,734	433,734
Financial Liabilities:				
Accounts payable	24,865	24,865	38,577	38,577
Accrued vacation and wages	125,967	125,967	142,765	142,765
Accrued interest payable	44,799	44,799	29,842	29,842
Bonds payable	9,562,787	Not Practicable	10,490,975	Not Practicable
Notes Payable	300,000	Not Practicable	300,000	Not Practicable
Annuity payable liability	295,032	295,032	376,580	376,580
Deferred revenue	223,894	223,894	343,675	343,675
Interest rate swap	169,121	169,121	218,602	218,602

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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, 2014. 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's interest rate swap agreements;

	<u>2014</u>	<u>2013</u>
Fair value of interest rate swap agreement	\$ 169,121	\$ 218,602
Consolidated statement of financial position		
location of fair value amount	Liability	Liability
Gain recognized in change in net assets	\$ 49,481	\$ 135,334
Location of gain recognized in change in net assets	Gifts, contributions and other	Gifts, contributions and other

NOTE 23 - EQUITY INVESTMENT IN JOINT VENTURE

Marshall Services Corporation owns a 50% interest in INTO MARSHALL, LLC. The investment is accounted for under the equity method of accounting, whereby the initial investment of \$250,000 is adjusted for profit or loss and distributions. The equity investment is carried at \$0 at June 30, 2014 and 2013 as the joint venture accumulated losses in excess of the initial capital contribution. When profits accumulate to return the capital account to a positive amount, the value of the equity investment in joint venture will appear on the consolidated statement of financial position.

NOTE 24 - SUBSEQUENT EVENTS

Management has reviewed events occurring subsequent to June 30, 2014 through October 8, 2014 (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.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 25 COMPONENT UNIT DISCLOSURES – PROVIDENT MARSHALL

The notes taken directly from the audited financial statements of Provident-Marshall are as follows:

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.

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 statements 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, and repair and replacements, which are held by the trustee. As of June 30, 2014 and 2013, such balances consisted of cash and cash equivalents. Such funds may be released, as approved by the trustee, as needed, by the Company for construction, major repairs and betterments. 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 semester. Charges that are past due more than one semester 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.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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. 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	3 - 25 years
Furniture, fixtures, and equipment	3 - 20 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 balance sheets. At June 30, 2014 and 2013, management has concluded that they are unaware of any impairments 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, as outlined in the ground lease. At June 30, 2014 and 2013, 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 and membership fee revenue are 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.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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, 2014 and 2013.

The Company is not subject to examination by U.S. federal taxing authorities for years before 2011 and for all state income taxes before 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, 2014 and 2013.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2014, to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2014. Management has performed their analysis of subsequent events through September 30, 2014, the date the financial statements were issued.

NOTE 2 - REVENUE BONDS PAYABLE

	<u>2014</u>	<u>2013</u>
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 (.11% and .14% at June 30, 2014 and 2013, respectively). Interest on the bonds is payable on the first business day of each month commencing September 1, 2010. An irrevocable letter of credit was issued by Bank of America in the amount of \$80,782,267, which expires on January 30, 2017. The bonds are collateralized by all the assets of the Company. 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, reporting covenants, and other requirements. At June 30, 2014 and 2013, management believes the Company was in compliance with all covenants.	\$ 80,015,000	\$ 80,075,000

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 - REVENUE BONDS PAYABLE (Continued)

	<u>2014</u>	<u>2013</u>
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%). Principal and interest on the subordinate tax-exempt revenue bonds are payable solely of available surplus cash in accordance with the trust indenture. The bonds are collateralized by all the assets of the Company. 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 reporting covenants and other requirements. At June 30, 2014 and 2013, management believes the Company was in compliance with all covenants.	\$ 9,046,000	\$ 9,153,000
	89,061,000	89,228,000
Unamortized discount on Series 2010A bonds underlying the note payable.	(338,556)	(356,927)
	88,722,444	88,871,073
Less current maturities	187,000	79,825,073
	<u>\$ 88,535,444</u>	<u>\$ 9,046,000</u>

The Company's senior tax-exempt revenues bonds payable are secured by an irrevocable letter of credit issued by the Bank of America that was set to expire on January 30, 2014. Therefore, the bonds were classified as a current obligation in the balance sheet as of June 30, 2013. On December 19, 2013, the Company extended the letter of credit from January 30, 2014 to January 30, 2017.

Aggregate annual maturities of the revenue bonds payable at June 30, 2014, are as follows:

2015	\$ 187,000
2016	319,000
2017	469,000
2018	624,000
2019	794,000
Thereafter	86,668,000
	<u>\$ 89,061,000</u>

Interest expense was \$3,645,253 and \$3,706,736 for the years ended June 30, 2014 and 2013, respectively.

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.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Notional amounts	\$ 80,015,000	\$ 80,075,000
Weighted average pay rates (fixed)	3.728%	3.728%
Weighted average receive rates (LIBOR x 70%)	.116%	.148%
Weighted average maturity	14 years	15 years

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

	<u>2014</u>	<u>2013</u>
Unrealized gain (loss) on interest rate swap agreement	\$ (705,312)	\$ 8,562,418
Interest expense - senior bonds payable	2,888,542	2,864,635

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

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

	<u>2014</u>	<u>2013</u>
Current liabilities		
Interest rate swap agreement, current portion	\$ 2,870,354	\$ 2,834,619
Long-term liabilities		
Interest rate swap agreement	12,990,043	12,320,466

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 years ended June 30, 2014 and 2013, corporate administrative overhead costs, which are included in management fees in the statements of income, were \$191,746 and \$181,345, respectively. Per the Trust Indenture, the Company has deferred a portion of the corporate administrative overhead costs as of June 30, 2014 and 2013. As of June 30, 2014 and 2013, \$36,607 and \$35,543, respectively, remained outstanding.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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 \$173,269 and \$169,938 for the years ended June 30, 2014 and 2013, respectively. 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. Per the Trust Indenture, the Company has deferred a portion of the management fee as of June 30, 2014 and 2013. As of June 30, 2014 and 2013, \$54,147 and \$53,106, respectively, remains outstanding.

The Company's wellness center is managed by Centers, LLC, an unaffiliated management agent. The management fee was \$238,112 and \$233,902 for the years ended June 30, 2014 and 2013, respectively. 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. Per the Trust Indenture, the Company has deferred a portion of the management fee as of June 30, 2014 and 2013. As of June 30, 2014 and 2013, \$104,174 and \$116,951, respectively, 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.

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 30 (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, 2014 or 2013, were valued using Level 2.

The total amount of gains (losses) for the years ended June 30, 2014 and 2013, included in expenses attributable to the change in unrealized gains (losses) relating to liabilities still held at June 30, 2014 and 2013, was \$(705,312) and \$8,562,418, respectively.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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

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 believes 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, 2014 and 2013.

The fair values of financial instruments other than the interest rate swap agreement and subordinate tax-exempt revenue bonds payable, which include cash, accounts receivable, and assets held by trustee are based on a variety of factors. In some cases, fair values represent quoted market prices for identical or comparable instruments (Level 1 inputs - market approach). In other cases, fair values have been estimated based on assumptions about the amount and timing of estimated future cash flows and assumed discount rates reflecting varying degrees of risk (Level 2 inputs - income approach). Accordingly, the fair values may not represent actual values that could have been realized at year-end or that will be realized in the future. All other financial instruments' carrying values approximate fair value as of June 30, 2014 and 2013.

**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**

Governing Board
Marshall University
Huntington, West Virginia

We have audited, in accordance with the 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 Marshall University (the "University") as of and for the year ended June 30, 2014, and the related notes to the financial statements and have issued our report thereon dated October 29, 2014. Our report includes a reference to other auditors who audited the financial statements of the Marshall University Research Corporation ("MURC"), the Marshall University Foundation, Inc. (the "Foundation") and Provident Group – Marshall Properties L.L.C. ("Provident – Marshall"), as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by the auditors of the MURC. The financial statements of the Foundation and Provident – Marshall were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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 a timely basis. A *material weakness* is a deficiency, or a 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. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

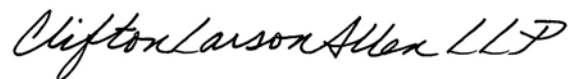
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's 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 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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
October 29, 2014