

MARSHALL UNIVERSITY RESEARCH CORPORATION

Financial Statements as of and for the
Years Ended June 30, 2019 and 2018, and
Supplemental Schedule for the Year Ended
June 30, 2019, Independent Auditors' Report,
and Reports Required by Uniform Guidance
for the Year Ended June 30, 2019

MARSHALL UNIVERSITY RESEARCH CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Marshall University Research Corporation

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, 2019 and 2018, 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 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. 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, 2019 and 2018, 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 1, 2019, 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 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 the effectiveness of the Corporation's 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.

Hayflich CPAs PLLC

Huntington, West Virginia
October 1, 2019

MARSHALL UNIVERSITY RESEARCH CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR 2019
[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, 2019 as compared to the previous fiscal year. Comparative analysis is also presented for fiscal year 2018 compared to fiscal year 2017.

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, 2019, certain amounts are reserved for specific programs.

Condensed Statements of Net Position (in thousands)

	As of June 30		
	2019	2018	2017
Assets:			
Current assets	\$ 11,378	\$ 11,487	\$ 14,226
Other noncurrent assets	30,689	31,528	31,135
Capital assets, net	<u>9,907</u>	<u>10,947</u>	<u>11,863</u>
Total Assets	<u>\$ 51,974</u>	<u>\$ 53,962</u>	<u>\$ 57,224</u>
Liabilities:			
Current liabilities	\$ 8,634	\$ 7,937	\$ 7,140
Noncurrent liabilities	<u>1,735</u>	<u>1,946</u>	<u>2,157</u>
Total Liabilities	<u>\$ 10,369</u>	<u>\$ 9,883</u>	<u>\$ 9,297</u>
Net Assets:			
Net Investment in Capital Assets	\$ 8,448	\$ 9,327	\$ 10,085
Restricted:			
Non expendable	15,000	15,000	15,000
Expendable	11,566	12,938	14,400
Unrestricted	<u>6,591</u>	<u>6,814</u>	<u>8,442</u>
Total Net Position	<u>\$ 41,605</u>	<u>\$ 44,079</u>	<u>\$ 47,927</u>

Changes to Net position

The decrease in net position of \$2,474,825 in FY2019 was primarily the use of expendable restricted and unrestricted funds totaling \$1,595,120. The decrease in net position of \$3,261,366 in FY2018 was primarily the use of expendable restricted and unrestricted funds totaling \$3,089,605.

The first component is the Corporation's equity in capital assets, which decreased \$879,708 during FY2019 and \$757,601 during FY2018.

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.

Restricted expendable assets decreased \$1,372,121 during FY2019 and decreased \$1,461,991 during FY2018. 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 \$1,132,533 for FY2019 and \$1,452,874 for FY2018. The FY2019 and FY2018 decreases in restricted expendable assets are the result of the use of these monies.

Finally, unrestricted net assets decreased by \$222,999 for FY2019 and decreased by \$1,627,614 for FY2018 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.

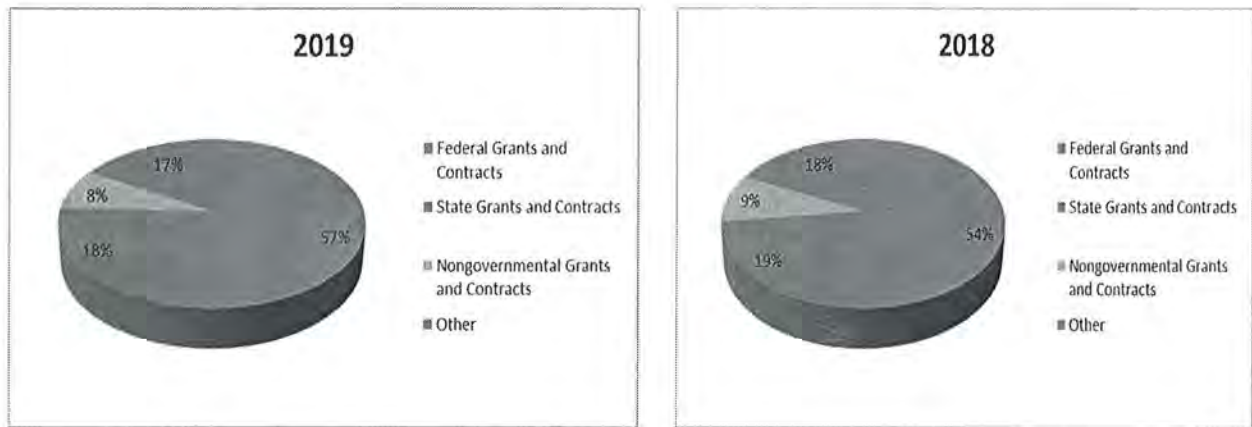
Operating revenues are received for providing goods and services to the various customers and constituencies of the Corporation. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the Corporation. 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		
	2019	2018	2017
Operating revenues	\$ 33,699	\$ 31,705	\$ 32,797
Operating expenses	(38,003)	(37,687)	(37,186)
Operating income (loss)	(4,304)	(5,982)	(4,389)
Nonoperating revenues(expenses)	1,829	2,135	3,587
Income (loss) before capital gifts and grants	(2,475)	(3,847)	(802)
Capital grants and gifts	0	0	0
Increase (Decrease) in Net Assets	(2,475)	(3,847)	(802)
Net Position at Beginning of Year	44,080	47,927	48,729
Net Position at End of Year	\$ 41,605	\$ 44,080	\$ 47,927

Revenues:

The following charts illustrate the composition of revenues by source for 2019 and 2018:



Changes to Operating Revenues and Expenses

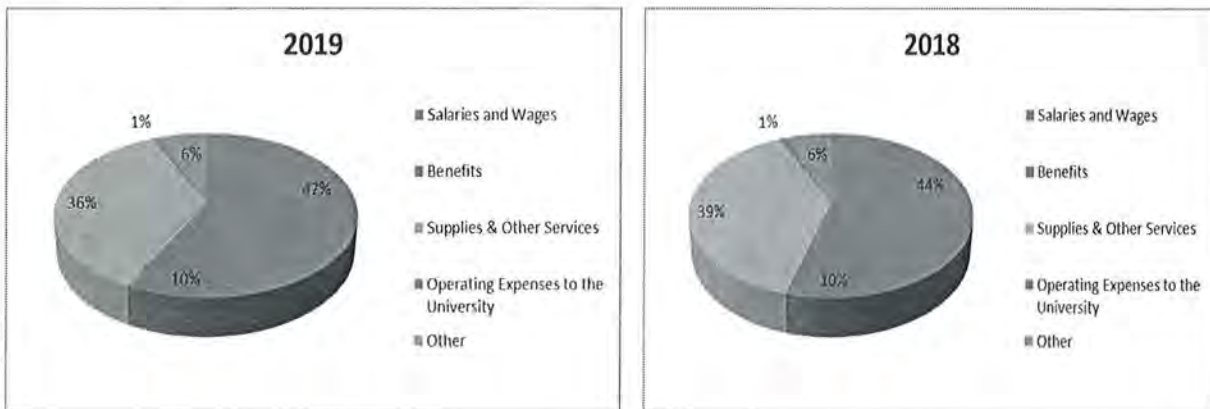
For FY2019, Operating Revenues were \$33,698,634, an increase of \$1,993,534 compared to FY2018. This is primarily the result of an increase in government grants and contracts totaling \$2,314,226.

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.

There was no construction related grant revenue in either year.

Expenses:

The following is a graphic comparison of total expenses by category between 2019 and 2018:



Operating Expenses were \$38,002,581 for FY2019 as compared to \$37,687,380 for FY2018, an increase of \$315,201.

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

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		
	2019	2018	2017
Cash provided (used) by:			
Operating activities	\$ (1,996)	\$ (4,011)	\$ (2,377)
Noncapital financing activities	0	0	0
Capital and related financing activities	(764)	(1,211)	(1,293)
Investing activities	<u>2,500</u>	<u>1,816</u>	<u>3,761</u>
Net increase (decrease) in cash and cash equivalents	(260)	(3,406)	91
Cash and cash equivalents, beginning of year	<u>2,881</u>	<u>6,287</u>	<u>6,196</u>
Cash and cash equivalents, end of year	<u>\$ 2,621</u>	<u>\$ 2,881</u>	<u>\$ 6,287</u>

The decrease in cash balance in 2019 is due to the expenditure of restricted non-grant (program income) funds and unrestricted funds.

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 \$1,449,163 at June 30, 2019. 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 FY2019, \$843,375 in capital assets was purchased which was research equipment. The Corporation has no other debt obligations.

Research Highlights

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:

- Researchers from the Marshall University School of Pharmacy, partnering with colleagues from the Appalachian College of Pharmacy, have completed a study that will be beneficial as the U.S. Food and Drug Administration considers efforts to increase the availability of opioid overdose reversal products throughout the country. Ultimately, the findings could help lead policymakers to extend naloxone's shelf life, making the products more accessible. The next stage of the research will be to conduct extensive, longer-term (five years) stability studies.
- A three-year, \$750,000 grant from the U.S. Department of Justice's Office of Victims of Crime is funding the WV-TIME4K project to provide mindfulness training and other interventions to elementary school children affected by substance use disorder. The program helps children understand their emotions and triggers, and gives them coping skills to help reduce behavioral and academic problems. Marshall is delivering the program in collaboration with a number of community partners, including social service agencies, city and county governments, school systems.
- The Marshall University Forensic Science Center this year teamed up with the U.S. Department of Justice and Science Applications International Corporation to provide advanced DNA Validation Training at its facilities in Huntington for 18 Iraqi DNA scientists. This training, part of a broader program funded by the U.S. Department of State Bureau of International Narcotics and Law Enforcement Affairs, included lecture and advanced practical laboratory exercises at the Forensic Science Center.
- One Marshall professor's research on high-frequency acoustics has resulted in the discovery of the acoustic equivalent of a laser. Compared to optical lasers, the development of acoustic lasers is in its infancy. Dr. Thomas Wilson's approach stems from a so-called "non-linear" light/sound interaction that can occur in a custom atomic-layered "superlattice."
- Marshall experts will be developing methods to evaluate the structural capacities of rail systems in places like Afghanistan. The work is being funded through a two-year, nearly \$1 million contract with the U.S. Army Corps of Engineers Engineer Research and Development Center.
- Marshall staff and faculty have obtained significant funding from state and federal sources to combat the opioid crisis

MARSHALL UNIVERSITY RESEARCH CORPORATION

STATEMENTS OF NET POSITION AS OF JUNE 30, 2019 AND 2018

	2019	2018
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,620,890	\$ 2,880,882
Grants and contracts receivable — net of allowance of \$568,457 and \$1,192,787 in 2019 and 2018, respectively	8,350,964	8,135,867
Other accounts receivable	45,622	61,796
Prepaid expenses	360,340	408,308
Total current assets	<u>11,377,816</u>	<u>11,486,853</u>
NONCURRENT ASSETS:		
Loan receivable	410,404	390,861
Investments	30,278,873	31,137,638
Capital assets — net	9,907,103	10,947,409
Total noncurrent assets	<u>40,596,380</u>	<u>42,475,908</u>
Total Assets	<u>51,974,196</u>	<u>53,962,761</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>-</u>
TOTAL	<u>\$ 51,974,196</u>	<u>\$ 53,962,761</u>

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

STATEMENTS OF NET POSITION AS OF JUNE 30, 2019 AND 2018

	2019	2018
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,331,782	\$ 1,506,821
Accrued liabilities	1,033,465	1,493,979
Notes payable — current portion	161,018	161,018
Compensated absences	1,010,625	930,738
Unearned revenue	5,097,023	3,844,374
Total current liabilities	<u>8,633,913</u>	<u>7,936,930</u>
NONCURRENT LIABILITIES:		
Notes payable	1,288,145	1,449,163
Unearned rent revenue	447,345	497,050
Total noncurrent liabilities	<u>1,735,490</u>	<u>1,946,213</u>
Total liabilities	<u>10,369,403</u>	<u>9,883,143</u>
TOTAL DEFERRED INFLOWS OR RESOURCES	<u>-</u>	<u>-</u>
TOTAL	<u>10,369,403</u>	<u>9,883,143</u>
NET POSITION:		
Net investment in capital assets	8,447,597	9,327,302
Restricted for:		
Nonexpendable	15,000,000	15,000,000
Expendable — sponsored projects	11,565,794	12,937,915
Unrestricted	6,591,402	6,814,401
Total net position	<u>41,604,793</u>	<u>44,079,618</u>
TOTAL	<u>\$ 51,974,196</u>	<u>\$ 53,962,761</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, 2019 AND 2018

	2019	2018
OPERATING REVENUES:		
Contracts and grants:		
Federal	\$ 19,211,958	\$ 17,231,114
State	6,244,942	5,911,560
Private and local	2,658,195	2,921,174
Program income	1,132,533	1,452,874
Miscellaneous — net	4,451,006	4,188,378
	<u>33,698,634</u>	<u>31,705,100</u>
OPERATING EXPENSES:		
Salaries and wages	18,022,299	16,757,516
Benefits	3,831,554	3,743,807
Supplies and other services	13,602,233	14,586,986
Utilities	262,773	348,509
Student financial aid — scholarships and fellowships	452,546	340,478
Depreciation	1,831,176	1,910,084
	<u>38,002,581</u>	<u>37,687,380</u>
OPERATING LOSS	<u>(4,303,947)</u>	<u>(5,982,280)</u>
NONOPERATING REVENUES (EXPENSES):		
Investment income — including unrealized loss of \$852,830 and unrealized gain of \$387,675 in 2019 and 2018, respectively	1,641,289	2,190,676
Interest on indebtedness	(44,762)	(39,678)
Gain (Loss) on disposal of equipment	232,595	(15,924)
	<u>1,829,122</u>	<u>2,135,074</u>
LOSS BEFORE CAPITAL GIFTS AND GRANTS	(2,474,825)	(3,847,206)
CAPITAL GRANTS AND GIFTS	<u>-</u>	<u>-</u>
DECREASE IN NET POSITION	(2,474,825)	(3,847,206)
NET POSITION — Beginning of year	<u>44,079,618</u>	<u>47,926,824</u>
NET POSITION — End of year	<u>\$ 41,604,793</u>	<u>\$ 44,079,618</u>

See notes to financial statements.

MARSHALL UNIVERSITY RESEARCH CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Contracts and grants	\$ 29,776,977	\$ 25,597,875
Payments to and on behalf of employees	(22,220,965)	(20,847,630)
Payments to suppliers	(14,350,972)	(13,645,036)
Payments for utilities	(262,773)	(348,509)
Payments for scholarships and fellowships	(452,546)	(340,478)
Program income	1,132,533	1,452,874
Other receipts — net	4,381,755	4,120,058
Net cash used in operating activities	<u>(1,995,991)</u>	<u>(4,010,846)</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Payments on notes payable	(161,018)	(161,018)
Purchases of capital assets	(843,375)	(1,010,043)
Proceeds from sale of capital assets	285,100	
Interest paid on notes payable	<u>(44,762)</u>	<u>(39,678)</u>
Net cash used in financing activities	<u>(764,055)</u>	<u>(1,210,739)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(2,826,558)	(1,894,019)
Fees	(100,457)	(100,457)
Maturity of investments	3,240,916	2,007,316
Investment income	<u>2,186,153</u>	<u>1,803,001</u>
Net cash provided by investing activities	<u>2,500,054</u>	<u>1,815,841</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(259,992)	(3,405,744)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>2,880,882</u>	<u>6,286,626</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 2,620,890</u>	<u>\$ 2,880,882</u>

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (4,303,947)	\$ (5,982,280)
Adjustments to reconcile net operating loss to net cash provided by (used in) operating activities:		
Depreciation expense	1,831,176	1,910,084
Imputed interest	(19,543)	(18,612)
Changes in assets and liabilities:		
Accounts receivable — net	(198,923)	(629,183)
Prepaid expenses	47,968	(37,716)
Accounts payable	(175,039)	304,818
Accrued liabilities	(460,514)	(136,182)
Unearned revenue	1,252,649	639,069
Unearned rent revenue	(49,705)	(49,705)
Compensated absences	79,887	(11,139)
	<u> </u>	<u> </u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (1,995,991)</u>	<u>\$ (4,010,846)</u>
NONCASH TRANSACTIONS:		
Loss on disposal of equipment	<u>\$ 52,505</u>	<u>\$ 15,923</u>
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest	<u>\$ 44,762</u>	<u>\$ 33,310</u>
See notes to financial statements.		(Concluded)

MARSHALL UNIVERSITY RESEARCH CORPORATION

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

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, 2019, the Corporation recorded accounts receivable of \$3,591,114 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, 2019 and 2018 is as follows:

	2019	2018
Money market and cash equivalents	\$ 2,600,890	\$ 2,863,682
In bank	<u>20,000</u>	<u>17,200</u>
	<u>\$ 2,620,890</u>	<u>\$ 2,880,882</u>

The carrying amount of cash in bank at June 30, 2019 and 2018 was \$20,000 and \$17,200 respectively, as compared with a bank balance of \$20,000 and \$17,200, 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, 2019 and 2018, \$627,407 and \$1,344,017, 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 \$2,605,165 and \$2,018,457 at June 30, 2019 and 2018, respectively, are held in a business checking account collateralized at 145% and 160%, respectively. The collateral was held in the name of the Corporation.

4. INVESTMENTS

Investments at June 30, 2019 and 2018, consist of the following:

	2019	2018
Corporate Bonds	\$ 2,445,908	\$ 2,618,676
Supranational Bonds	535,524	-
Equity Mutual Funds	18,939,242	19,874,356
Fixed Income Mutual Funds	5,285,324	5,449,272
Progenesis Technologies, LLC - at cost	100,000	100,000
US Government Agency Obligations	113,214	519,017
US Treasury Obligations	<u>2,859,661</u>	<u>2,576,317</u>
Total Investments	<u>\$ 30,278,873</u>	<u>\$ 31,137,638</u>

Credit Risk – The U.S. Government Agency Obligations, U.S. Treasury Obligations, and Supranational Bonds held by the Corporation have an average maturity of 3.55 years. At both June 30, 2019 and 2018, the Corporation’s investment in U.S. Government Agency Obligations and U.S. Treasury Obligations were AA+ by S&P and Aaa by Moody’s. The Supranational Bonds held by the Corporation at June 30, 2019 were rated AAA by S&P and Aaa by Moody’s. The Corporate Bonds held at June 30, 2019 have S&P ratings ranging from AAA to BBB and Moody’s 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, 2019 and 2018) 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	2019			
	Fair Value	Level 1	Level 2	Level 3
Corporate Bonds	\$ 2,445,908	\$ 2,445,908	\$ -	\$ -
Supranational Bonds	535,524	535,524		
Equity Mutual Funds	18,939,242	18,939,242		
Fixed Income Mutual Funds	5,285,324	5,285,324		
US Government Agency Obligations	113,214	113,214		
US Treasury Obligations	2,859,661	2,859,661		
Total Investments by Fair Value Level	\$ 30,178,873	\$ 30,178,873	\$ -	\$ -

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	\$ 31,037,638	\$ 31,037,638	\$ -	\$ -

6. CAPITAL ASSETS

The summary of capital asset transactions for the Corporation for the years ended June 30, 2019 and 2018 is as follows:

	2019			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets:				
Building	\$ 4,932,619			\$ 4,932,619
Equipment	28,314,138	\$ 843,375	\$ (698,270)	28,459,243
Total capital assets	33,246,757	843,375	(698,270)	33,391,862
Less accumulated depreciation — building	(863,208)	(98,652)		(961,860)
Less accumulated depreciation — equipment	(21,436,140)	(1,732,524)	645,765	(22,522,899)
Total accumulated depreciation	(22,299,348)	(1,831,176)	645,765	(23,484,759)
Capital assets — net	\$ 10,947,409	\$ (987,801)	\$ (52,505)	\$ 9,907,103
	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	\$ 11,863,374	\$ (900,042)	\$ (15,923)	\$ 10,947,409

The Corporation's capitalization threshold was \$5,000 for the years ended June 30, 2019 and 2018.

7. LONG-TERM LIABILITIES

The summary of long-term obligation transactions for the Corporation for the years ended June 30, 2019 and 2018 is as follows:

	2019				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes payable	\$ 1,610,181	\$ -	\$ (161,018)	\$ 1,449,163	\$ 161,018
Unearned rent	546,755	-	(49,705)	497,050	49,705
Total long-term liabilities	<u>\$ 2,156,936</u>	<u>\$ -</u>	<u>\$ (210,723)</u>	<u>\$ 1,946,213</u>	

	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>	

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 1, 2014 – April 1, 2018 is 1.6415%. The rate for the period April 1, 2018 – April 1, 2022 is 2.854%. 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, 2019, the scheduled maturities on notes payable are as follows:

Years Ending June 30	Principal	Interest
2020	\$ 161,018	\$ 41,362
2021	161,018	36,766
2022	161,018	32,170
2023	161,018	27,575
2024	161,018	22,979
2025 - 2028	<u>644,073</u>	<u>45,958</u>
	<u>\$1,449,163</u>	<u>\$206,810</u>

9. LEASES

Future annual minimum lease payments on operating leases for years subsequent to June 30, 2019, are as follows:

Years Ending June 30		
2020	\$	140,676
2021		125,630
2022		<u>16,800</u>
Total	\$	<u>283,106</u>

Total rent expense for the years ended June 30, 2019 and 2018, was \$192,657 and \$186,442, 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, 2019 and 2018 is as follows:

	2019	2018
Statement of Net Position Balances		
Advances receivable	\$ 250,000	\$ 250,000
Due from the University	374,833	438,287
Due to the University	314,008	475,456
Statement of Revenues, Expenses, and Changes in Net Position Transactions		
Grants and contracts revenue	\$ 1,370,266	\$ 2,187,455
Other sources of revenue	540,873	254,432
Payroll and benefits expense	5,159,582	3,759,886
Other expenses	1,144,217	800,699

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, 2019 and 2018 was \$90,276 and \$102,776.

11. UNRESTRICTED COMPONENTS OF NET POSITION

At June 30, 2019 and 2018, 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, 2019, 2018 and 2017, were \$1,822,736, \$1,664,627, and \$1,682,948 respectively, which consisted of \$847,520, \$774,542, and \$789,964, respectively, from the Corporation and \$975,217, \$890,085, and \$892,984, respectively, from employees.

The Corporation's total payroll for the years ended June 30, 2019, 2018 and 2017 was \$16,836,732, \$15,266,687, and \$15,631,567 respectively. Total covered employees' salaries in TIAA-CREF were \$14,125,281, \$12,896,667, and \$13,166,069 for the years ended June 30, 2019, 2018 and 2017, 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, 2019 and 2018, the following table represents operating expenses within both natural and functional classifications:

	2019						Total
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	
Instruction	\$ 1,494,547	\$ 285,307	\$ 1,705,949	\$ 1,150	\$ 55,681	\$ -	\$ 3,542,634
Research	5,038,337	985,824	5,261,996	8,258	140,500	-	11,434,915
Public service	8,223,688	1,829,613	3,955,559	87,600	60,208	-	14,156,668
Academic support	60,753	12,639	67,735	558	61,150	-	202,835
Student services	411,668	83,559	266,592	4,169	79,310	-	845,298
General institutional support	2,793,306	634,612	2,344,402	161,038	55,697	-	5,989,055
Depreciation	-	-	-	-	-	1,831,176	1,831,176
Total	\$ 18,022,299	\$ 3,831,554	\$ 13,602,233	\$ 262,773	\$ 452,546	\$ 1,831,176	\$ 38,002,581

	2018						Total
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	
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

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SUPPLEMENTAL SCHEDULE

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2019

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Passed through to Subrecipients	Federal Expenditures
RESEARCH AND DEVELOPMENT: Economic Development Administration	D	11.302				\$ 97,361
Total Department of Commerce						97,361
Office of the Secretary	I	12.360	Parabon Nanolabs, Inc.	20170508-MARSHALL-051-JSD-SBIRII		34,058
U.S. Army Medical Command	D	12.420				(19,376)
U.S. Army Material Command	D	12.431				(722)
Office of the Secretary	D	12.630			161,066	
Office of the Secretary	I	12.630	Academy of Applied Science	2018-MARSHALL-2 (UNITE)	606	
		Subtotal 12.630				161,672
Total Department of Defense						175,632
Community Planning and Development	I	14.228	WV Adjutant Generals Department	NGWV-JHQ-RISE		99,619
Total Department of Housing and Urban Development						99,619
Office of Surface Mining Fish and Wildlife Service	D	15.255				(7)
	I	15.634	WV Division of Natural Resources	F19AF00127		13,518
Total Department of the Interior						13,511
National Institute of Justice	D	16.560				(541)
Bureau of Justice Assistance	D	16.833				26,440
Bureau of Justice Assistance	I	16.838	City of Huntington	BJA MURC 1		7,263
Total Department of Justice						33,162
Appalachian Regional Commission Appalachian Regional Commission	D	23.001				2,603
	D	23.003				85,511
Total Appalachian Regional Commission						88,114
National Aeronautics and Space Administration	I	43.001	West Virginia University	91-175C-MURC		39,138
National Aeronautics and Space Administration	I	43.008	West Virginia University	13-719-MURC	4,055	
National Aeronautics and Space Administration	I	43.008	West Virginia University	15-683-MURC	32,914	
National Aeronautics and Space Administration	I	43.008	West Virginia University	91-175C-MURC	87,583	
		Subtotal 43.008				124,552
Total National Aeronautics and Space Administration						163,690

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

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			439,791	
National Science Foundation	I	47-049	Murray State University	OIA-1632888	337,537	
National Science Foundation	D	47-050			7,074	
National Science Foundation	D	47-074			298	298
National Science Foundation	I	47-079	WV Higher Education Policy Commissioner	HEPC.DSR 16.2	1,098,460	
National Science Foundation	D	47-083			15,191	
Total National Science Foundation					1,898,351	298
VA Health Administration Center	D	64-054			17,118	
Total Department of Veterans Affairs					17,118	
Department of Energy	I	81-041	WV Division of Energy	17-006	(1,488)	
Department of Energy	I	81-041	WV Division of Energy	17-007	(1,430)	
		Subtotal 81.041				
Department of Energy	D	81-049			(2,918)	
Total Department of Energy					13,160	
National Institutes of Health	D	93-077	City of Huntington	CPIMP171160-01-00	136,144	
Office of Minority Health	I	93-137	WV Department of Health and Human Re	G180683	45,154	
Substance Abuse and Mental Health Servi	I	93-243	WV Department of Health and Human Re	G190364		59,911
Substance Abuse and Mental Health Servi	I	93-243				2,607
		Subtotal 93.243			62,518	
National Institutes of Health	D	93-279	University of Kentucky	320000000-17-128	215,101	
National Institutes of Health	I	93-350	University of Kentucky	3200001229-18-263	(2,638)	
National Institutes of Health	I	93-350	University of Kentucky	304811167-15-006	(739)	
National Institutes of Health	I	93-350	University of Kentucky	7800004565	14,802	
National Institutes of Health	I	93-350	University of Kentucky	3048110248-14-013	91,783	
		Subtotal 93.350			103,208	
National Institutes of Health	I	93-389	University of Kentucky	3048107920-11-275	12,501	
National Institutes of Health	I	93-389	University of Kentucky	3048109110-12-630	(2,401)	
National Institutes of Health	I	93-389	University of Kentucky	3048112271-15250	(7,103)	
National Institutes of Health	I	93-389	University of Kentucky	3048110248-14-013	10,537	
		Subtotal 93.389			13,534	

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Passed through to Subrecipients	Federal Expenditures
RESEARCH AND DEVELOPMENT (Continued):						
National Institutes of Health	D	93.393				94,442
National Institutes of Health	D	93.396				37,080
National Institutes of Health	D	93.837			36,226	
National Institutes of Health	I	93.837	Cleveland Clinic Lerner College of Medicine	5R01HL130090-03 1024-SUB	82,818	
National Institutes of Health	I	93.837	New York Medical College	5R01HL034300-29 41-675-9 AMEND.	28,666	
National Institutes of Health	I	93.837	New York Medical College	5R01HL130344-04 SUBAWARD 1227	11,653	
National Institutes of Health	I	93.837	New York Medical College	5R01HL130344-05 SUBAWARD 1227	11,697	
		Subtotal 93.837				171,060
National Institutes of Health	I	93.839	Case Western Reserve University	FR01HL129179-03 -04		68,683
National Institutes of Health	D	93.846				88,619
National Institutes of Health	D	93.847				454,819
National Institutes of Health	I	93.853	Case Western Reserve University	RES13538		6,667
National Institutes of Health	D	93.859			4,179,579	2,043,595
National Institutes of Health	I	93.859	West Virginia University	12-303-MURC	867,574	-
		Subtotal 93.859				5,047,153
National Institutes of Health	D	93.866				52,393
National Institutes of Health	I	93.867	Jaeb Center for Health Research Inc	U10EY11751		1,101
Total Department of Health and Human Services						
Subtotal Research and Development						
						6,597,676
						9,194,476

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2019

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures	Passed through to Subrecipients
OTHER PROGRAMS:						
Rural Business-Cooperative Service	D	10.251			11,704	
Food & Nutrition Service	I	10.561	West Virginia University	G180602		192,732
Food & Nutrition Service	I	10.561	West Virginia University	G190697		510,940
		Subtotal 10.561			<u>703,672</u>	
Total Department of Agriculture					<u>715,376</u>	
Economic Development Administration	D	11.020			87,486	
Economic Development Administration	D	11.303			101,499	9,163
Economic Development Administration	D	11.307			777,959	195,805
Total Department of Commerce					<u>966,944</u>	<u>204,968</u>
Department of the Army, Office of the Chief of Engineers	D	12.107			15,373	
Office of the Secretary	D	12.630				(14,203)
Office of the Secretary	I	12.630	Technology Student Association	2018-2019 UNITE		<u>52,168</u>
		Subtotal 12.630			<u>37,965</u>	
Department of the Air Force	D	12.800			(25)	
National Security Agency	D	12.903			39,755	
Total Department of Defense					<u>93,068</u>	
National Park Service	D	15.922			3,985	
National Park Service	D	15.939			(3,349)	
Total Department of Interior					<u>636</u>	
Office of Justice Programs	D	16.582			100,173	
Office of Justice Programs	I	16.839	WV Department of Education	GRTAWD04021900005949	5,320	
Total Department of Justice					<u>105,493</u>	
Employment and Training Administration	D	17.268			808,668	118,326
Mine Safety and Health Administration	D	17.604			15,750	-
Total Department of Labor					<u>824,418</u>	<u>118,326</u>

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2019

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures	Passed through to Subrecipients
OTHER PROGRAMS (Continued):						
Federal Highway Administration	I	20.205	WV Department of Transportation	U399-WVD/OH-1.00	(500)	
Federal Motor Carrier Safety Administration	I	20.218	Tennessee Department of Safety and Homeland	34901-00192	21,580	
Federal Motor Carrier Safety Administration	D	20.232			200,397	
Office of the Secretary	D	20.701				(1,065)
Office of the Secretary	I	20.701	University of Virginia	DTRT 13-G-UTC33	329,103	
		Subtotal 20.701			550,580	
Total Department of Transportation					343,030	254,000
Appalachian Regional Commission	D	23.001				1,500
Appalachian Regional Commission	D	23.002				
Appalachian Regional Commission	I	23.002	WV Division of Energy	WV-16454-C1-13	27,761	
		Subtotal 23.002			28,465	
Appalachian Regional Commission	D	23.011			838,876	63,407
Total Appalachian Regional Commission					1,210,371	318,907
National Aeronautics and Space Administration	I	43.008	West Virginia University	91-175C-MURC	4,923	
Total National Aeronautics and Space Administration					4,923	
National Endowment for the Humanities	I	45.129	WV Humanities Council	Various	42,739	
National Endowment for the Humanities	D	45.130			5,540	
Total National Endowment for the Humanities					48,279	
National Science Foundation	D	47.049			4,153	
National Science Foundation	I	47.076	University of Kentucky	SUB-3200002015-19-046	18,126	
National Science Foundation	I	47.076	University of Alaska Fairbanks	S00023866	4,361	
		Subtotal 47.076			22,487	
Total National Science Foundation					26,640	
Department of Veterans Affairs	D	64.XXX			1,033	
Total Department of Veterans Affairs					1,033	

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2019

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures	Passed through to Subrecipients
OTHER PROGRAMS (Continued):						
Office of Solid Waste and Emergency Response	I	66.815	Coalfield Development Corporation	JT-96341601-0	107	
Office of Solid Waste and Emergency Response	I	66.818	WV Department of Environmental Protec	P1501229	(3,390)	
Total Environmental Protection Agency					(3,283)	
Department of Energy	I	81.041	WV Division of Energy	P1500664	8	
Total Department of Energy					8	
Office of Special Education and Rehabilitation	I	84.027	WV Department of Education	Various	326,369	
Office of Postsecondary Education	D	84.042A			324,241	
Office of Postsecondary Education	D	84.044A			538,935	
Office of Postsecondary Education	D	84.047A			433,534	
Office of Postsecondary Education	D	84.066A			250,282	
		TRIO Cluster Subtotal			1,546,992	
Office of Special Education and Rehabilitative Service	I	84.173	WV Department of Education	Various	134,445	
Office of Elementary and Secondary Education	I	84.367	WV Higher Education Policy Commission	ITQ-16-MU-2	4,025	
Office of Elementary and Secondary Education	I	84.367B	WV Higher Education Policy Commission	ITQ-17-MU-3	3,947	
Office of Elementary and Secondary Education	I	84.367B	WV Higher Education Policy Commission	ITQ-17-MU-1	4,223	
		Subtotal 84.367B			8,170	
Total Department of Education					2,020,001	

(Continued)

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2019

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	165,166	
Health Resources and Services Administration	I	93.130	WV Dept of Health and Human Resources	G110036 C347601	(864)	
Centers for Disease Control and Prevention	I	93.136	WV Dept of Health and Human Resources	ACT 0506 2988 MCH19000000003	10,979	
Office of Minority Health	I	93.137	City of Huntington	ECI MURC 2	16,687	
Health Resources and Services Administration	D	93.191			302,255	
Health Resources and Services Administration	D	93.211			41,470	
Substance Abuse and Mental Health Services Administrator	D	93.243			319,076	
Substance Abuse and Mental Health Services Administration	I	93.243	WV Dept of Health and Human Resources	Various	145,789	
Substance Abuse and Mental Health Services Administrator	I	93.243	WV Department of Education	Various	923,338	23,235
			Subtotal 93.243		1,388,193	
Centers for Disease Control and Prevention	I	93.283	WV Dept of Health and Human Resources	G130390	(5,288)	
Administration for Children and Families	I	93.658	WV Dept of Health and Human Resources	Various	390,208	
Health Resources and Services Administration	D	93.732			177,435	
Centers for Medicare and Medicaid Services	I	93.779	WV Dept of Health and Human Resources	ACT 0511 2680 BMS19000000005	1,669	
Centers for Medicare and Medicaid Services	I	93.779	WV Dept of Health and Human Resources	CCT 0511 2672 BMS19000000001	68,176	
			Subtotal 93.779		69,845	
Substance Abuse and Mental Health Services Administration	I	93.788	West Virginia University	17-617-MURC	103,962	
Substance Abuse and Mental Health Services Administration	I	93.788	WV Dept of Health and Human Resources	ACT 0506 3832 BHS19000000006	38,521	
Substance Abuse and Mental Health Services Administration	I	93.788	WV Dept of Health and Human Resources	G180788	332,774	
			Subtotal 93.788		475,257	
Health Resources and Services Administration	D	93.884			294,016	
Substance Abuse and Mental Health Services Administration	I	93.958	WV Department of Health and Human Resc	G180700	24,947	
Substance Abuse and Mental Health Services Administration	I	93.958	WV Department of Health and Human Resc	G190503	50,110	
			Subtotal 93.958		75,057	
Health Resources and Services Administration	I	93.969	West Virginia University	00-251-MURC	(51)	
Centers for Disease Control and Prevention	I	93.991	WV Dept of Health and Human Resources	G190693	4,666	
Health Resources and Services Administration	I	93.994	WV Dept of Health and Human Resources	G150252	(250)	
Health Resources and Services Administration	I	93.994	WV Dept of Health and Human Resources	G190652	49,199	
			Subtotal 93.994		48,949	
Total Department of Health and Human Services					3,453,980	23,235
Corporation of National and Community Service	D	94.013			9,095	
Total Corporation for National and Community Service					9,095	
Subtotal Other Programs					10,027,562	665,436
Total Federal Expenditures					\$ 19,222,038	\$ 2,709,329

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, 2019

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, 2019, 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, 2019, include:

Federal Agency	Subrecipient	CFDA	Subrecipient Expenditures
Research and development:			
National Science Foundation	WVU Research Corp	47.074	\$ 298
Department of Health and Human Serv	Alderson Broaddus University	93.859	102,981
Department of Health and Human Serv	Bluefield State College Research	93.859	128,500
Department of Health and Human Serv	Shepherd University	93.859	73,746
Department of Health and Human Serv	Univ of Charleston	93.859	18,604
Department of Health and Human Serv	Univ of Kentucky Research	93.859	42,407
Department of Health and Human Serv	West Liberty State University	93.859	327,741
Department of Health and Human Serv	WV State Univ Research & Development	93.859	130,031
Department of Health and Human Serv	WVU Research Corp	93.859	<u>1,219,585</u>
	Subtotal Research and Development		2,043,893
Other Programs:			
Department of Commerce	Concord Univ Research & Dev	11.303	9,163
Department of Commerce	Advantage Valley	11.307	30,293
Department of Commerce	CADCO Foundation Inc	11.307	62,379
Department of Commerce	Huntington Area Development	11.307	57,300
Department of Commerce	Putnam County Development Authority	11.307	45,833
Department of Labor	National Center for Defense	17.268	54,551
Department of Labor	West Virginia Women Work In	17.268	63,775
Appalachian Regional Commission	Athens City County Health Department	23.001	60,000
Appalachian Regional Commission	Big Sandy Health Care Inc	23.001	45,000
Appalachian Regional Commission	Meigs County General Health	23.001	25,000
Appalachian Regional Commission	Tri-County Health Clinic In	23.001	55,000
Appalachian Regional Commission	Washington County Health De	23.001	36,000
Appalachian Regional Commission	Williamson Health and Welln	23.001	33,000
Appalachian Regional Commission	Unlimited Future Inc	23.002	1,500
Appalachian Regional Commission	Greenbrier Valley Economic	23.011	57,232
Appalachian Regional Commission	West Virginia Food and Farm	23.011	6,175
Department of Health and Human Serv	WVU Research Corp	93.243	<u>23,235</u>
	Subtotal Other Programs		<u>665,436</u>
	Total all Subrecipient		<u>\$ 2,709,329</u>

6. The following table details all Indirect Award numbers denoted as “Various” in the Schedule:

CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
45.129	WV Humanities Council	17.1.7420	\$ 1,696
45.129	WV Humanities Council	17.1.7511	2,124
45.129	WV Humanities Council	17.2.7450	(165)
45.129	WV Humanities Council	18.1.7575	14,852
45.129	WV Humanities Council	18.1.7596	5,184
45.129	WV Humanities Council	18.2.7658	1,316
45.129	WV Humanities Council	18.2.7662	1,500
45.129	WV Humanities Council	18.4.7631	5,048
45.129	WV Humanities Council	SO-253174-17	11,184
	Subtotal		42,739
84.027	WV Department of Education	GRTAWD04021800002272	2,221
84.027	WV Department of Education	GRTAWD04021600005420	284
84.027	WV Department of Education	GRTAWD04021800000854	8,002
84.027	WV Department of Education	GRTAWD04021800001262	12,197
84.027	WV Department of Education	GRTAWD04021800004931	179,388
84.027	WV Department of Education	GRTAWD04021900002216	81,435
84.027	WV Department of Education	GRTAWD04021900002471	10,913
84.027	WV Department of Education	GRTAWD04021900002654	31,929
	Subtotal		326,369
84.173	WV Department of Education	GRTAWD04021800000855	14,684
84.173	WV Department of Education	GRTAWD04021900002129	91,767
84.173	WV Department of Education	GRTAWD04021900003035	27,994
	Subtotal		134,445
93.243	WV Department of Health and Human Resources	G180790	93,136
93.243	WV Department of Health and Human Resources	G190605	41,571
93.243	WV Department of Health and Human Resources	G190725	11,082
	Subtotal		145,789
93.243	WV Department of Education	GRTAWD04021700003322	1,253
93.243	WV Department of Education	GRTAWD04021800003279	11,748
93.243	WV Department of Education	GRTAWD04021800003280	77,733
93.243	WV Department of Education	GRTAWD04021800004086	329,091
93.243	WV Department of Education	GRTAWD04021900002217	212,717
93.243	WV Department of Education	GRTAWD04021900002890	21,277
93.243	WV Department of Education	GRTAWD04021900002891	269,509
	Subtotal		923,328
93.658	WV Department of Health and Human Resources	G130300	(2,186)
93.658	WV Department of Health and Human Resources	G180270	152,935
93.658	WV Department of Health and Human Resources	G190308	239,459
	Subtotal		390,208
	TOTAL		\$ 1,962,878

**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

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, 2019, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 1, 2019.

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 organization'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.

Hayflrich CPAs PLLC

Huntington, West Virginia
October 1, 2019

**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, 2019. 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, 2019.

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 a 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.

Hayflich CPAs PLLC

Huntington, West Virginia
October 1, 2019

MARSHALL UNIVERSITY RESEARCH CORPORATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2019

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

Research and Development Cluster

11.307

Economic Adjustment Assistance

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.