

MARSHALL UNIVERSITY
RESEARCH CORPORATION

Financial Statements as of and for the
Years Ended June 30, 2018 and 2017, and
Supplemental Schedule for the Year Ended
June 30, 2018, Independent Auditors' Report,
and Reports Required by Uniform Guidance
for the Year Ended June 30, 2018

MARSHALL UNIVERSITY RESEARCH CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Marshall University Research Corporation
Huntington, WV

Report on the Financial Statements

We have audited the accompanying financial statements of Marshall University Research Corporation ("the Corporation"), which comprise the statements of net position as of June 30, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditor's judgment, including the assessment of the 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 have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2018 and 2017, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 8 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2018, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to solely 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 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 Corporation's internal control over financial reporting and compliance.

Haufflich CPAs

Huntington, West Virginia
October 2, 2018

**MARSHALL UNIVERSITY RESEARCH CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR 2018
[UNAUDITED]**

Introduction

The Marshall University Research Corporation (“MURC” or the “Corporation”) is a non-profit state entity created by the West Virginia Legislature to further research and economic development activities within the State of West Virginia. MURC is a component unit of Marshall University (“Marshall”) and is included as an integral part of Marshall’s annual combined financial statements.

Overview

The Management’s Discussion and Analysis is required supplementary information and has been prepared in accordance with the requirements of Governmental Accounting Standard Board (GASB). This section of MURC’s annual financial report provides an overview of MURC’s financial performance during the year ended June 30, 2018 as compared to the previous fiscal year. Comparative analysis is also presented for fiscal year 2017 compared to fiscal year 2016.

The Corporation’s financial report consists of three basic 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, the results of operations, and cash flows of the Corporation as a whole. Each of these statements is discussed below.

Net position

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

Net position is displayed in three major categories:

Net Investments in Capital Assets. This category represents the Corporation’s total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted Net 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 components of restricted net position include endowment and similar type funds for which donors or other outside sources have stipulated, as a condition of the gift or grant 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 components of restricted net position include resources for which the Corporation 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 facilities and administrative earnings and revenues from investments. Unrestricted components of net position are used for transactions related to the educational and general operations of the Corporation and may be designated for specific purposes by the Corporation's Board of Directors. While the Corporation has not specifically designated Net Position balances at June 30, 2018, certain amounts are reserved for specific programs.

Condensed Statements of Net Position (in thousands)

| | As of June 30 | | |
|----------------------------------|------------------|------------------|------------------|
| | 2018 | 2017 | 2016 |
| Assets: | | | |
| Current assets | \$ 11,487 | \$ 14,226 | \$ 15,487 |
| Other noncurrent assets | 31,528 | 31,135 | 29,801 |
| Capital assets, net | <u>10,947</u> | <u>11,863</u> | <u>12,798</u> |
| Total Assets | <u>\$ 53,962</u> | <u>\$ 57,224</u> | <u>\$ 58,086</u> |
| Liabilities: | | | |
| Current liabilities | \$ 7,937 | \$ 7,140 | \$ 6,989 |
| Noncurrent liabilities | <u>1,946</u> | <u>2,157</u> | <u>2,368</u> |
| Total Liabilities | <u>\$ 9,883</u> | <u>\$ 9,297</u> | <u>\$ 9,357</u> |
| Net Assets: | | | |
| Net Investment in Capital Assets | \$ 9,327 | \$ 10,085 | \$ 10,857 |
| Restricted: | | | |
| Non expendable | 15,000 | 15,000 | 15,000 |
| Expendable | 12,938 | 14,400 | 13,754 |
| Unrestricted | <u>6,814</u> | <u>8,442</u> | <u>9,118</u> |
| Total Net Position | <u>\$ 44,079</u> | <u>\$ 47,927</u> | <u>\$ 48,729</u> |

Changes to Net position

The decrease in net position of \$3,847,207 in FY2018 was primarily the use of expendable restricted and unrestricted funds totaling \$3,089,605. The decrease in net position of \$802,212 in FY2017 was primarily due to the use of unrestricted funds totaling \$646,542.

The first component is the Corporation's equity in capital assets, which decreased \$757,602 during FY2018 and decreased \$771,746 during FY2017.

Restricted nonexpendable net assets were earned in connection with the "Bucks for Brains" West Virginia Research Trust Fund. Private donations were received by the Marshall University Foundation (the "Foundation") and were matched by a corresponding draw from the State on the project for each year. These funds are held in two nonexpendable funds – one at the Foundation and the other at MURC.

Additionally restricted expendable assets decreased \$1,461,991 during FY2018 and increased \$646,076 during FY2017. These monies have been restricted for use by entities outside the Corporation, mainly by granting agencies. Restricted expendable assets are generally produced through program income which totaled \$1,452,874 for FY2018 and \$1,216,770 for FY2017. The FY2018 increase in restricted expendable assets is the result of the use of these monies.

Finally, unrestricted net assets decreased by \$1,627,614 for FY2018 and decreased by \$646,542 for FY2017 and over the prior year total. Surplus activity in Cost Recovery and Operating Funds accounts for the monies attributable to this component. These monies can be expended for any legal purpose.

Statement of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses and changes in net position present the revenues and expenses, both operating and non-operating, as well as other gains and losses of the Corporation.

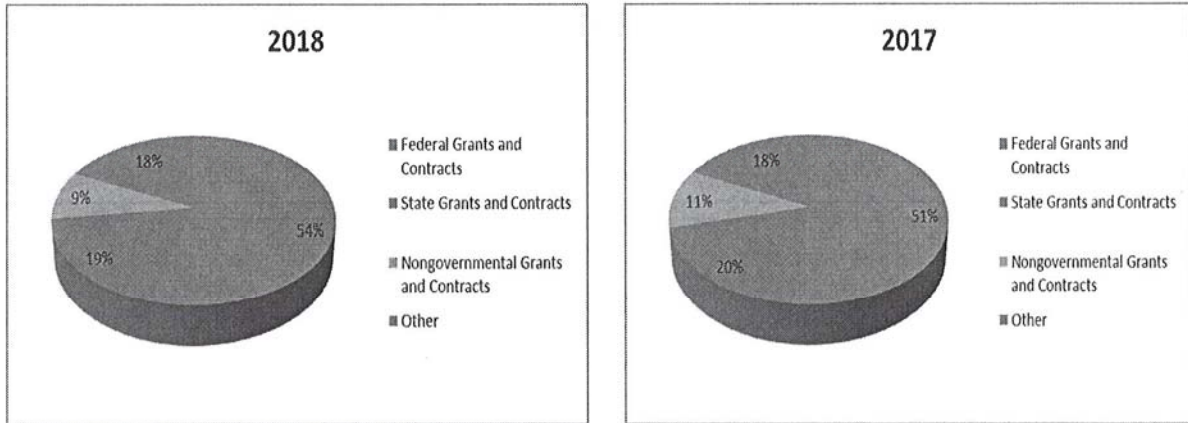
Operating revenues are received for providing goods and services to the various customers and constituencies of the Corporation. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the Corporation. Revenues received for which goods and services are not provided are reported as non-operating revenues. For example, gifts are non-operating because they are provided by the donor to the Corporation without the donor directly receiving commensurate goods and services for those revenues.

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

| | Years Ended June 30 | | |
|---|---------------------|-----------|-----------|
| | 2018 | 2017 | 2016 |
| Operating revenues | \$ 31,705 | \$ 32,797 | \$ 32,529 |
| Operating expenses | (37,687) | (37,186) | (36,954) |
| Operating income (loss) | (5,982) | (4,389) | (4,425) |
| Nonoperating revenues(expenses) | 2,135 | 3,587 | 300 |
| Income (loss) before capital gifts and grants | (3,847) | (802) | (4,125) |
| Capital grants and gifts | 0 | 0 | 0 |
| Increase (Decrease) in Net Assets | (3,847) | (802) | (4,125) |
| Net Position at Beginning of Year | 47,927 | 48,729 | 52,854 |
| Net Position at End of Year | \$ 44,080 | \$ 47,927 | \$ 48,729 |

Revenues:

The following charts illustrate the composition of revenues by source for 2018 and 2017:



Changes to Operating Revenues and Expenses

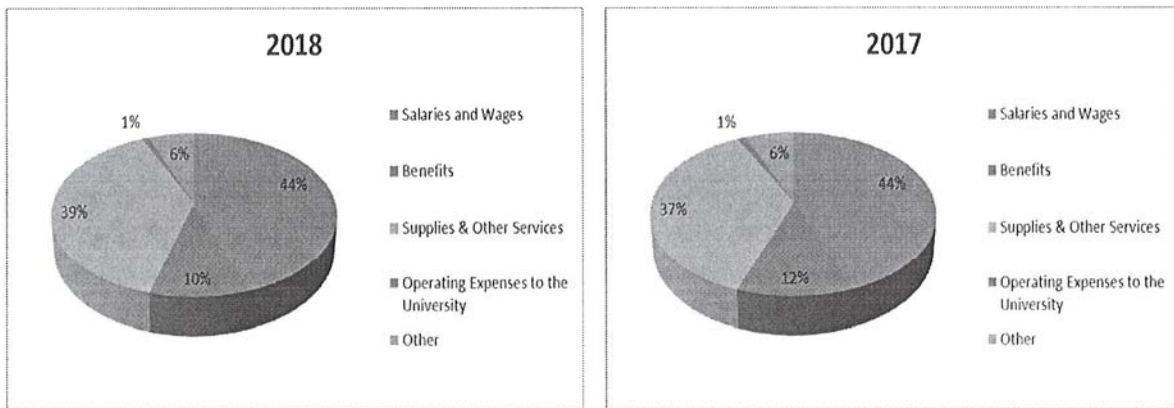
For FY2018, Operating Revenues were \$31,705,100, a decrease of \$1,092,340 compared to FY2017. This is primarily the result of a decrease in nongovernmental grants and contracts totaling \$752,389.

For FY2017, Operating Revenues were \$32,797,440, an increase of \$268,365 compared to FY2016. This is primarily the result of an increase in federal grants and contracts totaling \$307,440.

There was no construction related grant revenue in either year.

Expenses:

The following is a graphic comparison of total expenses by category between 2018 and 2017:



Operating Expenses were \$37,687,380 for FY2018 as compared to \$37,186,504 for FY2017, an increase of \$500,876.

Operating Expenses were \$37,186,504 for FY2017 as compared to \$36,954,425 for FY2016, an increase of \$232,079.

Statement of Cash Flows

The statement of cash flows presents detailed information about the cash activity during the year. The statement helps users assess the Corporation's ability to generate net cash flows, its ability to meet obligations as they come due, and its need for external financing.

The statement of cash flows is divided into five sections:

Cash flows from operating activities show the net cash provided or used by the operating activities of the Corporation.

Cash flows from noncapital financing activities reflect the cash received and paid for non-operating, non-investing, and noncapital financing purposes.

Cash flows from capital and related financing activities include cash used for the acquisition and construction of capital and related items.

Cash flows from investing activities show the purchases, proceeds, and interest received from investing activities.

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

Condensed Statements of Cash Flows (in thousands)

| | Years ended June 30 | | |
|--|---------------------|-----------------|-----------------|
| | 2018 | 2017 | 2016 |
| Cash provided (used) by: | | | |
| Operating activities | \$ (4,011) | \$ (2,377) | \$ (2,371) |
| Noncapital financing activities | 0 | 0 | 0 |
| Capital and related financing activities | (1,211) | (1,293) | (1,135) |
| Investing activities | <u>1,816</u> | <u>3,761</u> | <u>3,681</u> |
| Net increase (decrease) in cash and cash equivalents | (3,406) | 91 | 175 |
| Cash and cash equivalents, beginning of year | <u>6,287</u> | <u>6,196</u> | <u>6,021</u> |
| Cash and cash equivalents, end of year | <u>\$ 2,881</u> | <u>\$ 6,287</u> | <u>\$ 6,196</u> |

The decrease in cash balance in 2018 is due to the expenditure of restricted non-grant (program income) funds and unrestricted funds and to an increase in accounts receivable.

Capital Asset and Debt Administration

The Corporation completed construction for an addition to the Forensic Science Center in September, 2009. Funding for the Forensic Science Center addition resulted in the Corporation incurring a note payable in the amount of \$3,000,000, which had a principal balance of \$1,610,181 at June 30, 2018. Other capital assets owned by the Corporation are primarily comprised of equipment purchased with funds provided directly within grant agreements or using indirect costs recovery funds. During FY2018, \$1,010,043 in capital assets was purchased which was research equipment. The Corporation has no other debt obligations.

Research Highlights

Despite the challenges of reduced funding, MURC continues to thrive and expand its research enterprise. We remain committed to our work to advance research and economic development, and ensure that our students receive a rewarding education. It is our pleasure to share a few of this year's exciting achievements:

- The U.S. Economic Development Administration awarded the Robert C Byrd Institute at Marshall University a \$500,000 Regional Innovation Strategies i6 grant to establish a center to develop the aviation industry in the region. The grant was only the second such award in the Mountain State and the first for southern West Virginia.
- Marshall received a \$1.3 MM POWER grant from the Appalachian Regional Commission to employ community health workers in southeastern Ohio, eastern Kentucky and West Virginia. This program will coordinate care for high-risk patients suffering from diabetes, COPD and heart failure
- A five-year, \$10.78 million grant was received from the National Institutes of Health to investigate obesity and obesity-related conditions. This Centers of Biomedical Research Excellence award will ensure the professional development of Marshall's talented junior investigators. It is the largest programmatic award in the school's history.
- The College of Engineering was awarded \$100,000 from the US Army Corps of Engineer Research and Development Center for monitoring of key infrastructure, opening up a new avenue for future collaboration.
- Marshall University received a \$4.3 MM sub-award over five years from West Virginia University for the NIH Clinical Translational Research program . Marshall is a partner with the West Virginia Clinical and Translational Science Institute (WVCTSI) on the \$20 million five year grant that supports research aimed at improving the health of West Virginians and those in the Appalachian region.
- Daniel Langleben, M.D., a highly regarded addiction psychiatry specialist and a federally funded researcher with the University of Pennsylvania Perelman School of Medicine, has been named the inaugural Maier Professor and Director of Addiction Sciences at the Marshall University Joan C. Edwards School of Medicine. The professorship, the result of a \$1.25 million gift from the Maier Foundation, will support the university's efforts to address the opioid addiction crisis across the region and country. In addition, the position helps build a foundation for future expansion of the medical school's offerings in graduate medical education, to include a fellowship in addiction medicine.
- Marshall University has received a grant from the National Endowment for the Humanities to enhance the Clio historical app. The NEH has awarded \$60,000 to be granted in \$20,000 installments over the next three years. The funding will help further develop the Clio app, which provides GPS-guided information on historical and cultural landmarks in both small towns and large cities across the United States.
- New research from a team at the Marshall University Joan C. Edwards School of Medicine demonstrates that the Na/K-ATPase oxidant amplification loop (NAKL) is intimately involved in the aging process and may serve as a target for anti-aging interventions. The researchers were also able to successfully demonstrate the therapeutic potential of pNaKtide, a synthetic peptide, in improving impaired physiological functions and slowing disease development.

MARSHALL UNIVERSITY RESEARCH CORPORATION

STATEMENTS OF NET POSITION AS OF JUNE 30, 2018 AND 2017

| | 2018 | 2017 |
|---|----------------------|----------------------|
| ASSETS AND DEFERRED OUTFLOWS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 2,880,882 | \$ 6,286,626 |
| Grants and contracts receivable — net of allowance of \$1,192,787 and \$702,057 in 2018 and 2017, respectively | 8,135,867 | 7,521,555 |
| Other accounts receivable | 61,796 | 46,928 |
| Prepaid expenses | <u>408,308</u> | <u>370,592</u> |
| Total current assets | <u>11,486,853</u> | <u>14,225,701</u> |
| NONCURRENT ASSETS: | | |
| Loan receivable | 390,861 | 372,249 |
| Investments | 31,137,638 | 30,762,803 |
| Capital assets — net | <u>10,947,409</u> | <u>11,863,374</u> |
| Total noncurrent assets | <u>42,475,908</u> | <u>42,998,426</u> |
| Total Assets | <u>53,962,761</u> | <u>57,224,127</u> |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | <u>-</u> | <u>-</u> |
| TOTAL | <u>\$ 53,962,761</u> | <u>\$ 57,224,127</u> |

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

STATEMENTS OF NET POSITION AS OF JUNE 30, 2018 AND 2017

| | 2018 | 2017 |
|--|----------------------|----------------------|
| LIABILITIES, DEFERRED INFLOWS, AND NET POSITION | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 1,506,821 | \$ 1,202,006 |
| Accrued liabilities | 1,493,979 | 1,630,161 |
| Notes payable — current portion | 161,018 | 161,018 |
| Compensated absences | 930,738 | 941,877 |
| Unearned revenue | <u>3,844,374</u> | <u>3,205,305</u> |
| Total current liabilities | <u>7,936,930</u> | <u>7,140,367</u> |
| NONCURRENT LIABILITIES: | | |
| Notes payable | 1,449,163 | 1,610,181 |
| Unearned rent revenue | <u>497,050</u> | <u>546,755</u> |
| Total noncurrent liabilities | <u>1,946,213</u> | <u>2,156,936</u> |
| Total liabilities | <u>9,883,143</u> | <u>9,297,303</u> |
| TOTAL DEFERRED INFLOWS OR RESOURCES | <u>-</u> | <u>-</u> |
| TOTAL | <u>9,883,143</u> | <u>9,297,303</u> |
| NET POSITION: | | |
| Net investment in capital assets | 9,327,302 | 10,084,903 |
| Restricted for: | | |
| Nonexpendable | 15,000,000 | 15,000,000 |
| Expendable — sponsored projects | 12,937,915 | 14,399,906 |
| Unrestricted | <u>6,814,401</u> | <u>8,442,015</u> |
| Total net position | <u>44,079,618</u> | <u>47,926,824</u> |
| TOTAL | <u>\$ 53,962,761</u> | <u>\$ 57,224,127</u> |

See notes to financial statements.

(Concluded)

MARSHALL UNIVERSITY RESEARCH CORPORATION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

| | 2018 | 2017 |
|---|----------------------|----------------------|
| OPERATING REVENUES: | | |
| Contracts and grants: | | |
| Federal | \$ 17,231,114 | \$ 16,902,423 |
| State | 5,911,560 | 6,431,949 |
| Private and local | 2,921,174 | 3,673,963 |
| Program income | 1,452,874 | 1,216,770 |
| Miscellaneous — net | <u>4,188,378</u> | <u>4,572,335</u> |
| Total operating revenues | <u>31,705,100</u> | <u>32,797,440</u> |
| OPERATING EXPENSES: | | |
| Salaries and wages | 16,757,516 | 16,399,739 |
| Benefits | 3,743,807 | 4,283,594 |
| Supplies and other services | 14,586,986 | 13,731,820 |
| Utilities | 348,509 | 363,697 |
| Student financial aid — scholarships and fellowships | 340,478 | 396,049 |
| Depreciation | <u>1,910,084</u> | <u>2,011,605</u> |
| Total operating expenses | <u>37,687,380</u> | <u>37,186,504</u> |
| OPERATING LOSS | <u>(5,982,280)</u> | <u>(4,389,064)</u> |
| NONOPERATING REVENUES (EXPENSES): | | |
| Investment income — including unrealized gains of \$387,675 and \$2,400,598 in 2018 and 2017, respectively | 2,190,676 | 3,641,148 |
| Interest on indebtedness | (39,678) | (31,621) |
| Loss on disposal of equipment | <u>(15,924)</u> | <u>(22,675)</u> |
| Net nonoperating revenues (expenses) | <u>2,135,074</u> | <u>3,586,852</u> |
| LOSS BEFORE CAPITAL GIFTS AND GRANTS | (3,847,206) | (802,212) |
| CAPITAL GRANTS AND GIFTS | - | - |
| DECREASE IN NET POSITION | (3,847,206) | (802,212) |
| NET POSITION — Beginning of year | <u>47,926,824</u> | <u>48,729,036</u> |
| NET POSITION — End of year | <u>\$ 44,079,618</u> | <u>\$ 47,926,824</u> |

See notes to financial statements.

MARSHALL UNIVERSITY RESEARCH CORPORATION

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

| | 2018 | 2017 |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Contracts and grants | \$ 25,597,875 | \$ 26,575,100 |
| Payments to and on behalf of employees | (20,847,630) | (20,208,683) |
| Payments to suppliers | (13,645,036) | (13,705,703) |
| Payments for utilities | (348,509) | (363,697) |
| Payments for scholarships and fellowships | (340,478) | (396,049) |
| Program income | 1,452,874 | 1,216,770 |
| Other receipts — net | 4,120,058 | 4,504,905 |
| Net cash used in operating activities | <u>(4,010,846)</u> | <u>(2,377,357)</u> |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES: | | |
| Payments on notes payable | (161,018) | (162,142) |
| Purchases of capital assets | (1,010,043) | (1,099,735) |
| Interest paid on notes payable | (39,678) | (31,621) |
| Net cash used by financing activities | <u>(1,210,739)</u> | <u>(1,293,498)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of investments | (1,892,284) | 118,904 |
| Fees | (102,192) | (100,457) |
| Sale/maturity of investments | 2,007,316 | 2,502,665 |
| Investment income | 1,803,001 | 1,240,550 |
| Net cash provided by investing activities | <u>1,815,841</u> | <u>3,761,662</u> |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (3,405,744) | 90,807 |
| CASH AND CASH EQUIVALENTS — Beginning of year | <u>6,286,626</u> | <u>6,195,819</u> |
| CASH AND CASH EQUIVALENTS — End of year | <u>\$ 2,880,882</u> | <u>\$ 6,286,626</u> |

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

| | 2018 | 2017 |
|--|---------------------------|---------------------------|
| RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES: | | |
| Operating loss | \$ (5,982,280) | \$ (4,389,064) |
| Adjustments to reconcile net operating loss to net cash provided by (used in) operating activities: | | |
| Depreciation expense | 1,910,084 | 2,011,605 |
| Imputed interest | (18,612) | (17,726) |
| Changes in assets and liabilities: | | |
| Accounts receivable — net | (629,183) | (73,820) |
| Prepaid expenses | (37,716) | (11,124) |
| Accounts payable | 304,818 | 77,499 |
| Accrued liabilities | (136,182) | 529,856 |
| Unearned revenue | 639,069 | (423,460) |
| Unearned rent revenue | (49,705) | (49,704) |
| Compensated absences | <u>(11,139)</u> | <u>(31,419)</u> |
| NET CASH USED IN OPERATING ACTIVITIES | <u>\$ (4,010,846)</u> | <u>\$ (2,377,357)</u> |
| NONCASH TRANSACTIONS: | | |
| Loss on disposal of equipment | <u>\$ 15,923</u> | <u>\$ 22,675</u> |
| SUPPLEMENTAL DISCLOSURE: | | |
| Cash paid for interest | <u>\$ 33,310</u> | <u>\$ 31,717</u> |

See notes to financial statements.

(Concluded)

MARSHALL UNIVERSITY RESEARCH CORPORATION

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

1. ORGANIZATION

Marshall University Research Corporation (the "Corporation") is a not-for-profit corporation incorporated in 1987, pursuant to the laws of the State of West Virginia (the "State"). The purpose of the Corporation is to foster, support, and assist in any research and economic development activities consistent with the educational objectives and mission of Marshall University (the "University"). The Corporation, designated by the University, fulfills the role of public institutions to work in partnership with business, industry, or government. The Corporation encourages the acceptance of gifts, grants, contracts, and equipment, and the sharing of facilities, equipment, and skilled personnel to promote and develop joint, applied research and development, technical assistance, and instructional programs in the State. The Corporation is a component unit of the University.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Corporation have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by Governmental Accounting Standards Board standards (GASB). The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the Corporation's assets, liabilities, net position, revenues, expenses, changes in net position, and cash flows, and replaces the fund-group perspective previously required.

Reporting Entity — The Corporation is included with the University (its parent), as the University is the sole member of the nonstock, not-for-profit corporation. The University is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State that are not included in the State's general fund. The University is a separate entity, which, along with all State institutions of higher education, the West Virginia Higher Education Policy Commission (which includes West Virginia Network for Educational Tele-Computing) (the "Commission"), and the West Virginia Council for Community and Technical College Education, form the Higher Education Fund of the State. The Higher Education Fund is 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 Corporation, including Marshall Institute for Interdisciplinary Research, Inc. (MIIR). The basic criteria for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from the Corporation's ability to significantly influence operations and accountability for fiscal matters of related entities.

Financial Statement Presentation — GASB establishes standards for external financial reporting for public colleges and universities and requires that financial statements to be presented on a combined basis to focus on the Corporation as a whole. The components of net position are classified into four categories according to external donor restrictions or availability of assets for satisfaction of Corporation obligations. The Corporation's components of net position are classified as follows:

Net Investment in Capital Assets — This represents the Corporation's total investment in capital assets, net of depreciation and outstanding debt used to fund those capital assets.

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

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

Unrestricted — This 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 Corporation, and may be used at the discretion of the Board of Directors to meet current expenses for any purpose.

Basis of Accounting — For financial reporting purposes, the Corporation is considered a special-purpose government engaged only in business-type activities. Accordingly, the Corporation's financial statements have been prepared on the accrual basis of accounting with a flow of economic resources measurement focus. Revenues are reported when earned and expenses 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 Corporation considers all liquid investments with an original maturity of three months or less to be cash equivalents.

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

Investments — Investments in corporate bonds, mutual funds, and government securities are presented at fair value based on quoted market prices. These valuations include assumptions and methods that were reviewed by Corporation management and are primarily based on quoted market prices for the underlying investments or other observable market data. The Corporation has other investments recorded at cost.

Allowance for Doubtful Accounts — It is the Corporation'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 Corporation on such balances and such other factors which, in the Corporation's judgment, require consideration in estimating doubtful accounts.

Capital Assets — Capital assets include equipment, buildings, and construction in progress. Capital assets are stated at cost at the date of acquisition or construction, or acquisition value at the date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 5 to 12 years for furniture and equipment and 50 years for buildings.

Unearned Revenue — Revenues for programs or activities to be conducted in the next fiscal year are classified as unearned revenue.

Unearned Rent Revenue — Unearned rent revenue represents the monies received from Huntington Area Development Council (HADCO). Recognition of this revenue was deferred during the construction of a business start-up incubator. The beginning total \$994,101 of unearned rent received from HADCO is being recognized evenly over a 20-year period commencing July 2010.

Compensated Absences — The Corporation accounts for compensated absences in accordance with the provisions of GASB. GASB requires entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation, as these benefits are earned and payment becomes probable.

Risk Management — The State's Board of Risk and Insurance Management (BRIM) provides general liability coverage to the Corporation and its employees. Such coverage may be provided to the Corporation 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 to minimize the likelihood of premium adjustments to the Corporation or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums the Corporation is currently charged by BRIM and the ultimate cost of that insurance based on the Corporation's actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to the Corporation and the Corporation's ultimate actual loss experience, the difference will be recorded as the change in estimate becomes known.

Classification of Revenues — The Corporation 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) most federal, state, local, and nongovernmental grants and contracts, (2) federal appropriations, and (3) 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 investment income.

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

Use of Restricted Components of Net Position — The Corporation 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 resources are available. Generally, the Corporation attempts to utilize restricted funds first when practicable.

Government Grants and Contracts — Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The Corporation 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. As of June 30, 2018, the Corporation recorded accounts receivable of \$3,979,075 associated with the State and other affiliates.

Tax Status — The Corporation has applied for and received from the Internal Revenue Service an exemption from taxation under Section 501(c)(3) of the Internal Revenue Code as an entity organized for educational, research, and economic development purposes.

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

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

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of June 30, 2018 and 2017 is as follows:

| | 2018 | 2017 |
|-----------------------------------|---------------------|---------------------|
| Money market and cash equivalents | \$ 2,863,682 | \$ 6,268,399 |
| In bank | <u>17,200</u> | <u>18,227</u> |
| | <u>\$ 2,880,882</u> | <u>\$ 6,286,626</u> |

The carrying amount of cash in bank at June 30, 2018 and 2017 was \$17,200 and \$18,227 respectively, as compared with a bank balance of \$17,200 and \$18,227, respectively. The bank balances were secured by federal depository insurance, as noted below, or collateralized by securities held by the State's agent. The Federal Deposit Insurance Corporation (FDIC) insures interest-bearing accounts for \$250,000.

At June 30, 2018 and 2017, \$1,344,017 and \$915,443, respectively was held in a cash account insured by the Security Investor Protection Corporation (SIPC). These funds are held in nineteen distinct accounts, each having \$250,000 of SIPC coverage. In addition, TIAA-CREF Trust Company, FSB (TIAA Trust) sets aside collateral as security for any amount that exceeds \$250,000 in cash. The market value of the collateral must at all times equal or exceed the amount of the uninsured fiduciary funds as mandated by regulation 12 CFR 150.310.

Cash equivalents totaling \$2,018,457 and \$5,550,479 at June 30, 2018 and 2017, respectively, are held in business checking and savings accounts collateralized at 160% and 117%, respectively. The collateral was held in the name of the Corporation.

4. INVESTMENTS

Investments at June 30, 2018 and 2017, consist of the following:

| | 2017 | 2016 |
|--------------------------------------|----------------------|----------------------|
| Corporate Bonds | \$ 2,618,676 | \$ 2,196,227 |
| Equity Mutual Funds | 19,874,356 | 20,083,455 |
| Fixed Income Mutual Funds | 5,449,272 | 4,585,977 |
| Progenis Technologies, LLC - at cost | 100,000 | 100,000 |
| US Government Agency Obligations | 519,017 | 765,107 |
| US Treasury Obligations | <u>2,576,317</u> | <u>3,032,037</u> |
| Total Investments | <u>\$ 31,137,638</u> | <u>\$ 30,762,803</u> |

Credit Risk – The U.S. Government Agency Obligations and U.S. Treasury Obligations held by the Corporation have an average maturity of 4.08 years. At both June 30, 2018 and 2017, the Corporation’s investment in U.S. Government Agency Obligations and U.S. Treasury Obligations were AA+ rated government-backed securities. The Corporate Bonds acquired in 2018 have Moody ratings ranging from AAA to Baa3. The alternate investment in Progenesis Technologies, LLC does not have assigned rates.

Concentration of Credit Risk – The Corporation’s investment policy (not approved by the Board of Directors as of June 30, 2018 and 2017) will be to invest according to an asset allocation strategy designed to meet the goals of the Investment Objective. As a result, the following asset allocation targets and ranges have been presented for the Investment Pool:

| Representative Asset Class | Target Weight | Maximum Weight |
|-------------------------------------|---------------|----------------|
| Fixed Income/Government Securities | 60 | 100 |
| Money Market | 20 | 20 |
| Equity Securities/Derivatives/Hedge | 20 | 20 |

Interest Rate Risk – This is the risk of potential variability in the fair value of debt and fixed income securities resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The Corporation does not have an investment policy limiting the duration of investments.

5. FAIR VALUE MEASUREMENTS

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

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment’s risk.

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Assets classified as Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor.

| Investments by Fair Value Level | 2018 | | | |
|---------------------------------------|----------------------|----------------------|-----------|-----------|
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Corporate Bonds | \$ 2,618,676 | \$ 2,618,676 | \$ | \$ |
| Equity Mutual Funds | 19,874,356 | 19,874,356 | | |
| Fixed Income Mutual Funds | 5,449,272 | 5,449,272 | | |
| US Government Agency Obligations | 519,017 | 519,017 | | |
| US Treasury Obligations | 2,576,317 | 2,576,317 | | |
| Total Investments by Fair Value Level | <u>\$ 31,037,638</u> | <u>\$ 31,037,638</u> | <u>\$</u> | <u>\$</u> |

| Investments by Fair Value Level | 2017 | | | |
|---------------------------------------|----------------------|----------------------|-------------|-------------|
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Corporate Bonds | \$ 2,196,227 | \$ 2,196,227 | \$ - | \$ - |
| Equity Mutual Funds | 20,083,455 | 20,083,455 | - | - |
| Fixed Income Mutual Funds | 4,585,977 | 4,585,977 | - | - |
| US Government Agency Obligations | 765,107 | 765,107 | - | - |
| US Treasury Obligations | 3,032,037 | 3,032,037 | - | - |
| Total Investments by Fair Value Level | <u>\$ 30,662,803</u> | <u>\$ 30,662,803</u> | <u>\$ -</u> | <u>\$ -</u> |

6. CAPITAL ASSETS

The summary of capital asset transactions for the Corporation for the years ended June 30, 2018 and 2017 is as follows:

| | 2018 | | | |
|---|----------------------|---------------------|--------------------|----------------------|
| | Beginning Balance | Additions | Reductions | Ending Balance |
| Capital assets: | | | | |
| Building | \$ 4,932,619 | | | \$ 4,932,619 |
| Equipment | 27,767,320 | \$ 1,010,042 | \$ (463,224) | 28,314,138 |
| Total capital assets | 32,699,939 | 1,010,042 | (463,224) | 33,246,757 |
| Less accumulated depreciation — building | (764,556) | (98,652) | | (863,208) |
| Less accumulated depreciation — equipment | (20,072,009) | (1,811,432) | 447,301 | (21,436,140) |
| Total accumulated depreciation | (20,836,565) | (1,910,084) | 447,301 | (22,299,348) |
| Capital assets — net | <u>\$ 11,863,374</u> | <u>\$ (900,042)</u> | <u>\$ (15,923)</u> | <u>\$ 10,947,409</u> |
| | | | | |
| | 2017 | | | |
| | Beginning Balance | Additions | Reductions | Ending Balance |
| Capital assets: | | | | |
| Building | \$ 4,932,619 | | | \$ 4,932,619 |
| Equipment | 26,756,262 | \$ 1,099,734 | \$ (88,676) | 27,767,320 |
| Total capital assets | 31,688,881 | 1,099,734 | (88,676) | 32,699,939 |
| Less accumulated depreciation — building | (665,904) | (98,652) | - | (764,556) |
| Less accumulated depreciation — equipment | (18,225,055) | (1,912,954) | 66,000 | (20,072,009) |
| Total accumulated depreciation | (18,890,959) | (2,011,606) | 66,000 | (20,836,565) |
| Capital assets — net | <u>\$ 12,797,922</u> | <u>\$ (911,872)</u> | <u>\$ (22,676)</u> | <u>\$ 11,863,374</u> |

The Corporation's capitalization threshold was \$5,000 for the years ended June 30, 2018 and 2017.

7. LONG-TERM LIABILITIES

The summary of long-term obligation transactions for the Corporation for the years ended June 30, 2018 and 2017 is as follows:

| | 2018 | | | | |
|-----------------------------|---------------------|-------------|---------------------|---------------------|-----------------|
| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
| Notes payable | \$ 1,771,199 | \$ - | \$ (161,018) | \$ 1,610,181 | \$ 161,018 |
| Unearned rent | 596,460 | - | (49,705) | 546,755 | 49,705 |
| Total long-term liabilities | <u>\$ 2,367,659</u> | <u>\$ -</u> | <u>\$ (210,723)</u> | <u>\$ 2,156,936</u> | |

| | 2017 | | | | |
|-----------------------------|---------------------|-------------|---------------------|---------------------|-----------------|
| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
| Notes payable | \$ 1,932,217 | \$ - | \$ (161,018) | \$ 1,771,199 | \$ 161,018 |
| Capital lease payable | 1,124 | - | (1,124) | - | - |
| Unearned rent | 646,165 | - | (49,705) | 596,460 | 49,705 |
| Total long-term liabilities | <u>\$ 2,579,506</u> | <u>\$ -</u> | <u>\$ (211,847)</u> | <u>\$ 2,367,659</u> | |

8. NOTES PAYABLE

In 2008, the Corporation 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. The Corporation's repayment terms are the same as the bond repayment term. The Corporation made the first interest payments on October 10, 2008, for the interest due on the loans semi-annually and first annual principal payment 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, 2014 – April 10, 2018 is 1.6415% and the rate for the period of April 10, 2018 – April 10, 2022 is 2.85%. The 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.

At June 30, 2018, the scheduled maturities on notes payable are as follows:

| Years Ending June 30 | Principal | Interest |
|----------------------|---------------------|-------------------|
| 2019 | \$ 161,018 | \$ 45,958 |
| 2020 | 161,018 | 41,362 |
| 2021 | 161,018 | 36,766 |
| 2022 | 161,018 | 32,170 |
| 2023 | 161,018 | 27,575 |
| 2024-2027 | 644,073 | 64,341 |
| 2028 | 161,018 | 4,596 |
| | <u>\$ 1,610,181</u> | <u>\$ 252,768</u> |

9. LEASES

Future annual minimum lease payments on operating leases for years subsequent to June 30, 2018, are as follows:

| Years Ending June 30 | | |
|-----------------------------|----|-----------------------|
| 2019 | \$ | 140,676 |
| 2020 | | 140,676 |
| 2021 | | 125,630 |
| 2022 | | <u>16,800</u> |
| Total | \$ | <u><u>423,782</u></u> |

Total rent expense for the years ended June 30, 2018 and 2017, was \$186,442 and \$253,437, respectively. The Corporation does not have any non-cancelable leases.

10. RELATED-PARTY TRANSACTIONS

A summary of balances and transactions with the University as of and for the years ended June 30, 2018 and 2017 is as follows:

| | 2018 | 2017 |
|--|--------------|--------------|
| Statement of Net Position Balances | | |
| Advances receivable | \$ 250,000 | \$ 250,000 |
| Due from the University | 438,287 | 846,008 |
| Due to the University | 475,456 | 395,739 |
| Statement of Revenues, Expenses, and Changes in Net Position Transactions | | |
| Grants and contracts revenue | \$ 2,187,455 | \$ 1,898,106 |
| Other sources of revenue | 254,432 | 209,847 |
| Payroll and benefits expense | 3,759,886 | 3,252,547 |
| Other expenses | 800,699 | 972,133 |

The Corporation leases approximately 12,900 square feet of office space located in the Weisberg Family Applied Engineering Complex from the University. The lease requires the Corporation to pay a minimum rental of \$90,276 per year and expires on April 30, 2021. The rental includes \$15,000 per year for furniture located in the premises. Rent expense for the years ended June 30, 2018 and 2017 was \$102,776 and \$105,276.

11. UNRESTRICTED COMPONENTS OF NET POSITION

At June 30, 2018 and 2017, the Corporation has no designated components of net position.

12. RETIREMENT PLAN

All eligible employees of the Corporation participate in the Teachers Insurance and Annuities Association — College Retirement Equities Fund (TIAA-CREF). The TIAA-CREF is a defined contribution plan in which benefits are based solely upon amounts contributed, plus investment earnings. Each employee participating in this plan is required to contribute 6% of total annual compensation. The Corporation matches the employees' 6% contributions. Contributions are immediately and fully vested.

In addition, employees may elect to make additional contributions to TIAA-CREF not matched by the Corporation.

Total contributions to the TIAA-CREF for the years ended June 30, 2018, 2017 and 2016, were \$1,664,627, \$1,682,948 , and \$1,773,660 respectively, which consisted of \$774,542, \$789,964, and \$842,777, respectively, from the Corporation and \$890,085, \$892,984, and \$931,383, respectively, from employees.

The Corporation's total payroll for the years ended June 30, 2018, 2017 and 2016 was \$15,266,687, \$15,631,567 and \$15,595,089 respectively. Total covered employees' salaries in TIAA-CREF were \$12,896,667, \$13,166,069, and \$14,037,952 for the years ended June 30, 2018, 2017 and 2016, respectively.

13. CONTINGENCIES

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

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

14. DONOR-RESTRICTED ENDOWMENTS

The Corporation's permanent funds include donor-restricted endowments. The Net Position-Nonexpendable amounts of \$15,000,000 represent the principal portions of the endowments. The amount of interest earnings on donor-restricted investments is available for expenditure by the governing board, for purposes consistent with endowment's intent.

15. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2018 and 2017, the following table represents operating expenses within both natural and functional classifications:

| | 2018 | | | | | | |
|-------------------------------|----------------------|---------------------|-----------------------------|-------------------|------------------------------|---------------------|----------------------|
| | Salaries and Wages | Benefits | Supplies and Other Services | Utilities | Scholarships and Fellowships | Depreciation | Total |
| Instruction | \$ 1,854,557 | \$ 354,368 | \$ 1,075,313 | \$ 6,677 | \$ 84,400 | \$ - | \$ 3,375,315 |
| Research | 4,276,345 | 871,193 | 6,923,320 | 120,933 | 121,750 | - | 12,313,541 |
| Public service | 7,270,271 | 1,699,597 | 3,829,370 | 1,086 | 38,153 | - | 12,838,477 |
| Academic support | 58,625 | 10,929 | 102,166 | 4,090 | - | - | 175,810 |
| Student services | 325,855 | 75,038 | 197,189 | 215,723 | 69,843 | - | 883,648 |
| General institutional support | 2,971,863 | 732,682 | 2,459,628 | - | 26,332 | - | 6,190,505 |
| Depreciation | - | - | - | - | - | 1,910,084 | 1,910,084 |
| Total | \$ 16,757,516 | \$ 3,743,807 | \$ 14,586,986 | \$ 348,509 | \$ 340,478 | \$ 1,910,084 | \$ 37,687,380 |

| | 2017 | | | | | | |
|-------------------------------|----------------------|---------------------|-----------------------------|-------------------|------------------------------|---------------------|----------------------|
| | Salaries and Wages | Benefits | Supplies and Other Services | Utilities | Scholarships and Fellowships | Depreciation | Total |
| Instruction | \$ 1,153,319 | \$ 276,730 | \$ 967,764 | \$ - | \$ 141,329 | \$ - | \$ 2,539,142 |
| Research | 3,729,196 | 820,171 | 6,075,643 | 13,575 | 111,102 | - | 10,749,687 |
| Public service | 7,789,232 | 2,109,952 | 3,851,192 | 124,534 | 63,900 | - | 13,938,810 |
| Academic support | 58,596 | 12,855 | 89,361 | 4,976 | - | - | 165,788 |
| Student services | 343,367 | 90,154 | 200,967 | 3,984 | 56,820 | - | 695,292 |
| General institutional support | 3,326,029 | 973,732 | 2,546,893 | 216,628 | 22,898 | - | 7,086,180 |
| Depreciation | - | - | - | - | - | 2,011,605 | 2,011,605 |
| Total | \$ 16,399,739 | \$ 4,283,594 | \$ 13,731,820 | \$ 363,697 | \$ 396,049 | \$ 2,011,605 | \$ 37,186,504 |

* * * * *

SUPPLEMENTAL SCHEDULE

MARSHALL UNIVERSITY RESEARCH CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

| Federal Agency | Source | CFDA/ Contract Number | Indirect Agency | Indirect Agency Award Number | Federal Expenditures | Passed through to Subrecipients |
|--|--------|-----------------------------|---|------------------------------------|-------------------------|---------------------------------------|
| RESEARCH AND DEVELOPMENT: Economic Development Administration | D | 11.302 | | | 11,122 | |
| Total Department of Commerce | | | | | 11,122 | |
| U.S. Army Corps of Engineers | D | 12.300 | | | (48) | |
| Office of the Secretary | I | 12.360 | Parabon Nanolabs, Inc. | 20170508-MARSHALL-051-ISD-SBIRII | 64,719 | |
| U.S. Army Medical Command | D | 12.420 | | | 25,393 | |
| U.S. Army Material Command | D | 12.431 | | | 64,632 | |
| U.S. Army Material Command | I | 12.431 | Regents of the University of California | W91 INF-11-1-0024 | 21,693 | |
| U.S. Army Material Command | I | 12.431 | Academy of Applied Science | W1 INF-10-2-1-76 | 1,000 | |
| | | Subtotal 12.431 | | | 87,325 | |
| Office of the Secretary | D | 12.630 | | | 128,980 | |
| Office of the Secretary | I | 12.630 | Academy of Applied Science | 2018-MARSHALL-2 (UNITE) | 892 | |
| | | Subtotal 12.630 | | | 129,872 | |
| Office of the Secretary | D | 12.632 | | | 11,092 | |
| Total Department of Defense | | | | | 318,353 | |
| Office of Surface Mining | D | 15.255 | | | 14,332 | |
| Fish and Wildlife Service | I | 15.634 | So Carolina Dept of Natural Resources | SCDNR P24014406012 | (525) | |
| Fish and Wildlife Service | I | 15.660 | So Carolina Dept of Natural Resources | SCDNR P24019497516 | 6,466 | |
| | | | | | 20,273 | |
| Total Department of the Interior | | | | | 44,766 | |
| National Institute of Justice | D | 16.560 | | | 13,298 | |
| Bureau of Justice Assistance | D | 16.833 | | | 58,064 | |
| Total Department of Justice | | | | | 54,559 | |
| Appalachian Regional Commission | D | 23.003 | | | 54,559 | |
| Total Appalachian Regional Commission | | | | | 2,943 | |
| National Aeronautics and Space Administration | I | 43.001 | West Virginia University | 91-175C-MURC | | |
| National Aeronautics and Space Administration | I | 43.008 | West Virginia University | 13-719-MURC | 22,280 | |
| National Aeronautics and Space Administration | I | 43.008 | West Virginia University | 15-683-MURC | 22,145 | |
| National Aeronautics and Space Administration | I | 43.008 | West Virginia University | 91-175C-MURC | 170,229 | |
| National Aeronautics and Space Administration | I | 43.008 | West Virginia University | NASA WVSGC GRADUATE RESEARC | 6,698 | |
| National Aeronautics and Space Administration | I | 43.008 | West Virginia University | NASA WVSGC TRAVEL AWARD | 1,843 | |
| | | Subtotal 43.008 | | | 223,195 | |
| Total National Aeronautics and Space Administration | | | | | 226,138 | |

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

| Federal Agency | Source | CFDA/ Contract Number | Indirect Agency | Indirect Agency Award Number | Federal Expenditures | Passed through to Subrecipients |
|---|--------|-----------------------------|---|------------------------------------|-------------------------|---------------------------------------|
| RESEARCH AND DEVELOPMENT (Continued): | | | | | | |
| National Science Foundation | D | 47.041 | | | 125,443 | |
| National Science Foundation | I | 47.049 | Murray State University | OIA-1632888 | 318,420 | |
| National Science Foundation | D | 47.050 | | | 10,598 | |
| National Science Foundation | D | 47.070 | | | 16,900 | |
| National Science Foundation | D | 47.074 | | | 11,242 | 8,347 |
| National Science Foundation | I | 47.079 | WV Higher Education Policy Commissioner HEPC.DSR.16.2 | | 1,058,638 | |
| Office of Integrative Activities | D | 47.083 | | | 64,157 | |
| Total National Science Foundation | | | | | 1,605,398 | 8,347 |
| Office of Solid Waste and Emergency Response | I | 66.818 | WV Department of Environmental Protect | AGM-092 P1801247 | 106 | |
| Total Environmental Protection Agency | | | | | 106 | |
| Department of Energy | I | 81.041 | WV Division of Energy | 17-006 | 19,796 | |
| Department of Energy | I | 81.041 | WV Division of Energy | 17-007 | 15,432 | |
| | | Subtotal 81.041 | | | 35,228 | |
| Total Department of Energy | | | | | 35,228 | |
| Food and Drug Administration | I | 93.103 | University of Cincinnati | 008810 | (2,567) | |
| Office of Minority Health | I | 93.137 | City of Huntington | CPIMP171160-01-00 | 47,653 | |
| National Institutes of Health | D | 93.279 | | | 144,306 | |
| National Institutes of Health | I | 93.350 | University of Kentucky | 3200001229-18-263 | 88,134 | |
| National Institutes of Health | D | 93.393 | | | 101,973 | |
| National Institutes of Health | D | 93.396 | | | 77,393 | |
| National Institutes of Health | I | 93.837 | Cleveland Clinic Lemer College of Medici | 5R01HL130090-02 899-SUB | 34,374 | |
| National Institutes of Health | I | 93.837 | New York Medical College | 5R01HL130344-04 SUBAWARD 1227 | 4,151 | |
| | | Subtotal 93.837 | | | 38,525 | |
| National Institutes of Health | I | 93.839 | Case Western Reserve University | FR01HL129179-03 | 140,673 | |
| National Institutes of Health | D | 93.846 | | | 89,763 | |
| National Institutes of Health | D | 93.847 | | | 361,854 | |
| National Institutes of Health | D | 93.859 | | | | 2,460,449 |
| National Institutes of Health | I | 93.859 | Progenesis Technologies LLC | R44GM113545 | 3,924,743 | |
| National Institutes of Health | I | 93.859 | West Virginia University | 12-303-MURC | 104,198 | |
| | | Subtotal 93.859 | | | 862,052 | |
| National Institutes of Health | D | 93.866 | | | 4,890,993 | 2,460,449 |
| National Institutes of Health | I | 93.867 | Jaeb Center for Health Research Inc | U10EY111751 | 38,680 | |
| | | | | | 898 | |
| Total Department of Health and Human Services | | | | | 6,018,278 | 2,460,449 |
| Subtotal Research and Development | | | | | 8,347,519 | 2,468,796 |

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2018

| Federal Agency | Source | CFDA/ Contract Number | Indirect Agency | Indirect Agency Award Number | Passed through to Subrecipients | Federal Expenditures |
|--|--------|-----------------------------|---|------------------------------------|---------------------------------------|-------------------------|
| OTHER PROGRAMS: | | | | | | |
| Food & Nutrition Service | I | 10.561 | West Virginia University | G170659 | 162,650 | 681,957 |
| Food & Nutrition Service | I | 10.561 | West Virginia University | G180602 | 519,307 | 681,957 |
| | | Subtotal 10.561 | | | | |
| Total Department of Agriculture | | | | | | |
| Economic Development Administration | D | 11.020 | | | | 25,926 |
| Economic Development Administration | D | 11.303 | | | | 133,034 |
| Economic Development Administration | D | 11.307 | | | | 705,216 |
| Total Department of Commerce | | | | | | 864,176 |
| Department of the Army, Office of the Chief of Engineers | D | 12.107 | | | | 46,673 |
| Office of the Secretary | D | 12.630 | | | 36,994 | |
| Office of the Secretary | I | 12.630 | Technology Student Association | 2018-2019 UNITE | 34,079 | 71,073 |
| | | Subtotal 12.630 | | | | |
| National Security Agency | D | 12.903 | | | | 27,186 |
| Total Department of Defense | | | | | | 144,932 |
| National Park Service | D | 15.922 | | | | 33,313 |
| Total Department of Interior | | | | | | 33,313 |
| Employment and Training Administration | D | 17.268 | | | | 849,700 |
| Mine Safety and Health Administration | D | 17.604 | | | | 29,850 |
| Total Department of Labor | | | | | | 879,550 |
| Federal Motor Carrier Safety Administration | I | 20.218 | Tennessee Department of Safety & Horr 34901-00192 | | | 41,843 |
| Federal Motor Carrier Safety Administration | D | 20.232 | | | | 390,333 |
| Office of the Secretary | I | 20.701 | University of Virginia | GG11746 | | 167,387 |
| Total Department of Transportation | | | | | | 599,563 |
| Appalachian Regional Commission | D | 23.001 | | | | 321,297 |
| Appalachian Regional Commission | D | 23.011 | | | | 896,031 |
| Total Appalachian Regional Commission | | | | | | 1,217,328 |
| | | | | | | 87,535 |
| | | | | | | - |
| | | | | | | 87,535 |
| | | | | | | - |
| | | | | | | 231,050 |
| | | | | | | 150,831 |
| | | | | | | 381,881 |

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2018

| Federal Agency | Source | CFDA/ Contract Number | Indirect Agency | Indirect Agency Award Number | Federal Expenditures | Passed through to Subrecipients |
|--|--------|-----------------------------|--|------------------------------------|-------------------------|---------------------------------------|
| OTHER PROGRAMS (Continued): | | | | | | |
| National Aeronautics and Space Administration | 1 | 43.008 | West Virginia University | 91-175C-MURC | 2,356 | |
| Total National Aeronautics and Space Administration | | | | | | |
| National Endowment for the Humanities | 1 | 45.129 | WV Humanities Council | 16.5.7341 | 4,819 | |
| National Endowment for the Humanities | 1 | 45.129 | WV Humanities Council | 17.2.7450 | 1,665 | |
| National Endowment for the Humanities | 1 | 45.129 | WV Humanities Council | 17.2.7449 | 1,500 | |
| National Endowment for the Humanities | 1 | 45.129 | WV Humanities Council | 16.1.7354 | 866 | |
| National Endowment for the Humanities | 1 | 45.129 | WV Humanities Council | 16028 | 1,804 | |
| National Endowment for the Humanities | 1 | 45.129 | WV Humanities Council | 17.2.7471 | 1,460 | |
| National Endowment for the Humanities | 1 | 45.129 | WV Humanities Council | 17.1.7420 | 7,566 | |
| National Endowment for the Humanities | 1 | 45.129 | WV Humanities Council | 17.1.7511 | 4,223 | |
| | | Subtotal 45.129 | | | 23,903 | |
| National Endowment for the Humanities | 1 | 45.164 | The Gilder Lehrman Institute of American His | 7800003705 | 4 | |
| Total National Foundation on the Arts and the Humanities | | | | | | |
| National Science Foundation | D | 47.049 | | | 10,091 | |
| National Science Foundation | 1 | 47.076 | Carnegie Mellon University | 1122014-320180 | 65,399 | |
| National Science Foundation | 1 | 47.076 | University of Kentucky | HRD-1305039 | 44,500 | |
| National Science Foundation | 1 | 47.076 | University of Kentucky | S000 23866 | 2,034 | |
| | | Subtotal 47.076 | | | 111,933 | |
| Total National Science Foundation | | | | | | |
| Office of Solid Waste and Emergency Response | 1 | 66.815 | Coalfield Development Corporation | JT-96341601-0 | 7,849 | 75,629 |
| Office of Solid Waste and Emergency Response | 1 | 66.818 | WV Department of Environmental Protection | AMG-079 | 90,391 | 75,629 |
| Total Environmental Protection Agency | | | | | | |
| | | | | | 98,240 | 75,629 |

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2018

| Federal Agency | Source | CFDA/ Contract Number | Indirect Agency | Indirect Agency Award Number | Federal Expenditures | Passed through to Subrecipients |
|---|--------|-----------------------------|---------------------------------------|------------------------------------|-------------------------|---------------------------------------|
| OTHER PROGRAMS (Continued): | | | | | | |
| Office of Special Education and Rehabilitation | I | 84.024 | WV Department of Education | GRTAWD04021800001262 | 166,580 | |
| Office of Special Education and Rehabilitation | I | 84.027 | WV Department of Education | GRTAWD04021 | 86,654 | |
| Office of Postsecondary Education | D | 84.042A | | | 280,407 | |
| Office of Postsecondary Education | D | 84.044A | | | 550,469 | |
| Office of Postsecondary Education | D | 84.047A | | | 359,423 | |
| Office of Postsecondary Education | D | 84.066A | | | 236,864 | |
| | | TRIO Cluster Subtotal | | | <u>1,427,163</u> | |
| Office of Special Education and Rehabilitative Servic | I | 84.173 | WV Department of Education | GRTAWD0421 | 116,450 | |
| Office of Elementary and Secondary Education | I | 84.366 | WV Department of Education | GRTAWD04021700003724 | 85,424 | |
| Office of Elementary and Secondary Education | I | 84.367 | WV Higher Education Policy Commission | ITQ-16-MU-1 | 11,178 | |
| Office of Elementary and Secondary Education | I | 84.367 | WV Higher Education Policy Commission | ITQ-16-MU-2 | 19,862 | |
| Office of Elementary and Secondary Education | I | 84.367 | WV Higher Education Policy Commission | ITQ-16-MU-5 | 11,285 | |
| Office of Elementary and Secondary Education | I | 84.367 | WV Higher Education Policy Commission | ITQ-17-MU-2 | 1,855 | |
| | | Subtotal 84.367 | | | <u>44,180</u> | |
| Office of Elementary and Secondary Education | I | 84.367B | WV Higher Education Policy Commission | ITQ-16-MU-3 | (1,837) | |
| Office of Elementary and Secondary Education | I | 84.367B | WV Higher Education Policy Commission | ITQ-17-MU-3 | 24,877 | |
| Office of Elementary and Secondary Education | I | 84.367B | WV Higher Education Policy Commission | ITQ-17-MU-4 | 22,561 | |
| Office of Elementary and Secondary Education | I | 84.367B | WV Higher Education Policy Commission | ITQ-17-MU-1 | 35,705 | |
| | | Subtotal 84.367B | | | <u>81,306</u> | |
| Office of Elementary and Secondary Education | I | 84.367D | National Writing Project | 02-WV03-SEED2016 | (846) | |
| Office of Elementary and Secondary Education | I | 84.367D | National Writing Project | 02-WV03-SEED2017 | 16,865 | |
| | | Subtotal 84.367D | | | <u>16,019</u> | |
| Department of Education Total | | | | | <u>2,023,776</u> | (Continued) |

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2018

| Federal Agency | Source | CFDA/ Contract Number | Indirect Agency | Indirect Agency Award Number | Federal Expenditures | Passed through to Subrecipients |
|---|--------|-----------------------------|---|------------------------------------|-------------------------|---------------------------------------|
| OTHER PROGRAMS (Continued): | | | | | | |
| Administration for Children and Families | I | 93.087 | Prestera Center for Mental Health Services | 90CU0092-01 | 10,616 | |
| Health Resources and Services Administration | I | 93.110 | WV Dept of Health and Human Resources | G170706 | 45,087 | |
| Health Resources and Services Administration | D | 93.191 | | | 298,825 | |
| Substance Abuse and Mental Health Services Administration | D | 93.243 | | | 277,018 | |
| Substance Abuse and Mental Health Services Administration | I | 93.243 | WV Department of Education | GRTAWD04021 | 984,503 | 83,252 |
| | | Subtotal 93.243 | | | | 83,252 |
| Centers for Disease Control and Prevention | I | 93.283 | Center for Appalachian Philanthropy | NA | (8,913) | |
| Centers for Disease Control and Prevention | I | 93.283 | WV Dept of Health and Human Resources | G170445 | 30,000 | |
| | | Subtotal 93.283 | | | 21,087 | |
| Administration for Children and Families | I | 93.658 | WV Dept of Health and Human Resources | G170157 | 63,509 | |
| Administration for Children and Families | I | 93.658 | WV Dept of Health and Human Resources | G180270 | 189,474 | |
| | | Subtotal 93.658 | | | 252,983 | |
| Health Resources and Services Administration | D | 93.732 | | | 94,210 | |
| Substance Abuse and Mental Health Services Administration | I | 93.788 | West Virginia University | 17-617-MURC | 89,005 | |
| Health Resources and Services Administration | D | 93.884 | | | 293,797 | |
| Substance Abuse and Mental Health Services Administration | I | 93.958 | WV Department of Health and Human Resources | G180483 | 3,496 | |
| Substance Abuse and Mental Health Services Administration | I | 93.958 | WV Department of Health and Human Resources | G180700 | 47,217 | |
| | | Subtotal 93.958 | | | 50,713 | |
| Health Resources and Services Administration | I | 93.994 | WV Dept of Health and Human Resources | G170439 | 180 | |
| Health Resources and Services Administration | I | 93.994 | WV Dept of Health and Human Resources | G180501 | 45,788 | |
| | | Subtotal 93.994 | | | 45,968 | |
| Total Department of Health and Human Services | | | | | 2,186,794 | 83,252 |
| Corporation of National and Community Service | D | 94.013 | | | 4,499 | |
| Total Corporation for National and Community Service | | | | | 4,499 | |
| Subtotal Other Programs | | | | | 8,882,415 | 774,553 |
| Total Federal Expenditures | | | | | \$ 17,229,934 | \$ 3,243,349 |

See notes to schedule of expenditures of federal awards.

(Concluded)

MARSHALL UNIVERSITY RESEARCH CORPORATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2018

1. The purpose of the Schedule of Expenditures of Federal Awards (the "Schedule") is to present a summary of the expenditures of Marshall University Research Corporation (the "Corporation") for the year ended June 30, 2018, which have been financed by the federal government. For purposes of the Schedule, federal awards have been classified into two types: direct federal funds (D) and indirect federal funds (I) received from nonfederal organizations made under federally sponsored programs conducted by those organizations.
2. The Schedule is prepared on the accrual basis of accounting.
3. Catalog of Federal Domestic Assistance (CFDA) numbers are presented for those programs for which such numbers are available. When CFDA numbers are not available, contract numbers are presented. If a contract number is not available, it is presented as .XXX. Indirect agency award numbers are presented for those programs for which such numbers are available. If an indirect agency award number is not available, it is presented as N/A.
4. Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), requires submission of a Certificate of Facilities and Administrative (F&A) Costs (the "Certificate") to an institution's cognizant agency. The Certificate is prepared by the Corporation and is used in negotiations with its cognizant agency, the Department of Health and Human Services (DHHS), in determining a rate at which the Corporation will be reimbursed for the F&A costs associated with the completion of sponsored research.

The Corporation receives reimbursement of F&A costs as part of the granting agreement at the rate negotiated either with DHHS or at special rates negotiated with the granting agency. The Corporation has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

In February 2018, DHHS approved F&A cost recovery rates effective from July 1, 2017 through June 30, 2019 of 47% for on-campus and 26% for off-campus research, and cost recovery effective July 1, 2019 through June 30, 2021 of 48% for on-campus and 26% for off-campus research.

The F&A cost rate structure is as follows:

| Rate Type | Effective Period | | Negotiated Rate |
|---|------------------|------------|-----------------|
| | From | To | |
| Organized Research - On-Campus | 07/01/2017 | 06/30/2019 | 47.00% |
| Organized Research - On-Campus | 07/01/2019 | 06/30/2021 | 48.00% |
| Organized Research - Off-Campus | 07/01/2017 | 06/30/2021 | 26.00% |
| Instruction - On-Campus | 07/01/2017 | 06/30/2021 | 48.80% |
| Instruction - Off-Campus | 07/01/2017 | 06/30/2021 | 26.00% |
| Other Sponsored Activities - On-Campus | 07/01/2017 | 06/30/2021 | 30.00% |
| Other Sponsored Activities - Off-Campus | 07/01/2017 | 06/30/2021 | 22.90% |

5. Sub recipient expenditures in the Schedule of Expenditures of Federal Awards at June 30, 2018, include:

| Federal Agency | Subrecipient | CFDA | Subrecipient Expenditures |
|-------------------------------------|-----------------------------------|--------|---------------------------|
| Research and development: | | | |
| National Science Foundation | WVU Research Corp | 47.074 | \$ 8,347 |
| Department of Health and Human Serv | Alderson Broaddus Universit | 93.859 | 47,256 |
| Department of Health and Human Serv | Bluefield State College Res | 93.859 | 256,211 |
| Department of Health and Human Serv | Univ of Charleston | 93.859 | 31,683 |
| Department of Health and Human Serv | Univ of Kentucky Res | 93.859 | 19,667 |
| Department of Health and Human Serv | West Liberty State Universi | 93.859 | 409,165 |
| Department of Health and Human Serv | WV School of Osteopathic Me | 93.859 | 80,000 |
| Department of Health and Human Serv | WV State Univ Research & De | 93.859 | 107,598 |
| Department of Health and Human Serv | WV Wesleyan College | 93.859 | 27,362 |
| Department of Health and Human Serv | WVU Research Corp | 93.859 | <u>1,481,507</u> |
| | Subtotal Research and Development | | <u>2,468,796</u> |
| Other Programs: | | | |
| Department of Commerce | Concord Univ Research & Dev | 11.303 | 16,174 |
| Department of Commerce | Advantage Valley | 11.307 | 19,995 |
| Department of Commerce | CADCO Foundation Inc | 11.307 | 30,332 |
| Department of Commerce | Huntington Area Development | 11.307 | 46,177 |
| Department of Commerce | Putnam County Development A | 11.307 | 33,578 |
| Department of Labor | West Virginia Women Work In | 17.268 | 87,535 |
| Appalachian Regional Commission | Athens City County Health D | 23.001 | 7,500 |
| Appalachian Regional Commission | Big Sandy Health Care Inc | 23.001 | 86,500 |
| Appalachian Regional Commission | Tri-County Health Clinic In | 23.001 | 45,000 |
| Appalachian Regional Commission | Washington County Health De | 23.001 | 78,450 |
| Appalachian Regional Commission | Williamson Health and Welln | 23.001 | 13,600 |
| Appalachian Regional Commission | Alderson Community Food Hub | 23.011 | 54,510 |
| Appalachian Regional Commission | Downstream Strategies LLC | 23.011 | 30,637 |
| Appalachian Regional Commission | Greenbrier Valley Economic | 23.011 | 60,861 |
| Appalachian Regional Commission | West Virginia Food and Farm | 23.011 | 4,823 |
| Environmental Protection Agency | Triad Engineering Inc | 66.818 | 75,629 |
| Department of Health and Human Serv | WVU Research Corp | 93.243 | <u>83,252</u> |
| | Subtotal Other Programs | | <u>774,553</u> |
| | Total all Subrecipient | | <u>\$ 3,243,349</u> |

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

To the Board of Directors of
Marshall University Research Corporation
Huntington, WV

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 Research Corporation ("the Corporation"), which comprise the statement of net position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 2, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation'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 Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 a 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 Corporation's financial statements are free from 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 Corporation'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hayflich CPAs

Huntington, West Virginia
October 2, 2018

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of
Marshall University Research Corporation:

Report on Compliance for Each Major Federal Program

We have audited Marshall University Research Corporation's ("the Corporation") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended June 30, 2018. The Corporation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Hayflid CPAs

Huntington, West Virginia
October 2, 2018

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2018

PART I. — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified opinion

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified not considered to be material weakness(es)?

_____ Yes X None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified not considered to be material weakness(es)?

_____ Yes X None reported

Type of auditors' report issued on compliance for major federal programs:

Unmodified opinion

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

_____ Yes X No

Identification of Major Programs:

CFDA Number

Name of Federal Program or Cluster

Various

Trio Cluster

93.243

Substance Abuse and Mental Health Services - Projects of Regional and National Significance

17.268

H-1B Job Training Grants

93.658

Foster Care Title IV-E

Dollar threshold used to distinguish between Type A and Type B Programs

\$ 750,000

Auditee qualified as low-risk auditee?

X Yes _____ No

PART II. — FINANCIAL STATEMENT FINDINGS SECTION

No matters are reportable.

PART III. — FEDERAL AWARD FINDING AND QUESTIONED COSTS SECTION

No matters are reportable.