

MARSHALL UNIVERSITY
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2016 AND 2015

**MARSHALL UNIVERSITY
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YEARS ENDED JUNE 30, 2016 AND 2015**

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INDEPENDENT AUDITORS' REPORT

Governing Board
Marshall University
Huntington, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Marshall University (the University) (a component unit of the West Virginia Higher Education Fund) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these basic financial statements based on our audits. We did not audit the financial statements of Marshall University Research Corporation, a blended component unit of the University (the Corporation), for the years ended June 30, 2016 and 2015, which represent 9%, 0%, 12%, and 12%, respectively, of total assets, total deferred outflows, total net position, and total revenues of the University in 2016; and 10%, 0%, 13%, and 12%, respectively, in 2015. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Corporation, is based solely on the reports of such other auditors. We also did not audit the financial statements of the Marshall University Foundation, Inc. (the Foundation); Provident Group – Marshall Properties L.L.C. (Provident – Marshall); or Big Green Scholarship Foundation, Inc. (Big Green) (collectively, discretely presented component units of the University). Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the discretely presented financial statements of the Foundation, Provident – Marshall, and Big Green, is based solely on the reports of such other auditors. We, and the auditors for the Corporation, conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Foundation, Provident – Marshall, and Big Green, which were audited by other auditors, were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of 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.

Opinion

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The independent auditors' report of other auditors on the 2016 financial statements of Provident – Marshall contained an emphasis of matter paragraph because as discussed in Note 25 to the financial statements, the Provident – Marshall senior tax-exempt revenue bonds payable are secured by an irrevocable letter of credit which expires on January 30, 2017. Therefore, the bonds are currently classified as a current obligation in the balance sheet as of June 30, 2016, which raise substantial doubt about Provident – Marshall's ability to continue as a going concern. Provident – Marshall's management plans in regard to these matters are also described in Note 25. The Provident – Marshall financial statements have been prepared assuming that Provident – Marshall will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2016, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
December 22, 2016

MARSHALL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI)
FISCAL YEAR 2016
(UNAUDITED)

About Marshall University

Marshall University (the University or the Institution) is a public, nonprofit institution of higher learning, which offers degrees in more than 100 academic fields of study at the baccalaureate and graduate degree level, including doctoral degrees (research/scholarly and professional practice doctorates) in various fields through its 14 colleges and schools. The University was founded in 1837 and achieved University status in 1961. Integral parts of the Institution included in the financial information presented are the Marshall University Research Corporation (MURC) and the Joan C. Edwards School of Medicine (SOM). MURC has a separately presented financial statement, which can be referenced for additional information about changes to that organization.

As West Virginia's second largest university, Marshall University, including the SOM, serves more than 13,000 students from all counties in West Virginia, 47 states, the District of Columbia, and Puerto Rico as well as over 500 students from more than 50 countries across the globe. The students are served by 788 full-time faculty and 927 staff members on its main campus located in Huntington, West Virginia, and its four regional centers (South Charleston Campus, Mid-Ohio Valley Center, Teays Valley Center, and Beckley Center).

Marshall University has been accredited continuously as an institution of higher learning by the Higher Learning Commission of the North Central Association of Colleges and Schools (Commission) since 1928. It also has earned and maintains specialized accreditation status with 38 agencies responsible for evaluating and conferring specialty accreditation for educational programs involving various professional fields of study (includes business, engineering and technology, medicine, psychology, speech-language pathology, teacher education, pharmacy, etc.); see <http://www.marshall.edu/landing/about/accreditation.html> for a complete list.

Marshall University is governed by a 16-member Board of Governors (the Board), 13 of which are lay members appointed by the Governor of the State of West Virginia (State) and 3 of which are constituency representatives elected by faculty, staff and students of the University. The Board determines, controls, supervises, and oversees the financial, business, and educational policies and affairs of the Institution. The Board also develops a master plan, approves the Institution's annual budget, reviews and controls all academic programs offered at the Institution, and approves tuition rates and applicable student fees.

Overview of the Financial Statements and Financial Analysis

The Management's Discussion and Analysis is required supplementary information and has been prepared in accordance with the requirements of Governmental Accounting Standards Board (GASB).

The emphasis of discussions about these financial statements will concern FY 2016 data explaining, with the use of approximate dollar amounts, the significant changes from the financial statements presented for the years ended June 30, 2016, 2015, and 2014, for both the University and MURC. Three years of comparative information are provided for discussion and analysis purposes. Additionally, detailed financial information of the Marshall University Foundation, Inc.; the Big Green Scholarship Foundation, Inc.; and Provident – Marshall, L.L.C. are included; however, these discretely presented component units are controlled and managed by separate independent Boards of Directors. The University does not control these resources and, therefore, discussion and analyses of these organizations are not included.

MARSHALL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI)
FISCAL YEAR 2016
(UNAUDITED)

The University's financial report consists of three financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. These statements focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole. The notes to the financial statements provide additional information that is essential to a full understanding of the information provided in the financial statements. In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning the University's proportionate share of a liability, and contributions made, related to a multiple employer defined benefit pension plan in which certain University employees participate.

Statement of Net Position

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

Net Position is displayed in three major categories:

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

Restricted net position. This category includes net position, the use of which is restricted, either due to externally imposed constraints or because of restrictions imposed by law. They are further divided into two additional components — nonexpendable and expendable. **Nonexpendable restricted net position** includes endowment and similar type funds for which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income, which may either be expended or added to principal. **Expendable restricted net position** includes resources for which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

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

**MARSHALL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI)
FISCAL YEAR 2016
(UNAUDITED)**

Condensed Schedules of Net Position
(In thousands of dollars)

	<u>FY 2016</u>	<u>FY 2015</u>	<u>FY 2014</u>
Assets and Deferred Outflows:			
Current Assets	\$ 101,402	\$ 85,437	\$ 108,639
Other Noncurrent Assets	93,726	111,288	100,703
Capital Assets, Net	<u>426,848</u>	<u>433,542</u>	<u>414,830</u>
Total Assets	621,976	630,267	624,172
Deferred Outflows of Resources	1,495	1,679	1,316
Total	<u>\$ 623,471</u>	<u>\$ 631,946</u>	<u>\$ 625,488</u>
Liabilities and Deferred Inflows:			
Current Liabilities	\$ 40,077	\$ 44,225	\$ 42,367
Noncurrent Liabilities	164,445	166,161	165,633
Total Liabilities	<u>204,522</u>	<u>210,386</u>	<u>208,000</u>
Deferred Inflows of Resources	1,408	1,874	1,282
Total	<u>\$ 205,930</u>	<u>\$ 212,260</u>	<u>\$ 209,282</u>
Net Position			
Net Investment in Capital Assets	\$ 323,000	\$ 325,015	\$ 301,072
Restricted-Nonexpendable	15,176	15,176	15,176
Restricted-Expendable	16,466	19,405	19,061
Unrestricted	<u>62,899</u>	<u>60,090</u>	<u>80,897</u>
Total	<u>\$ 417,541</u>	<u>\$ 419,686</u>	<u>\$ 416,206</u>

Changes to Total Assets

Total assets of the Institution decreased by \$8.3 million in FY 2016. The major components of this increase are:

- The total current and noncurrent cash and cash equivalents balances increased \$4.1 million, which is comprised of a \$3.9 million increase for the University and a \$0.2 million increase in cash at MURC. Cash on deposit with the state increased \$13.8 million, primarily due to \$10.0 million of cash equivalent investments moved back to state funds. Cash equivalents decreased \$10.4 million, related to the move to state funds and changes in investments.
- Investments decreased \$18.1 million in total with the University's investments decreasing \$13.3 million and MURC's investments decreasing \$4.8 million. University investments with Commonfund and Jefferies were liquidated with most of the investments moving to the MU Foundation. This move was still in process at June 30, 2016 which resulted in \$11.1 million showing separately as Investment Settlements Pending. University investments decreased \$2.1 million due to market value decreases net of earnings and fees. Investments at MURC decreased \$3.3 million due to the transfer of investments to cash and decreased \$1.4 million due to investments at Jefferies in transit and shown as Investment Settlements Pending.
- Investment settlements pending is a new asset representing the amount of investments in the process of being liquidated and in transit at June 30, 2016. The total amount is \$12.5 million with \$11.1 million for the University and \$1.4 million at MURC.

MARSHALL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI)
FISCAL YEAR 2016
(UNAUDITED)

- Total current and noncurrent accounts receivable decreased \$0.4 million, including a decrease in state appropriations receivable from the state of \$1.3 million. Increases in receivables include \$0.3 million receivable from Marshall Health (formerly University Physicians & Surgeons) related to the BRIM self-insurance, student receivables increased \$0.7 million, and other receivables increased \$0.2 million. MURC receivables, net of eliminations with the University, decreased \$0.3 million.
- Loans receivable, inventories, and other current assets increased a total of \$0.3 million.
- Capital assets, net of depreciation, decreased \$6.7 million as a result of asset additions of \$9.9 million, offset by disposals and depreciation totaling \$16.6 million. Asset additions are discussed further in the Capital Asset and Debt Administration section.

Total assets of the Institution increased by \$6.0 million in FY 2015. The major components of this increase are:

- The total current and noncurrent cash and cash equivalents balances decreased \$19.2 million, which is comprised of a \$13.7 million decrease for the University and a \$5.5 million decrease in cash at MURC. Cash on deposit with the state decreased \$8 million primarily due to expenditures for construction projects. Cash equivalents for the University decreased \$5.4 million primarily due to funds moved to investments. Cash for MURC decreased \$5.5 million due to the transfer of \$2.5 million to investments and increased spending of unrestricted funds.
- Investments increased \$9.6 million in total with the University's investments increasing \$6.5 million and MURC's investments increasing \$3.1 million. University investments with Commonfund and Jefferies increased \$5.6 million due to funds moved to investments from cash equivalents and \$0.9 million in earnings/market value increases. Investments at MURC increased \$2.5 million due to additional amounts invested.
- Total current and noncurrent accounts receivable decreased \$2.7 million, including decreases in capital gifts receivable from the MU Foundation for construction projects of \$5.0 million, and a decrease of \$0.2 million receivable from Marshall Health (formerly University Physicians & Surgeons) related to the BRIM self-insurance. Increases in receivables include a new receivable of \$1.7 million for the no hardship payment provided to employees who were moved from current pay to arrears pay; the receivable amount will be deducted from each employee's last paycheck when they leave State employment. Student receivables and other receivables increased a total of \$0.6 million. MURC receivables, net of eliminations with the University, increased \$0.2 million.
- Loans receivable, inventories, and other current assets decreased a total of \$0.2 million.
- Capital assets, net of depreciation, increased \$18.7 million as a result of asset additions of \$33.5 million, offset by disposals and depreciation totaling \$14.8 million. Asset additions are discussed further in the Capital Asset and Debt Administration section.

Changes to Deferred Outflows of Resources

The deferred outflows of resources for the University decreased \$0.2 million in FY 2016 and increased \$0.4 million FY 2015. The deferred loss on refunding, when the 2010 Bonds were issued to refinance a previous bond issue, decreased \$0.2 million in both FY 2016 and FY 2015. This amount will continue to decrease over the life of the 2010 Bonds. There was a new deferred outflow in FY 2015 for pension contributions made after the measurement date as required by GASB 68 (Note 14). This deferred outflow remained consistent in FY2016 and increased \$0.5 million in FY 2015.

**MARSHALL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI)
FISCAL YEAR 2016
(UNAUDITED)**

Changes to Total Liabilities

Total liabilities of the Institution decreased \$5.8 million in FY 2016. The major components of the decrease are:

- Current and noncurrent debt on notes, bonds, capital leases, the debt obligation to the Commission and the amount due to Mountwest Community and Technical College (MCTC) decreased by a total of \$4.3 million due to principal payments made during FY 2016.
- Other Postemployment Benefits (OPEB) liability increased \$2.8 million. This represents the unfunded liability the University is not currently required to pay. The additional liability was raised again in FY2016 and FY 2015 after being significantly less for FY 2014 and FY 2013 than in previous years. This was due to changes in the discount rate and other factors used in the actuarial study that the West Virginia Public Employees Insurance Agency (PEIA) uses to determine the Annual Required Contribution (ARC). In FY 2016 the ARC was \$266 per policy per month, in FY 2015 the ARC was \$225, in FY 2014 the ARC was \$94, in FY 2013 the ARC was \$79, and in FY 2012 the ARC was \$794. See Notes 2 and 11 for more information on OPEB.
- Other noncurrent liabilities increased \$0.2 million due to an increase in the BRIM escrow liability of \$0.4 million and a decrease in the liability for stadium renovation projects of \$0.2 million.
- Accounts payable decreased \$5.1 million primarily due to the construction projects in previous years being completed before year end.
- Accrued interest and unearned revenue, decreased a total of \$0.3 million, offset by increases in compensated absences \$0.3 million.
- Accrued liabilities increased \$0.9 million. Liabilities for the University increased \$0.5 million primarily due to payroll liabilities for 9 month faculty paid over 12 months and liabilities for MURC increased \$0.4 million
- The accrued service concession liability decreased \$0.1 million. This liability is for insurance and maintenance related to the service concession arrangement mentioned below in the Deferred Inflows section.
- The net pension liability decreased \$0.2 million. This liability reflects the University's portion of the Teachers Retirement System liability as a result of implementing GASB 68 in FY 2015 (Notes 2 and 14).

Total liabilities of the Institution increased \$2.4 million in FY 2015. The major components of the decrease are:

- Current and noncurrent debt on notes, bonds, capital leases, the debt obligation to the Commission and the amount due to Mountwest Community and Technical College (MCTC) decreased by a total of \$5 million due to principal payments made during FY 2015.
- Other Postemployment Benefits (OPEB) liability increased \$2.4 million. This represents the unfunded liability the University is not currently required to pay. The additional liability was raised again in FY 2015 after being significantly less for FY 2014 and FY 2013 than in previous years. This was due to changes in the discount rate and other factors used in the actuarial study that the West Virginia Public Employees Insurance Agency (PEIA) uses to determine the Annual Required Contribution (ARC). In FY 2015 the ARC was \$225 per policy per month, in FY 2014 the ARC was \$94, in FY 2013 the ARC was \$79, and in FY 2012 the ARC was \$794. See Notes 2 and 11 for more information on OPEB.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI)
FISCAL YEAR 2016
(UNAUDITED)

- Other noncurrent liabilities decreased \$0.7 million due to a decrease in the BRIM escrow liability of \$0.6 million and a decrease in the liability for stadium renovation projects of \$0.1 million.
- Accounts payable, accrued interest and unearned revenue, decreased a total of \$1.2 million, offset by an increase in compensated absences \$0.6 million.
- Accrued liabilities increased \$2.4 million primarily due to moving employees previously paid current to being paid in arrears, so that all employees are now paid one payday in arrears.
- The accrued service concession liability decreased \$0.1 million. This liability is for insurance and maintenance related to the service concession arrangement mentioned below in the Deferred Inflows section.
- A new net pension liability of \$4 million was added in FY 2015 to reflect the University's portion of the Teachers Retirement System liability as a result of implementing GASB 68 (Notes 2 and 14).

Changes to Deferred Inflows of Resources

The deferred inflows of resources for the University decreased \$0.5 million in FY 2016 and increased \$0.6 million in FY 2015. The deferred inflow of resources from the service concession arrangement with the food service provider (Sodexo) decreased \$0.2 million in both FY 2016 and FY 2015. Capital improvements paid for by Sodexo are being amortized over the life of the contract. See Note 20 for more information on the University's service concession arrangements. The deferred inflow related to the Teachers Retirement System pension plan decreased \$0.2 million in FY 2016 and increased \$0.8 million in FY 2015. This item was new in FY 2015 due to changes required by the implementation of GASB 68 (Note 14).

Changes to Net Position

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

The net position category "Net investment in capital assets" reflects overall changes to the buildings, equipment, and other capital assets net of depreciation and net of the liabilities associated with those assets. Net investment in capital assets decreased \$2.0 million in FY 2016 compared to an increase of \$23.9 million in FY 2015. Completion of construction projects early in the year greatly reduced the additions for FY 2016. The FY 2016 decrease for the University is \$0.8 million, with a decrease of \$1.2 million at MURC. The FY 2015 increase for the University was \$25.4 million due to construction project additions, offset by a decrease at MURC of \$1.5 million due to depreciation of assets.

Endowments, which are recorded as restricted nonexpendable net position, did not change in FY 2016 or FY 2015. The endowments are primarily at MURC for amounts received in connection with the "Bucks for Brains" West Virginia Research Trust fund.

Total restricted expendable net position decreased \$2.9 million in FY 2016 compared to an increase of \$0.3 million in FY 2015, primarily due to grant activity at MURC.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI)
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The unrestricted net position balance of \$62.9 million in FY 2016 represents a \$2.8 million increase from FY 2015. Unrestricted resources decreased \$0.1 million for MURC and increased \$2.9 million for the University.

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

	<u>FY 2016</u>	<u>FY 2015</u>	<u>FY 2014</u>
Operating Revenues	\$ 189,578	\$ 182,337	\$ 174,808
Operating Expenses	<u>(274,102)</u>	<u>(269,434)</u>	<u>(257,373)</u>
Operating Loss	(84,524)	(87,097)	(82,565)
Nonoperating Revenues	82,683	91,330	97,220
Nonoperating Expenses	<u>(4,381)</u>	<u>(1,422)</u>	<u>(3,145)</u>
Income Before Other Revenues, Expenses, Gains, or Losses	(6,222)	2,811	11,510
Other Revenues, Expenses, Gains, or Losses	<u>4,077</u>	<u>5,328</u>	<u>22,338</u>
Increase in Net Position	<u>\$ (2,145)</u>	<u>\$ 8,139</u>	<u>\$ 33,848</u>

Statement of Revenues, Expenses, and Changes in Net Position

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

Operating Revenues

Operating revenues are received for student tuition and fees, grants and contracts, auxiliary services, and miscellaneous revenue. Operating revenues of \$189.6 million in FY 2016 represents a \$7.2 million increase from FY 2015. This increase is primarily the result of:

- Tuition and fee revenue, net of scholarship allowances, increased \$4.8 million. Tuition for full-time undergraduate students increased \$144 per semester for resident students, \$226 per semester for metro students and \$288 per semester for nonresident students. Tuition for full-time graduate students increased \$101 per semester for resident students, \$177 per semester for metro students and \$3,250 per semester for nonresident students.
- Grant and contract revenue increased a total of \$1.0 million, including a \$0.1 million decrease in Federal, and a \$1.0 million decrease in State, offset by a \$2.1 million increase in local and private grants and contracts. The Federal changes are primarily related to grant and contract activity at MURC. State grant and contract revenue decreased \$0.1 million for the University

MARSHALL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI)
FISCAL YEAR 2016
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and \$0.9 million for MURC net of eliminations with the University. Local and private grants and contracts increased \$3.6 million for the University and decreased \$1.5 million for MURC.

- Auxiliary enterprise revenue and other operating revenue increased a total of \$1.4 million. This increase includes an increase in the Auxiliary fee revenue due to this fee now being charged to students on the South Charleston campus.

Operating revenues of \$182.3 million in FY 2015 represents a \$7.5 million increase from FY 2014. This increase is primarily the result of:

- Tuition and fee revenue, net of scholarship allowances, increased \$5.6 million. Tuition for full-time undergraduate students increased \$155 per semester for resident students, \$325 per semester for metro students and \$290 per semester for nonresident students. Tuition for full-time graduate students increased \$163 per semester for resident students, \$349 per semester for metro students and \$318 per semester for nonresident students.
- Grant and contract revenue decreased a total of \$0.4 million, including a \$4.4 million decrease in Federal, offset by a \$2.9 million increase in State, and a \$1.1 million increase in local and private grants and contracts. The Federal changes are primarily related to grant and contract activity at MURC. State grant and contract revenue increased \$0.5 million for the University and \$2.4 million for MURC net of eliminations with the University. Local and private grants and contracts decreased \$0.6 million for the University and increased \$1.7 million for MURC.
- Auxiliary enterprise revenue and other operating revenue increased a total of \$2.3 million. This increase includes a \$1.1 million increase in housing revenue due to increases in housing and meal plan rates as well as increased occupancy in the residence halls. Athletic revenues increased \$0.8 million primarily as a result of increased revenue distributions from Conference USA (C-USA).

Operating Expenses

Operating expenses are for goods and services acquired to carry out the mission of the Institution. Operating expenses of \$274.1 million in FY 2016 represents a \$4.7 million increase from FY 2015. This increase is primarily the result of:

- Salaries and wages increased \$3.4 million, including an increase in University salaries of \$3.3 million and a \$0.1 million increase at MURC. The increase for the University includes an increase in the number of employees as well as raises for faculty, classified staff and non-classified staff effective on 1-1-16. Classified staff salaries were increased by \$250 for each employee and their salaries were increased to the appropriate salary on the statutory salary schedule based on pay grade and step. Faculty salary increases were made in accordance with MUBOG policies utilizing distribution plans devised by each college, and non-classified salary increases were based on administrative recommendations and reviewed for factors of external equity, internal equity, experience and performance.
- Benefits expense decreased \$0.2 million with a \$0.1 million decrease for the University and a \$0.1 million decrease for MURC. The University decrease is due to decreases in employee tuition waivers, health insurance premiums, and the employer matching on FICA and retirement totaling \$0.2 million, a \$0.3 million decrease in compensated absence expense, an increase in OPEB expense of \$0.3 million and an increase for pension expense of \$0.1 million for the University (Note 14).
- Increases in utilities, supplies and other services, and fees assessed by the Commission, were offset by a decrease in student financial aid expense for a net decrease of \$0.4 million.

**MARSHALL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI)
FISCAL YEAR 2016
(UNAUDITED)**

- Depreciation expense increased \$1.9 million primarily due to new buildings starting to depreciate.

Operating expenses of \$269.4 million in FY 2015 represents a \$12 million increase from FY 2014. This increase is primarily the result of:

- Salaries and wages increased \$3.2 million as a result of an increase in University salaries of \$3.1 million which include raises for faculty, classified staff and non-classified staff. On 7-1-14 an across the board increase of \$504 was made for every benefits eligible employee. On 10-1-14 classified staff salaries were increased to the appropriate salary on the statutory salary schedule based on pay grade and step, faculty salary increases were made in accordance with MUBOG policies utilizing distribution plans devised by each college, and non-classified salary increases were based on administrative recommendations and reviewed for factors of external equity, internal equity, experience and performance. MURC salaries increased \$0.1 million.
- Benefits expense increased \$3.8 million with a \$3.6 million increase for the University and a \$0.2 million increase for MURC. The University increase is primarily due to increases in OPEB expense of \$1.5 million and \$0.8 million in compensated absence expense, as well as increases in health insurance premiums and the employer matching on FICA and retirement totaling \$1.1 million. Changes related to the implementation of GASB 68 resulted in a net increase for pension expense of \$0.2 million for the University (Note 14).
- Increases in utilities, student financial aid expense and other operating expenses, were offset by a decrease in expense for fees assessed by the Commission for a net increase of \$1.8 million.
- Supplies and other services expense increased \$2.7 million including a \$1.4 million increase for the University and a \$1.3 million increase for MURC net of eliminations with the University. Increases for the University include \$0.4 million paid to the State for the new ERP implementation (OASIS).
- Depreciation expense increased \$0.6 million primarily due to new buildings starting to depreciate.

Nonoperating Revenues and Expenses

Revenues for which goods and services are not provided are reported as nonoperating revenues. Nonoperating revenues for FY 2016 were \$82.7 million, which is a decrease of \$8.6 million from FY 2015 as a result of:

- State appropriations decreased \$3.9 million due to State budget cuts. The beginning of year appropriations decreased by \$1.3 million with an additional mid year budget cut of \$2.6 million. Decreases in the appropriations for SOM were \$1.3 million and the University decreases totaled \$2.6 million.
- Income from investments was a negative \$1.8 million in FY 2016 which is a decrease of \$4.1 million from FY 2015, due to reduced performance of the investments.
- Other changes to nonoperating revenues include a decrease of \$0.7 million in federal Pell grants.
- Payments on behalf of the University increased \$0.1 million due to contributions made by the State to the Teachers Retirement System. This amount is recognized as revenue to the University as required by GASB 68 (Note 14).

**MARSHALL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI)
FISCAL YEAR 2016
(UNAUDITED)**

Nonoperating revenues for FY 2015 were \$91.3 million, which is a decrease of \$5.9 million from FY 2014 as a result of:

- State appropriations decreased \$1.1 million due to State budget cuts. Decreases in the appropriations for SOM were \$0.3 million and the University decreases totaled \$0.8 million.
- Income from investments was \$2.4 million in FY 2015 which is a decrease of \$5.2 million from FY 2014, due to reduced performance of the investments. FY 2014 was an exceptionally good year with \$7.6 million in investment income.
- Other changes to nonoperating revenues include a decrease of \$0.1 million in federal Pell grants.
- Payments on behalf of the University increased \$0.5 million due to contributions made by the State to the Teachers Retirement System. This amount is recognized as revenue to the University as required by the implementation of GASB 68 (Note 14).

Nonoperating expenses for FY 2016 were \$4.4 million, which is an increase of \$3.0 million from FY 2015 primarily as a result of an increase in interest on indebtedness. The interest expense incurred is reduced by the amount of interest that is capitalized when new construction projects are in progress. The last two of these projects were completed early in FY 2016 reducing the amount of interest to be capitalized. In FY 2016 the capitalized interest amount was \$0.2 million as compared to \$3.5 million in FY 2015.

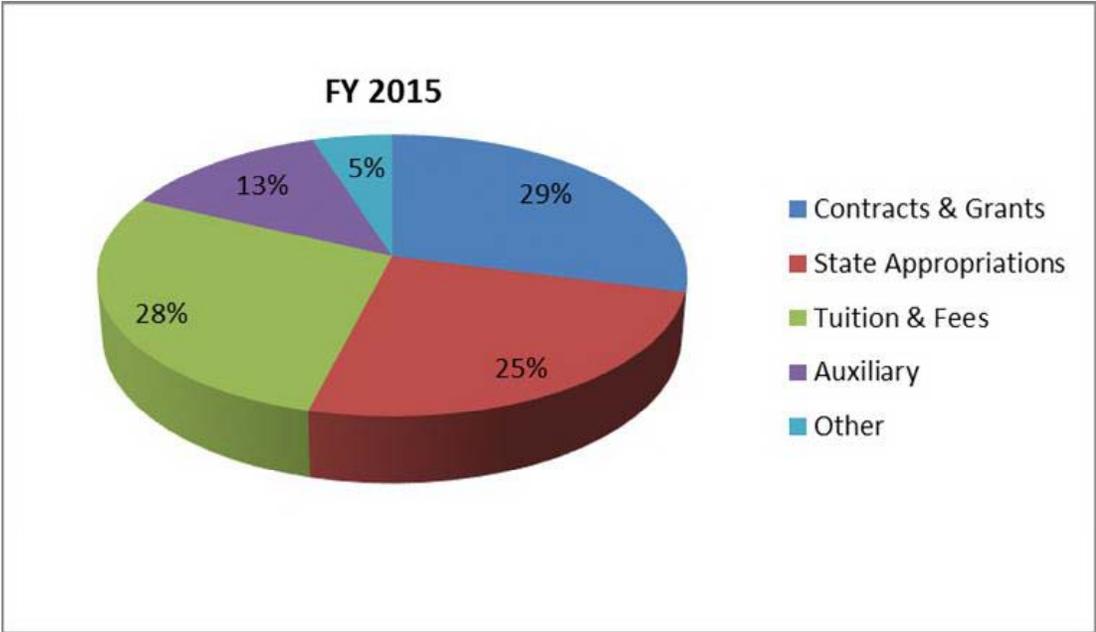
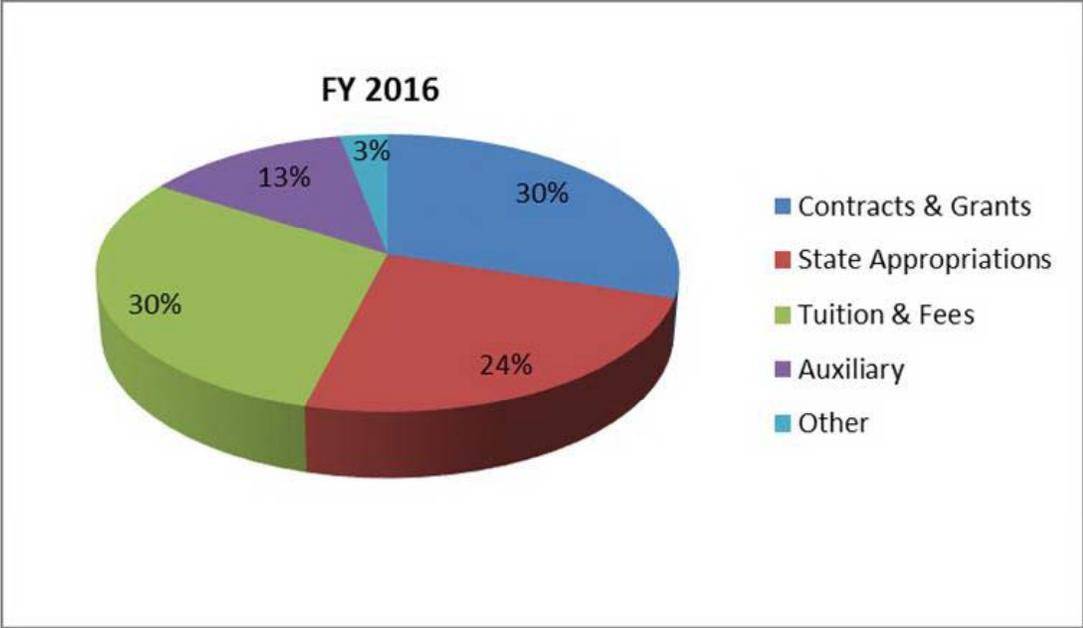
Nonoperating expenses for FY 2015 were \$1.4 million, which is a decrease of \$1.7 million from FY 2014 primarily as a result of a reduction in interest on indebtedness. The interest expense incurred is reduced by the amount of interest that is capitalized when new construction projects are in progress. In FY 2015 the capitalized interest amount was \$3.5 million as compared to \$1.9 million in FY2014.

Total operating and nonoperating revenue for the Institution was \$272.3 million in FY 2016 as compared to \$273.7 million in FY 2015. Revenues as a percentage for FY 2016 and 2015 are shown on Graph A.

Total operating and nonoperating expense for the Institution was \$278.5 million in FY 2016 as compared to \$270.8 million in FY 2015. Expenses as a percentage for FY 2016 and 2015 are shown by object of expenditure in Graph B and by functional classification in Graph C.

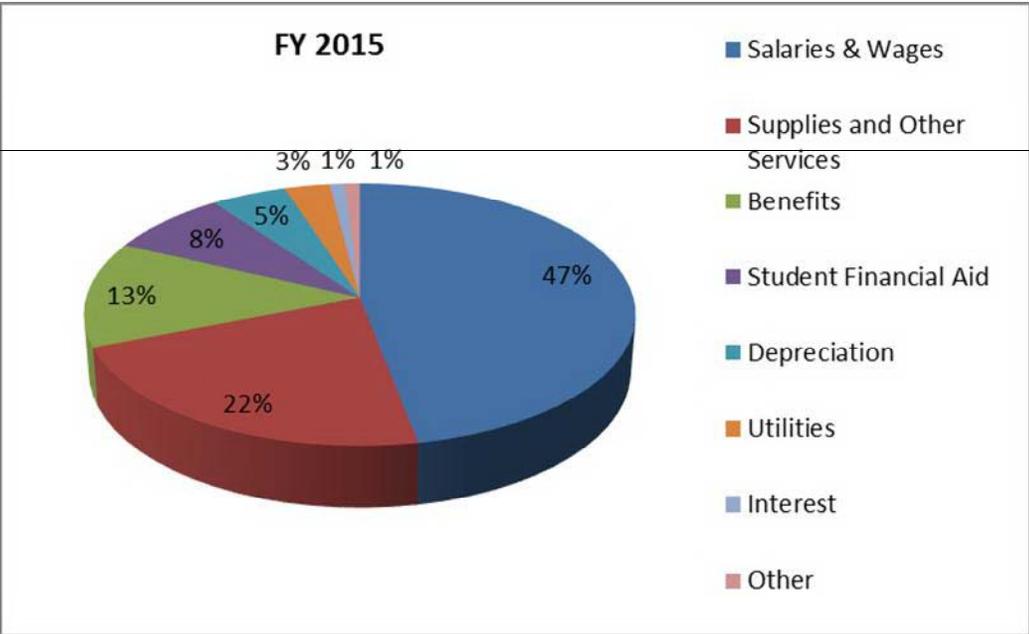
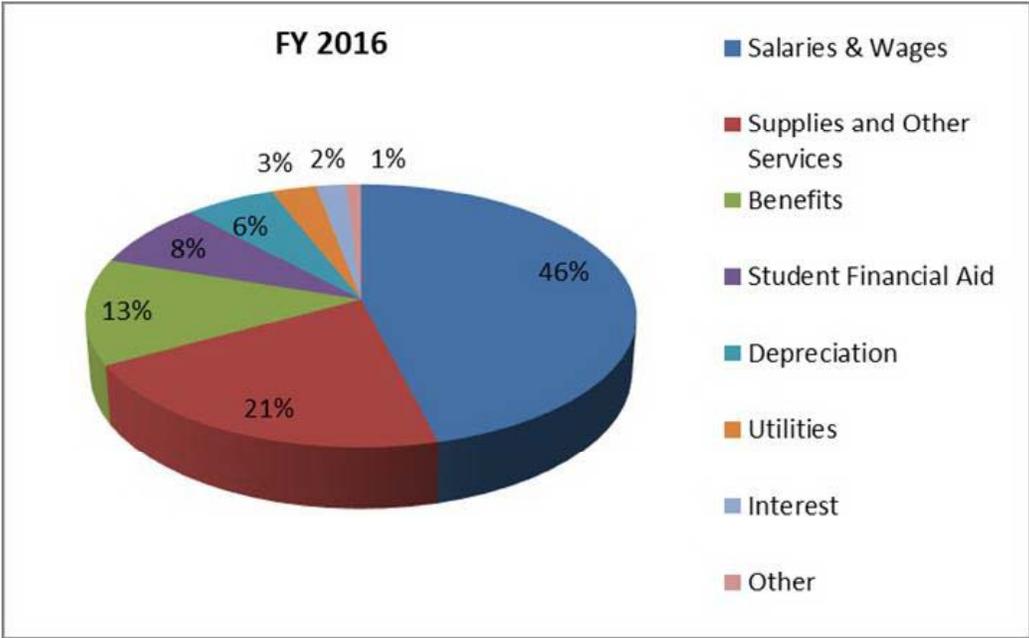
**MARSHALL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI)
FISCAL YEAR 2016
(UNAUDITED)**

**Total Operating and Nonoperating Revenues
(Graph A)**



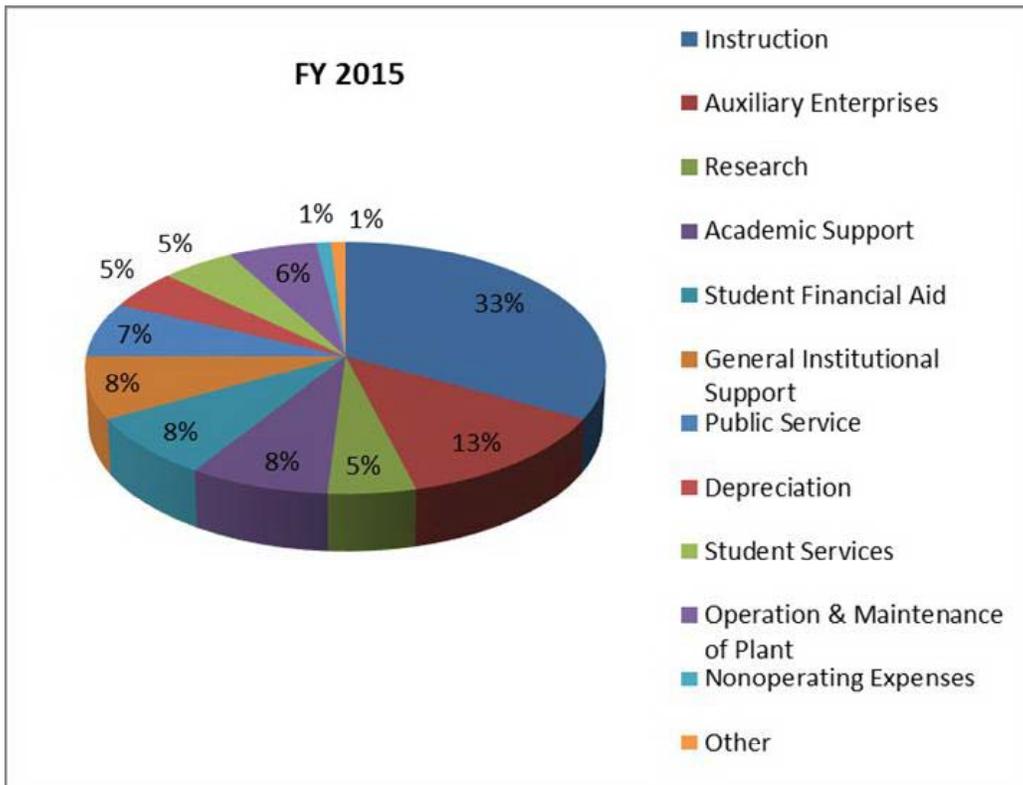
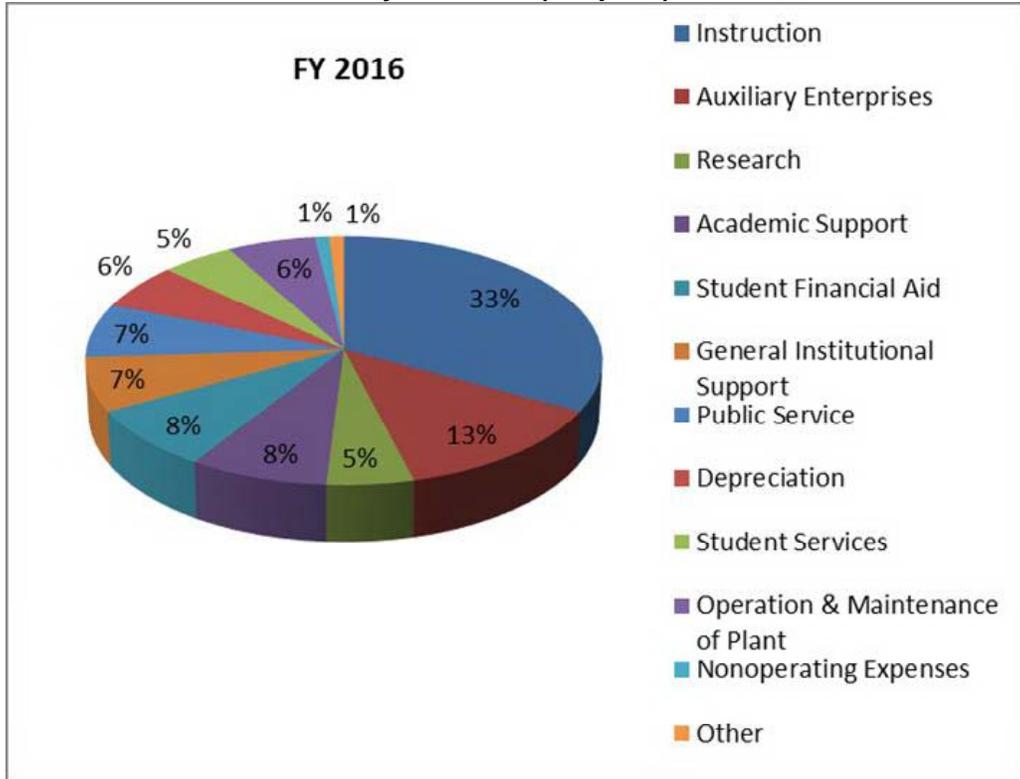
**MARSHALL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI)
FISCAL YEAR 2016
(UNAUDITED)**

**Total Operating and Nonoperating Expenses
(Graph B)**



**MARSHALL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI)
FISCAL YEAR 2016
(UNAUDITED)**

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



**MARSHALL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI)
FISCAL YEAR 2016
(UNAUDITED)**

Income before other Revenues, Expenses, Gains or Losses

The total of both operating and nonoperating revenues and expenses is reflected in the income before other revenues, expenses and other items. In FY 2016, there was a net decrease of \$6.2 million for the institution. Of this total, the University had a net decrease of \$2.1 million while MURC had a net decrease of \$4.1 million. Note, if the unfunded portion of OPEB expense were excluded, the total Institution would show a \$0.1 million net decrease in FY 2016 as compared to \$5.1 million increase for FY 2015.

Changes to Net Position

The decrease in net position of \$2.1 million is \$10.2 million less than the net increase in FY 2015. The net position decrease for FY 2016 includes capital grants and gifts of \$4.1 million. The net position increase for FY 2015 includes capital grants and gifts of \$5.3 million and \$28 thousand of capital bond proceeds from the Higher Education Policy Commission.

Statement of Cash Flows

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

Condensed Schedules of Cash Flows
(In thousands of dollars)

	FY 2016	FY 2015	FY 2014
Cash Flows Provided (Used) by:			
Operating Activities	\$ (74,483)	\$ (73,538)	\$ (72,741)
Noncapital Financing Activities	85,241	88,540	91,513
Capital and Related Financing Activities	(10,554)	(26,654)	(43,088)
Investing Activities	<u>3,844</u>	<u>(7,229)</u>	<u>7,357</u>
Net Change in Current Cash	4,048	(18,881)	(16,959)
Current Cash - Beginning of Year	<u>68,575</u>	<u>87,456</u>	<u>104,415</u>
Current Cash - End of Year	<u><u>\$ 72,623</u></u>	<u><u>\$ 68,575</u></u>	<u><u>\$ 87,456</u></u>

The statement of cash flows is divided into five sections:

- Cash flows from operating activities show the net cash used by the operating activities of the University.
- Cash flows from noncapital financing activities reflect the cash received and paid for nonoperating, noninvesting, and noncapital financing purposes. State appropriations are the primary source of cash in this section.

**MARSHALL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI)
FISCAL YEAR 2016
(UNAUDITED)**

- Cash flows from capital financing activities include cash used for the acquisition and construction of capital and related items.
- Cash flows from investing activities show the purchases, proceeds, and interest received from investing activities.
- Reconciliation of operating loss to net cash used in operating activities provides a schedule that reconciles the accrual-based operating loss and net cash used in operating activities.

Capital Asset and Debt Administration

The University's construction projects of new facilities financed by capital gifts, and other University funds in previous years were all completed in FY 2016.

Projects that were completed in FY 2016 include the Applied Engineering Complex and the Indoor Athletic Complex, as well as various renovation and maintenance projects at the Medical School, Harless Dining Hall and Twin Towers. New projects that were initiated in FY 2016 were various renovation and maintenance projects.

The Commission assesses each public institution of higher education for funds to meet the payment of debt service on various revenue bonds that were issued for the financing of academic and other facilities of the State's universities and colleges, including certain facilities of the University. The bonds remain as a capital obligation of the Commission; however, \$11.0 million is reported as debt service assessment payable to the Commission by the University.

The University has two bond issues, the Series 2010 Bonds that were issued to refund a previous bond issue and the Series 2011 Bonds that were used for the construction of new facilities including the Applied Engineering Complex, a multi-floor parking structure, an indoor athletic complex and a soccer complex, as well as land acquisition and renovation projects. See Note 9 for more information on Bonds.

Economic Outlook

Presently, Marshall University's financial position continues to remain closely intertwined with that of the State of West Virginia; however, in October of 2013 Marshall University initiated the Marshall 20/20 long-range strategic planning process, designed to significantly reduce this dependency over the next decade.

The University continues to be at risk for reductions in State appropriations resulting from insufficient annual State revenues to offset State expenditure obligations. The University has withstood over 16% in cuts to State appropriations over the past several years and a FY 2017 midyear reduction is still possible.

Due to the uncertainty of future State appropriations, the University has taken proactive steps through its Marshall 20/20 process (www.marshall.edu/2020) to lower its dependency on the State. Student affordability remains a crucial consideration in the strategic rebalancing process that has been initiated.

**MARSHALL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI)
FISCAL YEAR 2016
(UNAUDITED)**

Marshall University is now more focused than ever on cost controls, value creation, organizational structure-function efficiencies, judicious spending, utility conservation measures, targeted improvements to the physical plant, growth in extramural grant funding, strategic expansion of student enrollment and diversified revenue enhancements. Key components of Marshall 20/20 long-range plan include budget model realignment, multi-year pro forma development, comprehensive academic and services portfolio reviews to identify and eliminate hidden unnecessary costs, and establish key performance indicators to allow greater performance accountability.

These measures have already shown success. More than \$83 million in Marshall University revenue bonds this year had their "A1" ratings affirmed by Moody's Investors Service with a stable outlook. The A1 rating reflects Marshall's important role as the second largest provider of public higher education in the state of West Virginia. In the credit opinion, Moody's specifically noted Marshall's "steady student demand, growing financial reserves, manageable debt levels and sound financial management through recent state funding reductions."

Enrollment Growth Plan: Beginning in summer 2006, Marshall University launched a series of initiatives to increase full-time undergraduate enrollment. The primary objective is to maximize and manage enrollment growth by taking full advantage of existing institutional capacities in terms of instructional space, faculty and support staff. The targeted enrollment growth will be achieved through a combination of annual increases in the size of the freshmen class with greater non-resident and international student enrollment, greater leveraging of institutional financial aid, increasing the number of transfer, on-line, distance and adult students, and improved retention rates across all levels to achieve six-year graduation rates for undergraduates that exceed 60%.

Marshall has realized a retention rate increase of 6.5% from the fall 2012 cohort at 68.6% to the fall 2015 cohort at 75.1%. Current same-day enrollment for Fall 2016 shows an increase of 260 students. Final enrollment for Fall 2015 was 13,631. Enrollment goals of 15,000 students over the next 5-6 years and 20,000 students within 8-10 years has been established by President Jerome A. Gilbert.

Future Direction: Going forward, the University's Board of Governors in April 2015 affirmed the following institutional priorities:

- Positioning the University to redefine the landscape of public higher education while attaining the highest possible levels of achievement across academic and student programs;
- Making an unprecedented university-wide commitment to student recruitment and retention;
- Promoting diversity and global engagement;
- Cultivating the symbiotic connection with Huntington and surrounding communities, particularly related to regional economic development, rural health care delivery, and improvement of elementary and secondary education;
- Establishing and maintaining a competitive Division I athletic program with high academic standards for athletes; and
- Building collaborative, interdisciplinary research clusters in biomedicine/biotechnology, transportation technology/logistics, engineering, advanced manufacturing and the physical sciences.

President Gilbert plans to increase overall research productivity from Marshall University. Increasing research funding from the current level of \$23 million to \$50 million within the next 5-7 years and expanding PhD program offerings are additional goals under his administration.

**MARSHALL UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI)
FISCAL YEAR 2016
(UNAUDITED)**

Along with faculty and senior staff, President Gilbert is currently developing a strategic plan to advance these priorities and brand Marshall as a nationally prominent institution regarded as an engaged university and emerging leader in the nation.

This is a pivotal time for Marshall University. Although these are unpredictable economic times and there are stern challenges ahead, the University continues to successfully sustain its commitment to providing distinctive learning experiences and outcomes valued by those we serve at an affordable cost. The remarkable progress that has been achieved at Marshall over the last decade has been enhancing to its academic reputation and the University is increasingly gaining recognition as a high-value institution and a leading public higher education innovator not only in West Virginia but across the nation and around the globe.

MARSHALL UNIVERSITY
STATEMENTS OF NET POSITION – PRIMARY INSTITUTION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 72,623,129	\$ 68,575,416
Investment Settlements Pending	12,504,830	-
Accounts Receivable - Net	14,222,172	14,914,795
Loans Receivable	875,061	875,464
Inventories	723,920	730,379
Other Current Assets	452,911	341,176
Total Current Assets	101,402,023	85,437,230
NONCURRENT ASSETS		
Cash and Cash Equivalents	1,705,535	1,684,276
Investments	75,278,125	93,409,785
Accounts Receivable	9,552,865	9,223,664
Loans Receivable - Net of Allowance of \$2,276,122 in 2016 and \$2,223,846 in 2015	7,189,207	6,970,551
Capital Assets - Net	426,848,386	433,541,716
Total Noncurrent Assets	520,574,118	544,829,992
Total Assets	621,976,141	630,267,222
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss on Refunding	1,047,802	1,180,171
Deferred Outflows Related to Pensions	447,749	499,696
Total Deferred Outflows of Resources	1,495,551	1,679,867
Total Assets and Deferred Outflows	\$ 623,471,692	\$ 631,947,089

See accompanying Notes to Financial Statements.

MARSHALL UNIVERSITY
STATEMENTS OF NET POSITION – PRIMARY INSTITUTION (CONTINUED)
JUNE 30, 2016 AND 2015

LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	2016	2015
CURRENT LIABILITIES		
Accounts Payable	\$ 3,982,002	\$ 9,126,460
Due to MCTC - Current Portion	350,000	525,000
Accrued Liabilities	12,358,753	11,469,992
Accrued Interest	659,378	676,824
Unearned Revenue	7,210,994	7,514,266
Deposits	679,618	679,168
Notes, Capital Lease, and Bonds Payable - Current Portion	3,872,064	2,576,205
Compensated Absences	10,038,052	9,740,094
Debt Obligations to the Commission - Current Portion	926,151	1,917,257
Total Current Liabilities	40,077,012	44,225,266
NONCURRENT LIABILITIES		
Notes, Capital Lease, and Bonds Payable	87,129,953	90,259,313
Advances from Federal Sponsors	6,345,285	6,345,285
Other Noncurrent Liabilities	10,885,807	10,683,875
Accrued Service Concession Liability	221,051	325,076
Other Post Employment Benefits Liability	45,604,066	42,824,167
Net Pension Liability	3,778,756	3,967,132
Due to MCTC	392,834	742,834
Debt Obligations to the Commission	10,087,351	11,013,502
Total Noncurrent Liabilities	164,445,103	166,161,184
Total Liabilities	204,522,115	210,386,450
DEFERRED INFLOWS OF RESOURCES		
Service Concession Arrangement	781,753	1,031,914
Deferred Inflows Related to Pensions	626,688	842,388
Total Deferred Inflows of Resources	1,408,441	1,874,302
Total Liabilities and Deferred Inflows	205,930,556	212,260,752
NET POSITION		
Net Investment in Capital Assets	323,000,363	325,014,690
Restricted for:		
Nonexpendable	15,176,000	15,176,000
Expendable:		
Scholarships	174,899	142,809
Sponsored Projects	14,405,715	17,237,950
Loans	1,884,445	2,024,763
Debt Service	499	15
Total Restricted Expendable	16,465,558	19,405,537
Unrestricted	62,899,215	60,090,110
Total Net Position	417,541,136	419,686,337
Total Liabilities, Deferred Inflows, and Net Position	\$ 623,471,692	\$ 631,947,089

MARSHALL UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION – PRIMARY INSTITUTION
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
OPERATING REVENUES		
Student Tuition and Fees - Net of Scholarship Allowance of \$36,860,399 in 2016 and \$35,056,078 in 2015	\$ 80,424,304	\$ 75,586,322
Contracts and Grants:		
Federal	17,957,325	18,091,507
State	20,937,994	21,937,828
Local	1,164,709	1,138,973
Private	23,577,159	21,454,070
Interest on Loans Receivable	138,784	158,287
Sales and Services of Educational Activities	166,919	115,610
Auxiliary Enterprise Revenue - Net of Scholarship Allowance of \$5,925,903 in 2016 and \$4,704,337 in 2015	36,221,634	35,323,825
Other Operating Revenues	<u>8,988,843</u>	<u>8,530,752</u>
Total Operating Revenues	<u>189,577,671</u>	<u>182,337,174</u>
OPERATING EXPENSES		
Salaries and Wages	129,192,191	125,808,823
Benefits	37,124,322	37,368,897
Supplies and Other Services	59,426,509	59,312,017
Utilities	9,515,165	8,839,811
Student Financial Aid - Scholarships and Fellowships	21,392,297	22,539,953
Depreciation	16,536,663	14,581,627
Other Operating Expenses	173,123	259,990
Fees Assessed by the Commission for Operations	<u>741,343</u>	<u>723,345</u>
Total Operating Expenses	<u>274,101,613</u>	<u>269,434,463</u>
OPERATING LOSS	(84,523,942)	(87,097,289)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	65,314,035	69,140,038
State Lottery Appropriations	579,782	610,016
Payments on Behalf of the University	651,004	529,560
Federal Pell Grants	16,829,459	17,552,855
Gifts	1,069,677	1,146,712
Investment (Loss) Income	(1,760,739)	2,351,158
Interest on Indebtedness	(3,753,284)	(568,569)
Fees Assessed by the Commission for Debt Service	(607,613)	(689,474)
Other Nonoperating Revenues (Expenses) - Net	<u>(19,997)</u>	<u>(164,127)</u>
Net Nonoperating Revenues	<u>78,302,324</u>	<u>89,908,169</u>
(LOSS) INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(6,221,618)	2,810,880
CAPITAL GRANTS AND GIFTS	4,076,417	5,299,978
CAPITAL BOND PROCEEDS FROM THE COMMISSION	<u>-</u>	<u>27,725</u>
(DECREASE) INCREASE IN NET POSITION	(2,145,201)	8,138,583
Net Position - Beginning of Year	<u>419,686,337</u>	<u>411,547,754</u>
NET POSITION - END OF YEAR	<u>\$ 417,541,136</u>	<u>\$ 419,686,337</u>

See accompanying Notes to Financial Statements.

MARSHALL UNIVERSITY
STATEMENTS OF CASH FLOWS – PRIMARY INSTITUTION
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Student Tuition and Fees	\$ 79,729,641	\$ 75,412,609
Contracts and Grants	64,548,669	62,490,930
Payments to and on Behalf of Employees	(162,441,127)	(159,050,629)
Payments to Suppliers	(70,562,071)	(64,546,585)
Payments to Utilities	(9,515,165)	(8,839,811)
Payments for Scholarships and Fellowships	(21,392,297)	(22,539,953)
Loans Issued	(1,142,055)	(1,202,861)
Collection of Loans	1,105,202	1,134,028
Sales and Service of Educational Activities	166,919	115,610
Auxiliary Enterprise Charges	36,239,711	35,528,913
Fees Assessed by the Commission	(741,343)	(723,345)
Program Income	1,133,241	1,053,711
Other Receipts - Net	8,387,550	7,630,068
Net Cash Used by Operating Activities	(74,483,125)	(73,537,315)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	67,179,434	69,831,355
Federal Pell Grants	16,829,459	17,552,855
Gift Receipts	1,069,677	1,146,712
Agency Fund Receipts	10,387,294	8,473,526
Agency Fund Payments	(10,224,755)	(8,464,635)
William D. Ford Direct Lending Receipts	81,449,675	78,390,118
William D. Ford Direct Lending Payments	(81,449,674)	(78,390,120)
Net Cash Provided by Noncapital Financing Activities	85,241,110	88,539,811
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital Grants and Gifts Received	2,584,524	9,783,500
Capital Bond Proceeds from the Commission	-	27,725
Purchases of Capital Assets	(3,163,719)	(27,054,226)
Unearned Rent Revenue Collected	(33,700)	(36,343)
Payments on Note Payable	(164,267)	(164,076)
Payments on Debt to MCTC	(525,000)	(175,000)
Principal Paid on Bonds and Leases	(2,716,633)	(2,844,263)
Interest Paid on Bonds and Leases	(4,006,863)	(4,083,145)
Proceeds from Sale of Capital Assets	17,916	26,425
Principal Payment on Debt Obligation Due to the Commission	(1,887,257)	(1,805,254)
Fees Assessed by the Commission	(607,613)	(689,474)
Principal Payment on Loan from the Commission	(30,000)	(30,000)
Deposits to Noncurrent Cash and Cash Equivalents	(1,804,346)	(1,878,411)
Withdrawals from Noncurrent Cash and Cash Equivalents	1,783,086	2,268,686
Net Cash Used by Capital Financing Activities	(10,553,872)	(26,653,856)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(53,477,677)	(24,130,870)
Sales/Maturities of Investments	55,031,319	15,229,786
Investment Income	2,289,958	1,671,855
Net Cash Provided (Used) by Investing Activities	3,843,600	(7,229,229)
(INCREASE) DECREASE IN CURRENT CASH AND CASH EQUIVALENTS	4,047,713	(18,880,589)
Current Cash and Cash Equivalents - Beginning of Year	68,575,416	87,456,005
CURRENT CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 72,623,129	\$ 68,575,416

See accompanying Notes to Financial Statements.

MARSHALL UNIVERSITY
STATEMENTS OF CASH FLOWS – PRIMARY INSTITUTION (CONTINUED)
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$ (84,523,942)	\$ (87,097,289)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	16,536,663	14,581,627
Expenses Paid on Behalf of the University	651,004	529,560
Changes in Assets and Liabilities:		
Accounts Receivable - Net	(2,001,685)	(2,302,316)
Loans Receivable - Net	136,270	191,158
Prepaid Expenses	(111,736)	62,238
Inventories	6,459	(49,386)
Accounts Payable	(8,946,409)	(3,327,551)
Accrued Liabilities	1,233,297	1,822,140
Other Post Employment Benefits Liability	2,779,899	2,428,229
Defined Benefit Pension Plan	(188,376)	(348,803)
Compensated Absences	297,958	631,641
Unearned Revenue	(352,977)	(658,998)
Deposits Held for Others	450	435
Net Cash Used by Operating Activities	\$ (74,483,125)	\$ (73,537,315)
 NONCASH TRANSACTIONS		
Loss on Disposal of Assets	\$ 19,997	\$ 181,520
Property Additions in Accounts Payable	\$ 230,969	\$ 4,409,664
Expenses Paid on Behalf of the University	\$ 651,004	\$ 529,560
Acquisition of Fixed Assets under Capital Lease Arrangements	\$ 1,020,447	\$ -
Donated Capital Assets	\$ 1,300,000	\$ -

See accompanying Notes to Financial Statements.

MARSHALL UNIVERSITY
THE MARSHALL UNIVERSITY FOUNDATION, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – COMPONENT UNIT
JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 31,874,886	\$ 13,551,670
Unconditional promises to give, less allowance for uncollectible promises of \$3,088,459 and \$859,741 in 2016 and 2015, respectively	18,174,187	29,099,823
Contributions receivable from remainder trusts	374,957	647,855
Other receivables	27	48,372
Beneficial interest in perpetual trust	9,070,277	9,423,213
Investments	163,332,662	120,630,237
Net investment in direct financing leases	465,895	938,041
Property and equipment - net	13,175,952	13,535,485
Cash surrender value-life insurance, net of policy loans	509,438	502,552
Prepays	34,008	31,205
Other assets	<u>15,525</u>	<u>15,500</u>
TOTAL ASSETS	\$ <u>237,027,814</u>	\$ <u>188,423,953</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 28,146	\$ 32,675
Accrued vacation and wages	134,802	191,060
Accrued interest payable	65,933	53,910
Bonds payable	7,667,895	8,579,881
Notes payable	300,000	300,000
Annuity payment liability	343,570	367,709
Deferred revenue	319,025	280,530
Fair value of interest rate swap	3,606	75,795
Funds held in custody for others	<u>59,438,399</u>	<u>-0-</u>
TOTAL LIABILITIES	<u>68,301,376</u>	<u>9,881,560</u>
 NET ASSETS		
Unrestricted	10,555,898	13,939,804
Temporarily restricted	55,469,110	65,036,186
Permanently restricted	<u>102,701,430</u>	<u>99,566,403</u>
TOTAL NET ASSETS	<u>168,726,438</u>	<u>178,542,393</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>237,027,814</u>	\$ <u>188,423,953</u>

See accompanying Notes to Financial Statements.

MARSHALL UNIVERSITY
THE MARSHALL UNIVERSITY FOUNDATION, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES – COMPONENT UNIT
YEAR ENDED JUNE 30, 2016

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT, REVENUES AND RECLASSIFICATIONS				
Gifts, contributions and other	\$ 674,190	\$ 3,969,443	\$ 2,672,038	\$ 7,315,671
Investment income	(474,704)	(3,374,394)	(64,130)	(3,913,228)
Net assets released from restrictions				
Satisfaction of program restrictions	<u>10,027,923</u>	<u>(10,027,923)</u>	<u>-0-</u>	<u>-0-</u>
TOTAL PUBLIC SUPPORT, REVENUES AND RECLASSIFICATIONS	<u>10,227,409</u>	<u>(9,432,874)</u>	<u>2,607,908</u>	<u>3,402,443</u>
EXPENSES				
PROGRAM SERVICES				
Academic assistance	6,819,379	-0-	-0-	6,819,379
Student assistance	<u>3,627,154</u>	<u>-0-</u>	<u>-0-</u>	<u>3,627,154</u>
TOTAL PROGRAM SERVICES	<u>10,446,533</u>	<u>-0-</u>	<u>-0-</u>	<u>10,446,533</u>
SUPPORTING SERVICES				
Management and general	1,574,549	-0-	-0-	1,574,549
Fundraising	<u>1,197,316</u>	<u>-0-</u>	<u>-0-</u>	<u>1,197,316</u>
TOTAL SUPPORTING SERVICES	<u>2,771,865</u>	<u>-0-</u>	<u>-0-</u>	<u>2,771,865</u>
TOTAL EXPENSES	<u>13,218,398</u>	<u>-0-</u>	<u>-0-</u>	<u>13,218,398</u>
CHANGE IN NET ASSETS	(2,990,989)	(9,432,874)	2,607,908	(9,815,955)
NET ASSETS AS OF BEGINNING OF YEAR	13,939,804	65,036,186	99,566,403	178,542,393
TRANSFERS	<u>(392,917)</u>	<u>(134,202)</u>	<u>527,119</u>	<u>-0-</u>
NET ASSETS AS OF END OF YEAR	\$ <u>10,555,898</u>	\$ <u>55,469,110</u>	\$ <u>102,701,430</u>	\$ <u>168,726,438</u>

See accompanying Notes to Financial Statements.

**MARSHALL UNIVERSITY
THE MARSHALL UNIVERSITY FOUNDATION, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES – COMPONENT UNIT
YEAR ENDED JUNE 30, 2015**

2015			
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 794,339 (40,873)	\$ 17,882,963 800,114	\$ 7,674,051 106,816	\$ 26,351,353 866,057
<u>20,073,136</u>	<u>(20,073,136)</u>	<u>-0-</u>	<u>-0-</u>
<u>20,826,602</u>	<u>(1,390,059)</u>	<u>7,780,867</u>	<u>27,217,410</u>
17,153,208	-0-	-0-	17,153,208
<u>3,273,978</u>	<u>-0-</u>	<u>-0-</u>	<u>3,273,978</u>
<u>20,427,186</u>	<u>-0-</u>	<u>-0-</u>	<u>20,427,186</u>
1,604,061	-0-	-0-	1,604,061
<u>1,221,852</u>	<u>-0-</u>	<u>-0-</u>	<u>1,221,852</u>
<u>2,825,913</u>	<u>-0-</u>	<u>-0-</u>	<u>2,825,913</u>
<u>23,253,099</u>	<u>-0-</u>	<u>-0-</u>	<u>23,253,099</u>
(2,426,497)	(1,390,059)	7,780,867	3,964,311
19,901,648	62,127,699	92,548,735	174,578,082
<u>(3,535,347)</u>	<u>4,298,546</u>	<u>(763,199)</u>	<u>-0-</u>
\$ <u>13,939,804</u>	\$ <u>65,036,186</u>	\$ <u>99,566,403</u>	\$ <u>178,542,393</u>

See accompanying Notes to Financial Statements.

**MARSHALL UNIVERSITY
PROVIDENT GROUP – MARSHALL PROPERTIES L.L.C.
BALANCE SHEETS – COMPONENT UNIT
JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets		
Cash	\$ 1,161,884	\$ 874,620
Assets held by trustee, current portion	1,789,567	1,541,953
Accounts receivable, net of allowance; 2016 - \$476,300 and 2015 - \$515,800	413,185	70,646
Prepaid insurance and other current assets	<u>43,513</u>	<u>83,105</u>
Total current assets	<u>3,408,149</u>	<u>2,570,324</u>
Assets held by trustee and deposits		
Assets held by trustee, net of current portion	<u>3,514,172</u>	<u>3,514,034</u>
Total assets held by trustee and deposits	<u>3,514,172</u>	<u>3,514,034</u>
Property and equipment		
Buildings and improvements	77,378,002	77,375,774
Equipment and furniture	7,528,178	7,433,204
Construction in progress	-	<u>139,330</u>
	84,906,180	84,948,308
Less accumulated depreciation	<u>20,542,019</u>	<u>17,735,127</u>
Total property and equipment	<u>64,364,161</u>	<u>67,213,181</u>
Other asset		
Deferred financing costs, net of accumulated amortization; 2016 - \$265,888 and 2015 - \$221,545	<u>728,185</u>	<u>772,528</u>
Total assets	<u>\$ 72,014,667</u>	<u>\$ 74,070,067</u>
LIABILITIES AND MEMBER'S DEFICIT		
Current liabilities		
Revenue bonds payable, current portion	\$ 79,884,000	\$ 319,000
Accounts payable	107,707	170,329
Accrued interest	27,760	6,418
Interest rate swap agreement, current portion	2,679,922	2,756,592
Accrued expenses and other current liabilities	<u>1,172,061</u>	<u>1,082,663</u>
Total current liabilities	<u>83,871,450</u>	<u>4,335,002</u>
Long-term liabilities		
Revenue bonds payable, net of current portion	8,482,136	88,234,753
Deferred interest - subordinate bonds payable	669,194	672,600
Interest rate swap agreement, net of current portion	<u>20,320,904</u>	<u>14,372,353</u>
Total long-term liabilities	<u>29,472,234</u>	<u>103,279,706</u>
Total liabilities	<u>113,343,684</u>	<u>107,614,708</u>
Member's deficit	<u>(41,329,017)</u>	<u>(33,544,641)</u>
Total liabilities and member's deficit	<u>\$ 72,014,667</u>	<u>\$ 74,070,067</u>

See accompanying Notes to Financial Statements.

MARSHALL UNIVERSITY
PROVIDENT GROUP – MARSHALL PROPERTIES L.L.C.
STATEMENTS OF OPERATIONS – COMPONENT UNIT
YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Operating revenue		
Rental revenue	\$ 4,475,569	\$ 4,461,157
Membership fees	5,926,417	5,167,989
Other revenue	<u>53,147</u>	<u>37,017</u>
Total operating revenue	<u>10,455,133</u>	<u>9,666,163</u>
Operating expenses		
Administration and general	3,485,532	3,293,759
Plant operations and maintenance	1,419,282	1,399,106
Marketing	85,003	86,680
Management fee	626,104	609,838
Bad debts (recoveries)	<u>(19,525)</u>	<u>315,266</u>
Total operating expenses	<u>5,596,396</u>	<u>5,704,649</u>
Operating income	<u>4,858,737</u>	<u>3,961,514</u>
Other income (expense)		
Interest income	307	299
Interest expense - senior bonds payable	(2,918,349)	(2,938,522)
Interest expense - subordinate bonds payable	(669,413)	(672,600)
Depreciation	(3,109,660)	(3,702,288)
Amortization	(62,726)	(62,481)
Loss on disposal of fixed assets	(11,391)	(84,609)
Unrealized loss on interest rate swap agreement	<u>(5,871,881)</u>	<u>(1,268,548)</u>
Total other income (expense)	<u>(12,643,113)</u>	<u>(8,728,749)</u>
Net loss	<u>\$ (7,784,376)</u>	<u>\$ (4,767,235)</u>

See accompanying Notes to Financial Statements.

MARSHALL UNIVERSITY
BIG GREEN SCHOLARSHIP FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION – COMPONENT UNIT
JUNE 30, 2016 AND 2015

ASSETS	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash	\$ 1,949,426	\$ 1,572,052
Accounts Receivable	669,605	641,850
Unconditional Pledges (Net of (Net of Allowance for Uncollectible Pledges)	557,308	664,150
Prepaid Expenses	<u>1,200</u>	<u>4,581</u>
Total Current Assets	3,177,539	2,882,633
FIXED ASSETS		
Vehicles	262,741	262,741
Less: Accumulated Depreciation	<u>(186,159)</u>	<u>(144,387)</u>
Net Fixed Assets	76,582	118,354
OTHER ASSETS		
Other Receivable	1,995,845	2,493,862
Beneficial Interest in Charitable Remainder Trust - Temporarily Restricted	685,021	749,385
Endowment Investments:		
Unrestricted	84,899	91,963
Permanently restricted	7,013,941	7,208,248
Cash Value Life Insurance	<u>117,128</u>	<u>111,729</u>
Total Other Assets	<u>9,896,834</u>	<u>10,655,187</u>
Total Assets	<u><u>\$ 13,150,955</u></u>	<u><u>\$ 13,656,174</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 83,896	\$ 36,955
Current Portion of Long-Term Debt	556,434	547,119
Deferred Revenue	-	<u>13,589</u>
Total Current Liabilities	<u>640,330</u>	597,663
OTHER LIABILITIES		
Long-Term Debt	<u>2,093,964</u>	<u>2,646,640</u>
Total Liabilities	2,734,294	3,244,303
NET ASSETS		
Unrestricted	2,458,661	2,137,808
Temporarily Restricted	685,021	749,385
Permanently Restricted	<u>7,272,979</u>	<u>7,524,678</u>
Total Net Assets	<u>10,416,661</u>	<u>10,411,871</u>
Total Liabilities and Net Assets	<u><u>\$ 13,150,955</u></u>	<u><u>\$ 13,656,174</u></u>

See accompanying Notes to Financial Statements.

MARSHALL UNIVERSITY
BIG GREEN SCHOLARSHIP FOUNDATION, INC.
STATEMENTS OF ACTIVITIES – COMPONENT UNIT
YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
UNRESTRICTED NET ASSETS		
Support:		
Contributions	\$ 2,933,978	\$ 2,030,387
Special Events	553,180	516,242
Other Income	65,067	70,310
In-Kind Contributions	414,278	425,165
Total Unrestricted Support	<u>3,966,503</u>	<u>3,042,104</u>
Other Revenue, Gains, Expenses, and Losses:		
Revenue and Gains:		
Interest and Dividend Income	145,813	115,269
Unrealized Gain on Investment	<u> -</u>	<u> -</u>
Total Revenue and Gains	<u>145,813</u>	<u>115,269</u>
Expenses and Losses:		
Investment Fees	53,562	57,921
Unrealized Loss on Investments	<u>1,139</u>	<u>1,301</u>
Total Expenses and Losses	<u>54,701</u>	<u>59,222</u>
Total Other Revenue, Gains, Expenses, and Losses	<u>91,112</u>	<u>56,047</u>
Total Support and Other Income	4,057,615	3,098,151
BIG GREEN EXPENSES		
Salaries and Benefits	152,653	189,059
Special Events	412,742	381,916
Travel and Entertainment	70,052	62,439
Promotions	170,985	155,006
Public Relations	7,344	4,300
Membership Publication	69,928	69,928
Printing and Graphics	39,686	39,275
Office Expenses	36,832	39,719
Insurance	5,800	5,976
Repair, Maintenance, and Rental	36,788	26,847
Accounting and Professional Services	11,050	10,475
Interest	117,478	133,735
Other Expenses	9,588	10,754
Bank Charges and Credit Card Fees	29,909	22,406
Bad Debt Expense	<u>179,670</u>	<u>139,758</u>
Total Big Green Expenses	<u>\$ 1,350,505</u>	<u>\$ 1,291,593</u>

See accompanying Notes to Financial Statements.

**MARSHALL UNIVERSITY
BIG GREEN SCHOLARSHIP FOUNDATION, INC.
STATEMENTS OF ACTIVITIES – COMPONENT UNIT (CONTINUED)
YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
MARSHALL UNIVERSITY		
DEPARTMENT OF ATHLETICS		
EXPENSES:		
Contributions to Marshall University		
Department of Athletics:	\$ 1,850,000	\$ 1,650,000
Salaries and benefits	195,091	238,432
Financial aid	2,500	30,370
Athletic equipment and awards	-	130
Courtesy cars	191,246	181,871
Travel - team	56,250	27,274
Recruiting	119,672	99,809
Medical	192,430	210,731
Housing	80,500	77,634
Facility maintenance	18,789	1,379
Office expenses	11,931	12,340
Depreciation	41,772	44,825
Total Athletics Expenses	<u>2,760,181</u>	<u>2,574,795</u>
 Total Expenses	 <u>4,110,686</u>	 <u>3,866,388</u>
 (Decrease) Increase in Unrestricted Net Assets	 (53,071)	 (768,237)
 TEMPORARILY RESTRICTED ASSETS		
Unrealized (loss) / gain on investments	(64,363)	(45,008)
 PERMANENTLY RESTRICTED ASSETS		
Contributions	206,422	252,347
Unrealized (loss) / gain on investments	<u>(84,198)</u>	<u>(97,402)</u>
 Increase in Permanently Restricted Net Assets	 122,224	 154,945
 Increase (Decrease) in Net Assets	 <u>4,790</u>	 <u>(658,300)</u>
 Beginning Net Assets	 <u>10,411,871</u>	 <u>11,070,171</u>
 Ending Net Assets	 <u>\$ 10,416,661</u>	 <u>\$ 10,411,871</u>

See accompanying Notes to Financial Statements.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 ORGANIZATION

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

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

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

As a requirement of Governmental Accounting Standards Board (GASB), the University has included information from the Marshall University Foundation, Inc. (the Foundation), Provident Group — Marshall Properties, L.L.C. (Provident — Marshall) and Big Green Scholarship Foundation, Inc. (Big Green) for the years ended June 30, 2016 and 2015.

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

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

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 ORGANIZATION (CONTINUED)

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The University is a blended component unit of the West Virginia Higher Education Fund and represents separate funds of the State that are not included in the State’s general fund. The University is a separate entity that, along with all State institutions of higher education, the Commission (which includes West Virginia Network for Educational Telecomputing), and the West Virginia Council for Community and Technical College Education form the Higher Education Fund of the State. The Higher Education Fund is considered a component unit of the State, and its financial statements are discretely presented in the State’s comprehensive annual financial report.

The accompanying financial statements present all funds under the authority of the University, including Marshall University Research Corporation (MURC) and Southern West Virginia Brownfields Assistance Center, Inc. (the Center). The basic criteria for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from the University’s ability to significantly influence operations and accountability for fiscal matters of related entities. Other affiliates of the University (see Notes 15, 16, and 17) are not part of the University reporting entity and are not included in the accompanying financial statements, since the University has no ability to designate management, cannot significantly influence operations of these entities, and is not accountable for the fiscal matters of these entities under GASB.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity (Continued)

On May 25, 2006, the Center was incorporated to foster and promote the redevelopment of Brownfield sites, including providing assistance to eligible entities on state and federal Brownfield programs, securing state and federal funding for Brownfield redevelopment, and acquiring property eligible for state and federal Brownfield assistance as set forth in West Virginia State Code 18B-11-7. As of June 30, 2016 and 2015, the Center had limited financial activity, all of which is included in the accompanying financial statements.

The audited financial statements of the Foundation, Big Green and Provident — Marshall, are presented here as discretely presented component units with the University financial statements in accordance with GASB discretely presented component unit requirements. The Foundation and Big Green are separate, private, nonprofit organizations; Provident — Marshall is a single-member, limited liability company; and all report under Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the audited financial information as they are presented herein (see Notes 15, 16, 17, 24, 25, and 26).

Financial Statement Presentation

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

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

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

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

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

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (Continued)

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

Basis of Accounting

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

Cash and Cash Equivalents

For purposes of the statements of net position, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer's Office (the State Treasurer) are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Board of Treasury Investments (BTI). These funds are transferred to the BTI, and the BTI is directed by the State Treasurer to invest the funds in specific external investment pools in accordance with West Virginia Code, policies set by the BTI, provisions of bond indentures, and the trust agreements when applicable. Balances in the investment pools are recorded at fair value or amortized cost, which approximates fair value. Fair value is determined by a third-party pricing service based on asset portfolio pricing models and other sources in accordance with GASB. The BTI was established by the State Legislature and is subject to oversight by the State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit are available for immediate withdrawal or on the first day of each month for the WV Short Term Bond Pool and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

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

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The University's investments are entirely managed and held by the Foundation at June 30, 2016. The University had investments in six long-term funds comprised of bond, equity, commodities, and fixed-income investments, with Commonfund and eight investment funds with Jefferies Group, at June 30, 2015. MURC held U.S. government agency securities, corporate/foreign bonds, equity mutual funds and fixed income investments at June 30, 2016. MURC held U.S. government agency securities and four investment funds with Jefferies Group at June 30, 2016 and 2015.

Investments measured and reported at fair value are classified according to the following hierarchy. Level 1, investments reflect prices quoted in active markets. Level 2, investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active. Level 3, investments reflect prices based upon unobservable inputs. 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.

Alternative investments are carried at fair value using the net asset value as a practical expedient. These valuations include assumptions and methods that were reviewed by University management and are primarily based on quoted market prices or other readily determinable market values for the underlying investments. The University believes that the carrying amount of its alternative investments is a reasonable estimate of fair value. Because a portion of alternative investments is not readily marketable and the estimated value is subject to uncertainty, the reported value may differ from the value that would have been used had a ready market existed.

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

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

Allowance for Doubtful Accounts

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

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

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

Noncurrent Cash, Cash Equivalents, and Investments

Cash, cash equivalents, and investments that are (1) externally restricted to make debt service payments and long-term loans to students, or to maintain sinking or reserve funds, (2) to purchase capital or other noncurrent assets or settle long-term liabilities, or (3) permanently restricted net position are classified as noncurrent assets in the accompanying statements of net position.

Capital Assets

Capital assets include property, plant, and equipment; books and materials that are part of a catalogued library; and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction or at market value at the date of donation in the case of gifts. Interest on related borrowings, net of interest earnings on invested proceeds, is capitalized during the period of construction and was \$218,382 and \$3,488,246 for the years ended June 30, 2016 and 2015, respectively. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and infrastructure, 15 years for land improvements, seven years for library books, and three to 10 years for furniture and equipment. The University's capitalization threshold is \$100,000 for buildings and \$5,000 for most other capital assets.

Unearned Revenue

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

Compensated Absences and Other Post Employment Benefits (OPEB)

GASB provides for the measurement, recognition, and display of OPEB expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State. The University is required to participate in this multiple-employer, cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund, sponsored by the State of West Virginia. Details regarding this plan and its stand-alone financial statements can be obtained by contacting the West Virginia Public Employees Insurance Agency (PEIA), State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, WV 25305-0710, or <http://www.wvpeia.com>.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

GASB requires entities to accrue for employees' rights to receive compensation for vacation leave or payments in lieu of accrued vacation or sick leave as such benefits are earned and payment becomes probable. The University's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1 1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage, and three days extend health insurance for one month of family coverage. For employees hired after 1988, or who were hired before 1988 but did not choose such coverage until after 1988 but before July 1, 2001, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired July 1, 2001, or later will no longer receive sick leave credit toward insurance premiums when they retire. Additionally, all retirees have the option to purchase continued coverage regardless of their eligibility for premium credits. This liability is now provided for under the multiple-employer, cost-sharing plan sponsored by the State.

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally, 3 1/3 years of teaching service extend health insurance for one year of single coverage, and five years extend health insurance for one year of family coverage. Faculty hired after July 1, 2009, will no longer receive years of service credit toward insurance premiums when they retire. Employees hired after July 1, 2010, receive no health insurance premium subsidy from the University. Two groups of employees hired after July 1, 2010, will not be required to pay the unsubsidized rate: 1) active employees who were originally hired before July 1, 2010, who have a break in service of fewer than two years after July 1, 2010; and 2) retired employees who retired before July 1, 2010, return to active service after July 1, 2010, and then go back into retirement. In those cases, the original hire date will apply.

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

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the West Virginia Teachers' Retirement System (TRS), administered by the West Virginia Consolidated Public Retirement Board (CPRB), and additions to/reductions from the TRS fiduciary net position have been determined on the same basis as they are reported in the TRS financial statements, which can be found at <https://www.wvretirement.com/Publications.html#CAFR>. The plan schedules of TRS are prepared using the accrual basis of accounting and economic resources measurement focus in accordance with U.S. GAAP as prescribed by GASB. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Pension Liability (Continued)

Investments are reported at fair value. Detailed information on investment valuation can be found in the TRS financial statements. Management of TRS has made certain estimates and assumptions relating to employer allocation schedules, and actual results could differ (Note 14).

Deferred Outflows of Resources

Consumption of net position by the University that is applicable to a future fiscal year is reported as a deferred outflow of resources on the statement of net position. As of June 30, 2016 and 2015, the University had a deferred loss on refunding of \$1,047,802 and \$1,180,171, respectively, and deferred outflows of resources related to pensions of \$447,749 and \$499,696 as of June 30, 2016 and 2015, respectively (Note 14).

Deferred Inflows of Resources

Acquisition of net position by the University that is applicable to a future fiscal year is reported as a deferred inflow of resources on the statement of net position. As of June 30, 2016 and 2015, the University had deferred inflows from service concession arrangements of \$781,753 and \$1,031,914, respectively (Note 20), and deferred inflows related to pensions of \$626,668 and \$842,388 as of June 30, 2016 and 2015, respectively (Note 14).

Risk Management

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

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

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

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk Management (Continued)

Under the program, SOM entered into an agreement with BRIM whereby SOM initially deposited \$500,000 in an escrow account with the State Treasury from which BRIM could withdraw amounts to pay indemnity costs and allocated expenses in connection with medical malpractice claims against the SOM. At June 30, 2016 and 2015, the balance in the escrow account was \$1,529,535 and \$1,508,276, respectively. Based on an actuarial valuation of this self-insurance program, the University has recorded a liability of \$9,466,000 and \$9,000,000 at June 30, 2016 and 2015, respectively, to reflect projected claim payments at 80% confidence level and a discount rate of 3% at June 30, 2016 and 2015. The receivable from University Physicians & Surgeons, Inc., for the funding it has agreed to provide for this liability was \$7,936,465 and \$7,491,724 at June 30, 2016 and 2015, respectively, and is included in noncurrent other accounts receivable (see Note 4).

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

Classification of Revenues

The University has classified its revenues according to the following criteria:

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

Nonoperating Revenues — Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB, such as state appropriations, Federal Pell Grants, investment income, and sale of capital assets (including natural resources).

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

Use of Restricted Net Position

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

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Financial Assistance Programs

The University makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students through institutions, such as the University. Direct student loan receivables are not included in the University's accompanying statements of net position since the loans are repayable directly to the U.S. Department of Education. In 2016 and 2015, the University received and disbursed approximately \$81,000,000 and \$78,000,000, respectively, under the Federal Direct Student Loan Program on behalf of the U.S. Department of Education, which is not included as revenue and expense on the accompanying statements of revenues, expenses, and changes in net position.

The University also distributes other student financial assistance funds on behalf of the federal government to students under the Federal Pell Grant, Supplemental Educational Opportunity Grant, and College Work Study programs. The activity of these programs is recorded in the accompanying financial statements. In both 2016 and 2015, the University received and disbursed approximately \$17,812,000 and \$18,426,000, respectively, under these federal student aid programs.

Scholarship Allowances

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

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

Government Grants and Contracts

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

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Service Concession Arrangements

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

Income Taxes

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

Cash Flows

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

Use of Estimates

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

Risk and Uncertainties

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

Newly Adopted Statements Issued by the Governmental Accounting Standards Board (GASB)

The University has implemented GASB Statement No. 72, *Fair Value Measurement and Application*, effective for fiscal years beginning after June 15, 2015. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. In accordance with the implementation of this standard, the University has classified its investments as Level 1, 2, or 3 to indicate the valuation inputs used to measure the fair value.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The University has implemented GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The requirements of this statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2016, and the requirements of this statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. This statement establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions that are provided to the employees of state and local governmental employers and are not within the scope of Statement 68. This statement also establishes requirements for pensions that are provided through pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. This statement also establishes requirements for governments that hold assets accumulated for purposes of providing pensions through defined benefit pension plans that are not administered through trusts that meet certain criteria and amends certain provisions for pension plans that are within the scope of Statement 67 and for pensions that are within the scope of Statement 68. The adoption of this statement did not have a material impact on the financial statements.

The University has implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which is effective for fiscal years beginning after June 15, 2015. This statement establishes the hierarchy of GAAP for state and local governments. The adoption of this statement did not have a material impact on the financial statements.

The University has implemented GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which is effective for fiscal years beginning after December 15, 2015. This statement establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that meets certain criteria in GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and that is not a state or local governmental pension plan; is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers; and has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The adoption of this statement did not have a material impact on the financial statements.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The University has implemented GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This statement establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This statement also establishes accounting and financial reporting standards for state and local governments that participate in a qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost. The requirements of this statement are effective for fiscal years beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. The adoption of this statement did not have a material impact on the financial statements.

The University has implemented GASB Statement No. 82, *Pension Issues*, which is effective for fiscal years beginning after June 15, 2016, except for the requirements of this statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. This statement establishes accounting and financial reporting requirements for pensions provided to employees of state or local governmental employers. This statement also establishes financial reporting requirements for pension plans administered through trusts that meet the criteria in Statement No. 67. The adoption of this statement did not have a material impact on the financial statements.

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

The GASB has issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is effective for fiscal years beginning after June 15, 2016. This statement establishes financial reporting standards for state and local governmental other postemployment benefit plans – defined benefit plans and defined contribution plans – that are administered through trusts or equivalent arrangements that meet certain criteria. This statement also establishes financial reporting standards for governments that hold assets accumulated for purposes of providing other postemployment benefits through defined benefit plans that are not administered through trusts or equivalent arrangements that meet certain criteria. The University has not yet determined the effect that the adoption of GASB Statement No. 74 may have on its financial statements.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The GASB has also issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is effective for fiscal years beginning after June 15, 2017. This statement establishes standards of accounting and financial reporting for defined benefit other postemployment benefits and defined contribution other postemployment benefits that are provided to the employees of state and local governmental employers through other postemployment benefit plans that are administered through trusts or equivalent arrangements that meet certain criteria. This statement also establishes standards of accounting and financial reporting for defined benefit other postemployment benefits and defined contribution other postemployment benefits that are provided to the employees of state and local governmental employers through other postemployment benefit plans that are not administered through trusts that meet certain criteria. The University has not yet determined the effect that the adoption of GASB Statement No. 75 may have on its financial statements.

The GASB has also issued Statement No. 77, *Tax Abatement Disclosures*, which is effective for fiscal years beginning after December 15, 2015. This statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The University has not yet determined the effect that the adoption of GASB Statement No. 77 may have on its financial statements.

The GASB has also issued Statement No. 80, *Blending Requirements for Certain Component Units*, which is effective for fiscal years beginning after June 15, 2016. This statement amends the blending requirements for the financial presentation of component units of all state and local governments established in Statement No. 14, *The Financial Reporting Entity*, as amended. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The University has not yet determined the effect that the adoption of GASB Statement No. 80 may have on its financial statements.

The GASB has also issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which is effective for fiscal years beginning after December 15, 2016. This statement establishes recognition and measurement requirements for irrevocable split-interest agreements created through trusts – or other legally enforceable agreements with characteristics that are equivalent to irrevocable split-interest agreements – in which a donor irrevocably transfers resources to an intermediary. The intermediary administers these resources for the unconditional benefit of a government or at least one other beneficiary. The University has not yet determined the effect that the adoption of GASB Statement No. 81 may have on its financial statements.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 3 CASH AND CASH EQUIVALENTS

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

	June 30, 2016		
	Current	Noncurrent	Total
State Treasurer	\$ 62,488,796	\$ 176,000	\$ 62,664,796
Trustee	500	-	500
State Treasurer - Escrow	-	1,529,535	1,529,535
Cash Equivalents	8,721,573	-	8,721,573
In Bank	1,402,160	-	1,402,160
On Hand	10,100	-	10,100
Total	<u>\$ 72,623,129</u>	<u>\$ 1,705,535</u>	<u>\$ 74,328,664</u>

	June 30, 2015		
	Current	Noncurrent	Total
State Treasurer	\$ 48,670,832	\$ 176,000	\$ 48,846,832
Trustee	15	-	15
State Treasurer - Escrow	-	1,508,276	1,508,276
Cash Equivalents	18,914,124	-	18,914,124
In Bank	980,339	-	980,339
On Hand	10,106	-	10,106
Total	<u>\$ 68,575,416</u>	<u>\$ 1,684,276</u>	<u>\$ 70,259,692</u>

Cash held by the State Treasurer includes \$1,320,152 and \$1,345,281 at June 30, 2016 and 2015, respectively, of restricted cash for sponsored projects, loans, and other purposes.

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

State Treasurer escrow represents an escrow agreement the University entered into with BRIM for malpractice insurance deductibles with a balance of \$1,529,535 and \$1,508,276 at June 30, 2016 and 2015, respectively.

MURC cash equivalents totaling \$4,806,953 and \$4,536,360 at June 30, 2016 and 2015, respectively, are held in repurchase agreements and a business savings account, both collateralized at 104% and 112%, respectively. The collateral was held in the name of MURC.

The carrying amount of cash in bank at June 30, 2016 and 2015, was \$1,402,160 and \$980,339 as compared with the bank balance of \$1,442,536 and \$1,315,496, respectively. The difference is primarily caused by outstanding checks and items in transit. The bank balances were covered by federal depository insurance as noted below or were collateralized by securities held by the State's agent. Regarding federal depository insurance, interest-bearing accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. Non-interest-bearing accounts are 100% insured through December 31, 2016.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)

Amounts with the State Treasurer as of June 30, 2016 and 2015, are comprised of three investment pools, the WV Money Market Pool, the WV Government Money Market Pool and the WV Short Term Bond Pool.

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

External Pool	2016		2015	
	Carrying Value (in Thousands)	S & P Rating	Carrying Value (in Thousands)	S & P Rating
WV Money Market Pool	\$ 61,300	AAAm	\$ 48,412	AAAm
WV Government Money Market Pool	-	AAAm	424	AAAm
WV Short Term Bond Pool	1,365	Not Rated	11	Not Rated

A Fund rated "AAAm" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAm" is the highest principal stability fund rating assigned by Standard & Poor's.

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All the amounts with the State Treasurer are subject to interest rate risk. The following table provides information on the weighted-average maturities for the WV Money Market Pool and the WV Government Money Market Pool:

External Pool	2016		2015	
	Carrying Value (in Thousands)	WAM (Days)	Carrying Value (in Thousands)	WAM (Days)
WV Money Market Pool	\$ 61,300	49	\$ 48,412	47
WV Government Money Market Pool	-	-	424	51

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

External Pool	2016		2015	
	Carrying Value (in Thousands)	Effective Duration (Days)	Carrying Value (in Thousands)	Effective Duration (Days)
WV Short Term Bond Pool	\$ 1,365	462	\$ 11	410

Other Investment Risks — Other investment risks include concentration of credit risk, custodial credit risk, and foreign currency risk. None of the BTI's Consolidated Fund's investment pools or accounts is exposed to these risks as described below.

**MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)

Cash in Bank with Trustee

Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Cash in bank with Trustee is governed by provisions of the bond agreement.

<u>Investment Type</u>	Carrying Value	
	2016	2015
Money Market Fund	\$ 500	\$ 15

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

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The University does not have a formal custodial credit risk policy.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University's investment policy limits investment maturities from potential fair value losses due to increasing interest rates. No more than 5% of the money market fund's total market value may be invested in the obligations of a single issuer, with the exception of the U.S. government and its agencies. The University does not have a formal interest rate risk policy.

NOTE 4 ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2016 and 2015, are as follows:

	2016		
	Current	Noncurrent	Total
Student Tuition and Fees -			
Net of Allowance for Doubtful			
Accounts of \$556,006	\$ 1,706,456	\$ -	\$ 1,706,456
Grants and Contracts Receivable -			
Net of Doubtful Accounts of \$760,766	6,431,141	-	6,431,141
Due from the Commission	553,220	-	553,220
Due from Other State Agencies	232,359	-	232,359
Primary Government	1,549,262	-	1,549,262
Other Accounts Receivable	3,749,734	9,552,865	13,302,599
Total	\$ 14,222,172	\$ 9,552,865	\$ 23,775,037

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 4 ACCOUNTS RECEIVABLE (CONTINUED)

	2015		
	Current	Noncurrent	Total
Student Tuition and Fees - Net of Allowance for Doubtful Accounts of \$224,130	\$ 993,512	\$ -	\$ 993,512
Grants and Contracts Receivable - Net of Doubtful Accounts of \$841,500	6,850,937	-	6,850,937
Due from the Commission	31,336	-	31,336
Due from Other State Agencies	291,266	-	291,266
Appropriations due from Primary Government	2,834,879	-	2,834,879
Other Accounts Receivable	3,912,865	9,223,664	13,136,529
Total	<u>\$ 14,914,795</u>	<u>\$ 9,223,664</u>	<u>\$ 24,138,459</u>

NOTE 5 INVESTMENTS

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The University had the following recurring fair value measurements comprised of investments as of June 30, 2016 and 2015:

	2016			
	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment by Fair Value Level				
University				
Investments Held by Marshall University Foundation	\$ 45,831,164	\$ -	\$ 45,831,164	\$ -
MURC				
U.S. Government Agency Obligations	2,399,796	-	2,399,796	-
U.S. Treasury Obligations	1,353,340	1,353,340	-	-
Corporate/Foreign Bonds	2,476,121	2,476,121	-	-
Equity Mutual Funds	18,630,278	18,630,278	-	-
Fixed Income	4,487,453	4,487,453	-	-
Total	75,178,152	<u>\$ 26,947,192</u>	<u>\$ 48,230,960</u>	<u>\$ -</u>
Investments Measured at Cost				
MURC				
Progenesis Technologies	100,000			
Total Investments	<u>\$ 75,278,152</u>			

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 5 INVESTMENTS (CONTINUED)

	Fair Value	Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment by Fair Value Level				
University				
Jefferies & Company, Inc.:				
Han Mid Term Fund	\$ 1,591,078	\$ -	\$ 1,591,078	\$ -
Operating Fund	1,004,800	-	1,004,800	-
Mid Term Fund-JW3	3,217,440	-	3,217,440	-
Mid Term Fund-JW4	5,816,673	-	5,816,673	-
MURC				
U.S. Government Agency Obligations	30,188,037	30,188,037	-	-
Total	41,818,028	<u>\$ 30,188,037</u>	<u>\$ 11,629,991</u>	<u>\$ -</u>
Investments Measured at Net Asset Value (NAV)				
University				
Commonfund:				
High Quality Bond Fund	3,792,036			
Equity Index Fund	1,847,441			
Intermediate Term Fund	582,350			
Multi-Strategy Equity Fund	17,213,883			
Core Equity Fund	782,781			
Multi-Strategy Bond Fund	6,022,388			
Multi-Strategy Commodities Fund	595,323			
Jefferies & Company, Inc.:				
BHR Offshore Fund	4,251,786			
Salsman Offshore Fund	4,481,493			
Z Capital Loan Op Offshore Fund	1,273,696			
Mudrick Dist Opportunity Fund	4,407,764			
RBR European Fund	2,308,537			
MURC				
Jefferies & Company, Inc.:				
BHR Offshore Fund	1,199,484			
Salsman Offshore Fund	1,144,239			
Z Capital Loan Op Offshore Fund	928,434			
Mudrick Dist Opportunity Fund	660,122			
Total Investments Measured at the NAV	51,491,757			
Investments Measured at Cost				
MURC				
Progenesis Technologies	100,000			
Total Investments	<u>\$ 93,409,785</u>			

The Foundation is a discretely presented component unit of the University and is included in the University's financial reporting entity as a discretely presented component unit as discussed in Note 1. During 2016 the University and Foundation executed the Investment Management Agency Agreement (the "Agreement") in which the Foundation was appointed as the University's investment agent. Under the Agreement the Foundation has full power and authority to make purchases and sales of securities on behalf of the University. Other responsibilities of the Foundation, in part, are to account for University assets separately from Foundation assets, provide monthly investment reports to the University and engage third party investment managers to invest University assets in accordance with the asset allocation provisions established by the University's Investment Committee (defined below). The University's investments are held in the name of the Foundation. In return for the above noted services, the University pays the Foundation investment advisory fees as defined in the Agreement.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 5 INVESTMENTS (CONTINUED)

The University's investments held by the Foundation are classified in Level 2 of the fair value hierarchy are valued at quoted prices for the underlying assets which are considered to be similar assets in active markets.

Investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Investments classified in Level 2 of the fair value hierarchy are valued based on the securities' relationship to benchmark quoted prices. Level 3 represents investments with no observable market.

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table as of June 30, 2015, there were none as of June 30, 2016.

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Notice Period</u>
University				
Commonfund:				
High Quality Bond Fund (1)	3,792,036	None	Monthly	30 day
Equity Index Fund (2)	1,847,441	None	Daily	1 day
Intermediate Term Fund (3)	582,350	None	Weekly	5 day
Multi-Strategy Equity Fund (4)	17,213,883	None	Daily to Quarterly	1-90 day
Core Equity Fund (5)	782,781	None	Weekly	5 days
Multi-Strategy Bond Fund (6)	6,022,388	None	Daily to Monthly	1-5 day
Multi-Strategy Commodities Fund (7)	595,323	None		
Jefferies & Company, Inc.:				
BHR Offshore Fund (8)	4,251,786	None	Quarterly	60 days
Salsman Offshore Fund (9)	4,481,493	None	Quarterly	60 days
Z Capital Loan Op Offshore Fund (10)	1,273,696	None	Quarterly	60 days
Mudrick Dist Opportunity Fund (11)	4,407,764	None	Quarterly	60 days
RBR European Fund (12)	2,308,537	None	Quarterly	60 days
MURC				
Jefferies & Company, Inc.:				
BHR Offshore Fund (8)	1,199,484	None	Quarterly	60 days
Salsman Offshore Fund (9)	1,144,239	None	Quarterly	60 days
Z Capital Loan Op Offshore Fund (10)	928,434	None	Quarterly	60 days
Mudrick Dist Opportunity Fund (11)	660,122	None	Quarterly	60 days
Total Investments Measured at the NAV	<u>\$ 51,491,757</u>			

1. *High quality bond fund.* The investment object of the high quality bond fund is to offer a program devoted to investing in high quality, investment grade-only, fixed income securities. The high quality bond fund seeks to outperform its benchmark, the Barclays Aggregate Bond Index, over a full market cycle.
2. *Equity index Fund.* The investment objective of the equity index fund is to pool assets to obtain an index product that tracks the S&P 500 Index at a competitive price. The Fund may use a multi-manager approach, allocating assets to investment sub-advisors or investment funds managed by third party investment managers.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 5 INVESTMENTS (CONTINUED)

3. *Intermediate Term Fund.* The investment objective of the Fund is to offer a program to be used for core cash balances or operating funds that are not expected to be needed for expenditure for a period of at least a year. The Fund seeks to produce a total return in excess of its benchmark, the Merrill Lynch 1-3 Year Treasury Index, but attaches greater emphasis to its goal of generating a higher current yield than short-term money market instruments in a manner that mitigates the chances of a negative total return over any 12-month period.
4. *Multi-Strategy Equity Fund.* The investment objective of this Fund is to offer an investment program that will provide, in a single fund, all of the strategy and manager diversification that an endowment would normally require for its equity allocation. The Fund seeks to add value over long periods of time, above the return of the U.S. equity market as measured by the S&P 500 Index and, due to its strategy and manager diversification, to reduce volatility in comparison to that of investing in the index.
5. *Core Equity Fund.* The investment objective of the Fund is to offer access to large capitalization and, to a lesser extent, mid-capitalization companies. The Fund seeks to outperform its benchmark, the S&P 500 Index, over a full market cycle.
6. *Multi-Strategy Bond Fund.* The investment objective of the Fund is to offer an actively managed, multi-manager investment program that will provide, in a single fund, broad exposure to global debt markets. The Fund seeks to add value above the return of the broad U.S. bond market over a full market cycle, as measured by the Barclays Capital U.S. Aggregate Bond Index and, due to its strategy and manager diversification, to reduce volatility in comparison to that of investing in the index.
7. *Multi-Strategy Commodities Fund.* The Fund uses a Multi-manager approach, allocating assets to investment Sub-Advisors (Sub-Advisors), third party investment managers (Third Party Investment Funds) and Direct investment by the Investment Manager. The Fund seeks to outperform its benchmark, the Dow Jones-AIG Commodity Index.
8. *BHR Offshore Fund.* The Fund seeks to protect against capital losses through rigorous research combined with active hedging techniques. The Fund invests primarily in U.S. publicly traded debt and equity securities and focuses on special situations where it identifies one or more catalysts providing paths to value.
9. *Salzman Offshore Fund.* The Fund's primary investment objective is to employ a value-oriented, event-driven approach to produce superior capital appreciation while minimizing the risk of permanent capital loss by investing and trading in a variety of investment securities.
10. *Z Capital Loan Opportunity Offshore Fund Ltd.* The Fund primarily invests in debt instruments, including below investment grade secured obligation, collateralized transactions, asset-based debt and other debt and debt-like instrument.
11. *Mudrick Distressed Opportunity Fund.* The Fund's investment objective is to maximize total return through investment in a portfolio of distressed debt and equities, focused predominantly on event driven value investments such as debt that trades at a discount to par, distressed and turnaround equities, post-reorganized equities, spin-offs and other event driven investments such as broken merger or acquisition deals and activist situations, among other. The Fund will invest in securities that the Investment Manager believes are trading at a significant discount to their intrinsic value, thus providing a large margin of safety.
12. *RBR European Fund.* The objective of the Fund is to achieve an above average annual return by investing long/short in quoted equities.

**MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 5 INVESTMENTS (CONTINUED)

Credit Risk

The University's investment policy adheres to fiduciary responsibilities in accordance with the provisions of the Uniform Prudent Investor Act (WV State Code §44-6C-1 Prudent Investor Rule). Oversight will occur with care, skill, prudence, and diligence. At June 30, 2015, the High Quality Bond Fund had an average maturity of 8.64 years and a rating of A+, the Intermediate Term Fund had an average maturity of 2.43 years and a rating of AA, the Multi-Strategy Bond Fund had an average maturity of 7.30 years and a rating of A+, and the Multi-Strategy Commodities Fund had an average maturity of .57 years and a rating of AA-; all other University investments do not have an assigned rating.

The U.S. Government National Mortgage Association Securities held by MURC have an average maturity of 3.9 years. At both June 30, 2016 and 2015, the MURC investment in U.S. Government National Mortgage Association Securities and FDIC Insured National Certificates of Deposit, were AAA/AA+/AAA rated government-backed securities. The Corporate Bonds acquired in 2016 by MURC have Moody ratings ranging from Baa2 to AA+. The alternative investments held by Jeffries & Company and the investment in Progenesis Technologies, LLC do not have assigned rates.

Concentration of Credit Risk

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

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

Interest Rate Risk

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

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 6 CAPITAL ASSETS

Capital asset transactions for the years ended June 30, 2016 and 2015 are as follows:

	2016				Ending Balance
	Beginning Balance	Additions	Reductions	Other	
Capital Assets not being Depreciated:					
Land	\$ 33,499,301	\$ -	\$ -	\$ -	\$ 33,499,301
Antiques and Artwork (Inexhaustible)	132,107	-	-	-	132,107
Construction in Progress	87,227,751	6,031,602	-	(90,979,288)	2,280,065
Total Capital Assets not being Depreciated	<u>\$ 120,859,159</u>	<u>\$ 6,031,602</u>	<u>\$ -</u>	<u>\$ (90,979,288)</u>	<u>\$ 35,911,473</u>
Other Capital Assets:					
Land Improvements	\$ 7,937,601	\$ -	\$ -	\$ 178,000	\$ 8,115,601
Infrastructure	26,540,400	490,287	(24,366)	1,507,944	28,514,265
Buildings	426,854,714			89,035,816	515,890,530
Equipment	56,216,772	3,241,734	(1,855,314)	257,528	57,860,720
Library Books	9,360,860	117,623	(871)		9,477,612
Total Other Capital Assets	526,910,347	3,849,644	(1,880,551)	90,979,288	619,858,728
Less: Accumulated Depreciation for:					
Land Improvements	3,753,871	484,052	-	-	4,237,923
Infrastructure	20,512,129	1,107,722	(24,366)	-	21,595,485
Buildings	138,835,870	11,126,740	-	-	149,962,610
Equipment	42,532,875	3,616,575	(1,817,402)	-	44,332,048
Library Books	8,593,045	201,574	(870)	-	8,793,749
Total Accumulated Depreciation	214,227,790	16,536,663	(1,842,638)	-	228,921,815
Other Capital Assets - Net	<u>\$ 312,682,557</u>	<u>\$ (12,687,019)</u>	<u>\$ (37,913)</u>	<u>\$ 90,979,288</u>	<u>\$ 390,936,913</u>
Capital Asset Summary:					
Capital Assets not being Depreciated	\$ 120,859,159	\$ 6,031,602	\$ -	\$ (90,979,288)	\$ 35,911,473
Capital Assets	526,910,347	3,849,644	(1,880,551)	90,979,288	619,858,728
Total Cost of Capital Assets	647,769,506	9,881,246	(1,880,551)	-	655,770,201
Less: Accumulated Depreciation	(214,227,790)	(16,536,663)	1,842,638	-	(228,921,815)
Capital Assets - Net	<u>\$ 433,541,716</u>	<u>\$ (6,655,417)</u>	<u>\$ (37,913)</u>	<u>\$ -</u>	<u>\$ 426,848,386</u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 6 CAPITAL ASSETS (CONTINUED)

	2015				
	Beginning Balance	Additions	Reductions	Other	Ending Balance
Capital Assets not being Depreciated:					
Land	\$ 32,436,357	\$ 1,062,944	\$ -	\$ -	\$ 33,499,301
Antiques and Artwork (Inexhaustible)	132,107	-	-	-	132,107
Construction in Progress	76,194,004	28,891,054	(124,800)	(17,732,507)	87,227,751
Total Capital Assets not being Depreciated	<u>\$ 108,762,468</u>	<u>\$ 29,953,998</u>	<u>\$ (124,800)</u>	<u>\$ (17,732,507)</u>	<u>\$ 120,859,159</u>
Other Capital Assets:					
Land Improvements	\$ 7,937,601	\$ -	\$ -	\$ -	\$ 7,937,601
Infrastructure	26,265,683	282,155	(7,438)	-	26,540,400
Buildings	408,344,046	778,161	-	17,732,507	426,854,714
Equipment	54,611,932	2,000,090	(395,250)	-	56,216,772
Library Books	8,894,737	469,623	(3,500)	-	9,360,860
Total Other Capital Assets	<u>506,053,999</u>	<u>3,530,029</u>	<u>(406,188)</u>	<u>17,732,507</u>	<u>526,910,347</u>
Less: Accumulated Depreciation for:					
Land Improvements	3,278,719	475,152	-	-	3,753,871
Infrastructure	19,541,180	978,387	(7,438)	-	20,512,129
Buildings	129,646,512	9,189,358	-	-	138,835,870
Equipment	39,137,400	3,724,972	(329,497)	-	42,532,875
Library Books	8,382,787	213,758	(3,500)	-	8,593,045
Total Accumulated Depreciation	<u>199,986,598</u>	<u>14,581,627</u>	<u>(340,435)</u>	<u>-</u>	<u>214,227,790</u>
Other Capital Assets - Net	<u>\$ 306,067,401</u>	<u>\$ (11,051,598)</u>	<u>\$ (65,753)</u>	<u>\$ 17,732,507</u>	<u>\$ 312,682,557</u>
Capital Asset Summary:					
Capital Assets not being Depreciated	\$ 108,762,468	\$ 29,953,998	\$ (124,800)	\$ (17,732,507)	\$ 120,859,159
Capital Assets	<u>506,053,999</u>	<u>3,530,029</u>	<u>(406,188)</u>	<u>17,732,507</u>	<u>526,910,347</u>
Total Cost of Capital Assets	614,816,467	33,484,027	(530,988)	-	647,769,506
Less: Accumulated Depreciation	<u>(199,986,598)</u>	<u>(14,581,627)</u>	<u>340,435</u>	<u>-</u>	<u>(214,227,790)</u>
Capital Assets - Net	<u>\$ 414,829,869</u>	<u>\$ 18,902,400</u>	<u>\$ (190,553)</u>	<u>\$ -</u>	<u>\$ 433,541,716</u>

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

At June 30, 2016, the University had outstanding contractual commitments of approximately \$584,245 for property, plant, and equipment expenditures. These commitments will be funded through a combination of donations and University resources.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 7 LONG-TERM LIABILITIES

Long-term obligation transactions for the years ended June 30, 2016 and 2015 are as follows:

	2016				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes, Bonds and Capital Leases:					
Notes Payable	\$ 2,093,235	\$ -	\$ (161,018)	\$ 1,932,217	\$ 161,018
Revenue Bonds Payable	85,912,984	-	(1,703,821)	84,209,163	2,775,000
Capital Leases Payable	4,829,299	1,020,447	(989,109)	4,860,637	936,046
Total Notes, Bonds and Capital Leases	92,835,518	1,020,447	(2,853,948)	91,002,017	3,872,064
Other Long-Term Liabilities:					
Debt Obligation to the Commission	12,885,759	-	(1,887,257)	10,998,502	911,151
Loan Payable to the Commission	45,000	-	(30,000)	15,000	15,000
Due to MCTC	1,267,834	-	(525,000)	742,834	350,000
OPEB Liability	42,824,167	3,157,952	(378,053)	45,604,066	-
Net Pension Liability	3,967,132	-	(188,376)	3,778,756	-
Other Noncurrent Liabilities	10,894,644	2,549,086	(2,557,923)	10,885,807	-
Accrued Service Concession Liability	429,100	-	(104,024)	325,076	104,024
Advances from Federal Sponsors	6,345,285	-	-	6,345,285	-
Total Other Long-Term Liabilities	78,658,921	5,707,038	(5,670,633)	78,695,326	-
Total Long-Term Liabilities	<u>\$ 171,494,439</u>	<u>\$ 6,727,485</u>	<u>\$ (8,524,581)</u>	<u>\$ 169,697,343</u>	<u>-</u>
2015					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes, Bonds and Capital Leases:					
Notes Payable	\$ 2,254,253	\$ -	\$ (161,018)	\$ 2,093,235	\$ 161,018
Revenue Bonds Payable	87,575,548	-	(1,662,564)	85,912,984	1,520,000
Capital Leases Payable	5,988,939	-	(1,159,640)	4,829,299	895,187
Total Notes, Bonds and Capital Leases	95,818,740	-	(2,983,222)	92,835,518	2,576,205
Other Long-Term Liabilities:					
Debt Obligation to the Commission	14,691,013	-	(1,805,254)	12,885,759	1,887,257
Loan Payable to the Commission	75,000	-	(30,000)	45,000	30,000
Due to MCTC	1,442,834	-	(175,000)	1,267,834	525,000
OPEB Liability	40,395,938	2,812,950	(384,721)	42,824,167	-
Net Pension Liability	5,188,323	-	(1,221,191)	3,967,132	-
Other Noncurrent Liabilities	11,625,251	1,298,681	(2,029,288)	10,894,644	210,769
Accrued Service Concession Liability	533,124	-	(104,024)	429,100	104,024
Advances from Federal Sponsors	6,345,285	-	-	6,345,285	-
Total Other Long-Term Liabilities	80,296,768	4,111,631	(5,749,478)	78,658,921	-
Total Long-Term Liabilities	<u>\$ 176,115,508</u>	<u>\$ 4,111,631</u>	<u>\$ (8,732,700)</u>	<u>\$ 171,494,439</u>	<u>-</u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 8 NOTES PAYABLE

MURC borrowed the proceeds of a bond issuance by the Cabell County Commission for the construction of an addition to the Marshall University Forensic Science Center. MURC's repayment terms are the same as the bond repayment term. MURC is obligated to make interest payments which commenced on October 10, 2008, for the interest due on the loan semiannually and to make annual principal payments starting on April 1, 2009, based on a hypothetical amortization of the then-remaining principal balance at the then-applicable interest rate for the then-remaining years of the original 20-year amortization period ending April 10, 2028. Any remaining principal balance shall be payable in full on April 10, 2028.

However, any unspent mortgage proceeds would go to pay the first amounts due for interest and principal. The rate for the period of April 10, 2013, through April 10, 2018, is 1.6415%. The interest rate is subject to change each subsequent five-year period to the rate per annum equal to 67% of the five-year Treasury Constant Maturity in effect on that date, plus 1.67% per annum.

Scheduled maturities on notes payable as of June 30, 2016, are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 161,018	\$ 31,717
2018	161,018	29,074
2019	161,018	26,431
2020	161,018	23,788
2021	161,018	21,145
2022-2026	805,090	66,078
2027-2030	322,037	7,929
Total	<u>\$ 1,932,217</u>	<u>\$ 206,162</u>

NOTE 9 BONDS

Bonds payable as of June 30, 2016 and 2015 consist of the following:

	<u>Original Interest Rate</u>	<u>Annual Principal Installment Due</u>	<u>Principal Amount Outstanding</u>	
			<u>2016</u>	<u>2015</u>
University Revenue Bonds	2.0% - 5.0%	\$1,190,000 - \$3,375,000	\$ 51,910,000	\$ 51,910,000
University Refunding Revenue Bonds	2.0% - 5.0%	\$915,000 - \$2,885,000	30,410,000	31,930,000
			<u>82,320,000</u>	<u>83,840,000</u>
Add Bond Premium			1,889,163	2,072,984
Total			<u>\$ 84,209,163</u>	<u>\$ 85,912,984</u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 9 BONDS (CONTINUED)

In November 2010, the Board sold \$37,140,000 of University Refunding Revenue Bonds, Series 2010. The 2010 Bonds were issued under the authority contained in Article 10, Chapter 18B of the Code of West Virginia, 1931, as amended, and the 2010 Bonds will be secured pursuant to an indenture dated as of November 1, 2010, by and between the University and United Bank, Inc., Charleston, West Virginia, as the Trustee. The 2010 Bonds are secured by and payable from auxiliary fees as defined in the indenture. The proceeds of the 2010 Bonds were used to (1) advance refund \$40,690,000 of State of West Virginia, Higher Education Interim Governing Board, University Facilities Revenue Bonds, Series 2001A Bonds and (2) pay the costs of issuance of the 2010 Bonds. The indenture allows for additional bonds to be issued on a parity as to lien and source of payment with the 2010 Bonds.

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

The above bond issues (collectively, the "Bonds") are specific to the University, although the Bonds were also issued either in the name of the Board or the State itself. As debt service is required on the Bonds, the University remits the funds to a commercial bank for payment to the trustees of the bond issues and the bondholders. Mandatory debt service transfers are recorded as the funds are so remitted. A commercial bank may hold certain cash and cash equivalents (see Note 3) for debt service or other bond issue purposes on behalf of the University.

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

The Bonds covenants require that the schedules of rent, charges, and fees shall at all times be adequate to produce revenues from the auxiliary facilities sufficient to pay operating expenses and when with E&G Capital Fees, Medical Center Rental Income, and Athletic Facility Enhancement Fee Revenues (as defined in the indenture) to make the prescribed payments into the funds and accounts created hereunder, and that such schedule or schedules of rents, charges, and fees that shall be revised from time to time to provide for all reasonable operating expenses and leave net revenues, when with other monies legally available to be used for such purposes, each year equal at least 110% the maximum annual debt service of the Bonds. During the years ended June 30, 2016 and 2015, net revenues, when combined with other monies legally available for payment of debt service, was 3.81 times and 3.68 times the maximum annual debt service, respectively.

**MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 9 BONDS (CONTINUED)

A summary of the annual aggregate principal and interest payments for years subsequent to June 30, 2016, is as follows:

Year Ending June 30,	2010 Bonds		2011 Bonds		Combined	
	University Revenue		University Refunding Revenue		Principal	Interest
	Principal	Interest	Principal	Interest		
2017	\$ 1,585,000	\$ 1,437,650	\$ 1,190,000	\$ 2,333,925	\$ 2,775,000	\$ 3,771,575
2018	1,645,000	1,374,250	1,215,000	2,310,125	2,860,000	3,684,375
2019	1,725,000	1,292,000	1,265,000	2,261,525	2,990,000	3,553,525
2020	1,815,000	1,205,750	1,315,000	2,210,925	3,130,000	3,416,675
2021	1,905,000	1,115,000	1,355,000	2,171,475	3,260,000	3,286,475
2022-2026	10,950,000	4,141,225	7,790,000	9,841,900	18,740,000	13,983,125
2027-2031	10,785,000	1,295,450	9,810,000	7,819,500	20,595,000	9,114,950
2032-2036	-	-	12,455,000	5,172,675	12,455,000	5,172,675
2037-2041	-	-	15,515,000	2,109,406	15,515,000	2,109,406
Total	<u>\$ 30,410,000</u>	<u>\$ 11,861,325</u>	<u>\$ 51,910,000</u>	<u>\$ 36,231,456</u>	<u>\$ 82,320,000</u>	<u>\$ 48,092,781</u>

NOTE 10 LEASES

Operating

Future annual minimum lease payments on operating leases for years subsequent to June 30, 2016, are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2017	\$ 797,427
2018	779,881
2019	692,151
2020	692,151
2021	615,631
2022-2026	2,557,903
2027	384,392
Total	<u>\$ 6,519,536</u>

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

Total rent expense for the years ended June 30, 2016 and 2015, was \$937,432 and \$1,000,021, respectively. The University does not have any noncancelable leases.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 10 LEASES (CONTINUED)

Capital

The University leases various equipment and buildings through capital leases. At June 30, 2016 and 2015, leased equipment with a net book value of \$798,043 and \$67,017 and leased buildings with a net book value of \$9,662,372 and \$10,049,785, respectively, are included in equipment and buildings.

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

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

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

The University entered into two new leases in 2016 for the financing of equipment for the Applied Engineering Complex. The University did not enter into any new leases in 2015.

**MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 10 LEASES (CONTINUED)

Capital (Continued)

Future annual minimum lease payments for years subsequent to June 30, 2016, are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 936,046	\$ 145,311	\$ 1,081,357
2018	789,772	114,879	904,651
2019	648,854	94,261	743,115
2020	666,708	76,407	743,115
2021	589,665	57,815	647,480
2022-2025	1,229,592	80,562	1,310,154
Total			<u>5,429,872</u>
Less Interest			<u>569,235</u>
Total			<u><u>\$ 4,860,637</u></u>

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

NOTE 11 OTHER POST EMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2016, 2015, and 2014, the noncurrent liability related to OPEB costs was \$45,604,066, \$42,824,167, and \$40,395,938, respectively. The total of OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$5,471,617 and \$2,691,718, respectively, during 2016, or 49.2%. The total of OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$5,111,143 and \$2,682,914, respectively, during 2015, or 52.5%. The total of OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$4,365,373 and \$3,494,954, respectively, during 2014, or 80.1%. As of and for the years ended June 30, 2016, 2015, and 2014, there were 210, 215, and 204 retirees, respectively, receiving these benefits.

NOTE 12 STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 12 STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS (CONTINUED)

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

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

Debt service assessed for the years ended June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Principal	\$ 1,887,257	\$ 1,805,254
Interest	561,533	643,392
Other	46,080	46,082
Total	<u>\$ 2,494,870</u>	<u>\$ 2,494,728</u>

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

During the year ended June 30, 2005, the Commission issued \$167,000,000 of 2005 Series B 30-year Revenue Bonds to fund capital projects at various higher education institutions in the State. State lottery funds will be used to repay the debt, although the University revenues are pledged if lottery funds prove insufficient.

During August 2010, the West Virginia Development Office issued approximately \$162 million of Education, Arts, Science, and Tourism ("EAST") bonds. The Commission, as provided in the State Code, received 60% or \$97.2 million of the proceeds to help fund various building and campus renewal projects. The University has been authorized to receive \$17,600,000 of these proceeds. The West Virginia Development office is responsible for the repayment of the debt. As of June 30, 2016, the University has recognized \$17.6 million of these funds as revenue.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 12 STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS (CONTINUED)

During December 2010, the HEPC issued \$76,865,000 of the State of West Virginia Higher Education Policy Commission Revenue 2010 Series Bonds to fund HEPC Bond projects approved by the Commission. The University has been authorized to receive \$25,000,000 of these proceeds to be specifically used for the construction of the new Biotechnology Development Center and Applied Engineering Complex. The University began drawing the bond proceeds for this project in FY 2012; 85% of these bond proceeds must be spent by December 2013. The University has no responsibility for repayment of this debt. As of June 30, 2016, the University has recognized \$25 million of these funds as revenue.

During June 2012, the HEPC refunded a portion of the outstanding principal amount of the State of West Virginia Higher Education Policy Commission Revenue Refunding Bonds 2004 Series B Lottery Revenue Bonds and received approximately \$8 million in bond proceeds from the refunding. The Commission approved a list of high-priority capital projects to be funded from the bond proceeds. The University had two projects approved for this funding and entered into an agreement with the Commission to receive \$462,500 of these proceeds with a 100% matching requirement. Subsequent changes to budgeted costs reduced the approved amount to \$427,330. As of June 30, 2016, the University has recognized \$426,725 of these funds as revenue.

NOTE 13 UNRESTRICTED NET POSITION

The University's unrestricted net position as of June 30, 2016 and 2015 include certain designated net position as follows:

	<u>2016</u>	<u>2015</u>
Designated for Auxiliaries	\$ 2,187,938	\$ 2,983,179
Designated for Auxiliaries Repairs and Maintenance Debt Payments, Capital Projects, and Equipment Purchases	11,249,171	9,944,099
Designated for Other Repairs and Maintenance, Debt Payments, Capital Projects, and Equipment Purchases	7,597,845	4,830,280
Undesignated	<u>87,468,327</u>	<u>85,156,719</u>
Total Unrestricted Net Position before OPEB Liability	108,503,281	102,914,277
Less: OPEB Liability	<u>45,604,066</u>	<u>42,824,167</u>
Total Unrestricted Net Position	<u>\$ 62,899,215</u>	<u>\$ 60,090,110</u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 14 RETIREMENT PLANS

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

Defined Contribution Benefit Plans

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

Total contributions to TIAA-CREF for the years ended June 30, 2016, 2015, and 2014, were approximately \$13,630,000, \$13,441,000, and \$12,857,000, respectively, which consisted of approximately \$6,772,000, \$6,661,000, and \$6,378,000 from the University in 2016, 2015, and 2014, respectively, and approximately \$6,858,000, \$6,780,000, and \$6,479,000, from covered employees in 2016, 2015, and 2014, respectively.

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

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

Total contributions to the Educators Money for the years ended June 30, 2016, 2015, and 2014 were approximately \$322,000, \$268,000, and \$216,000, respectively, which consisted of approximately \$161,000, \$134,000, and \$108,000 each from the University and the covered employees in 2016, 2015, and 2014, respectively.

The University's total payroll for the years ended June 30, 2016, 2015, and 2014 was approximately \$129,192,000, \$125,809,000, and \$122,561,000, respectively; total covered employees' salaries in the TIAA-CREF and Educators Money were approximately \$112,858,000 and \$2,686,000, respectively in 2016; \$111,062,000, and \$2,227,000, respectively, in 2015; and \$106,350,000, and \$1,792,000, respectively, in 2014.

**MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 14 RETIREMENT PLANS (CONTINUED)

Defined Benefit Plan

Some employees of the University are enrolled in a defined benefit pension plan, the West Virginia Teachers' Retirement System (TRS), which is administered by the West Virginia Consolidated Public Retirement Board (CPRB).

Following is the University's pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, revenues, and the pension expense and expenditures for the fiscal years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Net Pension Liability	\$ 3,778,756	\$ 3,967,132
Deferred Outflows of Resources	447,749	499,696
Deferred Inflows of Resources	626,688	842,388
Revenues	651,004	529,560
Pension Expense	794,205	680,453
Contributions made by University	427,698	499,696

TRS

Plan Description

TRS is a multiple employer defined benefit cost sharing public employee retirement system providing retirement benefits as well as death and disability benefits. It covers all full-time employees of the 55 county public school systems in the State of West Virginia and certain personnel of the 13 State-supported institutions of higher education, State Department of Education and the Higher Education Policy Commission hired prior to July 1, 1991. Employees of the State-supported institutions of higher education and the Higher Education Policy Commission hired after June 30, 1991, are required to participate in the Higher Education Retirement System. TRS closed membership to new hires effective July 1, 1991.

TRS is considered a component unit of the State of West Virginia for financial reporting purposes, and, as such, its financial report is also included in the State of West Virginia's Comprehensive Annual Financial Report. TRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained from the TRS website at <https://www.wvretirement.com/Publications.html> #CAFR.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 14 RETIREMENT PLANS (CONTINUED)

TRS (Continued)

Benefits Provided

TRS provides retirement, death, and disability benefits. A member is eligible for normal retirement at age 60 with five years of service, age 55 with 30 years of service or any age with 35 years of service. A member may retire with 30 years of credited service at any age with the pension reduced actuarially if the member retires before age 55. Terminated members with at least five, but less than 20, years of credited service who do not withdraw their accumulated contributions are entitled to a deferred retirement commencing at age 62. Retirement benefits are equivalent to 2% of average annual salary multiplied by years of service. Average salary is the average of the 5 highest fiscal years of earnings during the last 15 fiscal years of earnings. Chapter 18, Article 7A of the West Virginia State Code assigns the authority to establish and amend the provisions of the plan, including contribution rates, to the State Legislature.

Contributions

The funding objective of the CPRB pension trust funds is to meet long-term benefit requirements through contributions, which remain relatively level as a percent of member payroll over time, and through investment earnings. Contribution requirements are set by CPRB. A member who withdraws from service for any cause other than death or retirement may request that the accumulated employee contributions plus interest be refunded.

Member Contributions: TRS funding policy provides for member contributions based on 6% of members' gross salary. Contributions as a percentage of payroll for members and employers are established by State law and are not actuarially determined.

Employer Contributions: Employers make the following contributions:

The State (including institutions of higher education) contributes:

1. 15% of gross salary of their State-employed members hired prior to July 1, 1991;
2. 15% of School Aid Formula (SAF) covered payroll of county-employed members;
3. 7.5% of SAF-covered payroll of members of the TDCRS;
4. a certain percentage of fire insurance premiums paid by State residents; and
5. under WV State code section 18-9-A-6a, beginning in fiscal year 1996, an amount determined by the State Actuary as being needed to eliminate the TRS unfunded liability within 40 years of June 30, 1994. As of June 30, 2015 and 2014, respectively, the University's proportionate share attributable to this special funding subsidy was \$611,835 and \$529,560.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 14 RETIREMENT PLANS (CONTINUED)

TRS (Continued)

Contributions (Continued)

The University's contributions to TRS for the years ended June 30, 2016, 2015, and 2014, were approximately \$427,000, \$499,000, and \$526,000, respectively.

Assumptions

The total pension liabilities for financial reporting purposes were determined by actuarial valuations as of July 1, 2014 and rolled forward to June 30, 2015. The following actuarial assumptions were used and applied to all periods included in the measurement:

- Actuarial cost method: Entry age normal cost with level percentage of payroll.
- Asset valuation method: Investments are reported at fair (market) value.
- Amortization method and period: Level dollar, fixed period over 40 years, from July 1, 1994 through fiscal year 2034.
- Investment rate of return of 7.50%, net of pension plan administrative and investment expenses.
- Projected salary increases: Teachers 3.75–5.25% and non-teachers 3.40–6.50%, based on age.
- Inflation rate of 3.0%.
- Discount rate of 7.50%.
- Mortality rates based on RP-2000 Mortality Tables.
- Withdrawal rates: Teachers 1.2-30% and non-teachers 1.4-22.5%.
- Disability rates: 0-0.8%.
- Retirement age: An age-related assumption is used for participants not yet receiving payments.
- Retirement rates: 15-100%.
- *Ad hoc* cost-of-living increases in pensions are periodically granted by the State Legislature. However, the retirement system makes no automatic provision for such increases.

Experience studies are performed at least once in every five-year period. The most recent experience study covered the period from July 1, 2005 to June 30, 2010. These assumptions will remain in effect for valuation purposes until such time as the CPRB adopts revised assumptions.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the long-term arithmetic real rates of return for each major asset class included in TRS' target asset allocation as of June 30, 2015, are summarized below.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 14 RETIREMENT PLANS (CONTINUED)

TRS (Continued)

Assumptions (Continued)

<u>Asset Class</u>	<u>Long-Term Expected Rate of Return</u>	<u>Target Allocation</u>
Domestic Equity	7.0%	27.5%
International Equity	7.7%	27.5%
Core Fixed Income	2.7%	7.5%
High-yield Fixed Income	5.5%	7.5%
Real Estate	5.6%	10.0%
Private Equity	9.4%	10.0%
Hedge Funds	4.7%	10.0%
Cash	1.5%	1.5%

Discount rate. The discount rate used to measure the total TRS pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that State contributions will continue to follow the current funding policy. Based on those assumptions, TRS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on TRS' investments was applied to all periods of projected benefit payments to determine the total pension liability. In the event of benefit payments that are not covered by the pension plan's fiduciary net position, a municipal bond rate of 3.66% is to be used to discount the benefit payments not covered by the plan's fiduciary net position. The rate equals the S&P Municipal Bond 20 Year High Grade Rate Index at June 30, 2015.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the University's proportionate share of the TRS net pension liability as of June 30, 2016 and 2015 calculated using the discount rate of 7.50%, as well as what the University's TRS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability 2016	\$ 4,492,414	\$ 3,778,756	\$ 2,583,276
Net Pension Liability 2015	5,144,897	3,967,132	2,955,977

**MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 14 RETIREMENT PLANS (CONTINUED)

TRS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The TRS net pension liability was measured as of June 30, 2015. The total pension liability was determined by an actuarial valuation as of July 1, 2014 and rolled forward to the measurement date.

At June 30, 2016, the University's proportionate share of the TRS net pension liability was approximately \$12,401,000. Of this amount, the University recognized approximately \$3,779,000 as its proportionate share on the statement of net position. The remainder of \$8,622,000 denotes the University's proportionate share of net pension liability attributable to the special funding.

The allocation percentage assigned to each participating employer and non-employer contributing entity is based on their proportionate share of employer and non-employer contributions to TRS for each of the fiscal years ended June 30, 2015 and 2014. Employer contributions are recognized when due. At June 30, 2015, the University's proportion was 0.109047%, a decrease of 0.005939% from its proportion of 0.114986% calculated as of June 30, 2014.

For the years ended June 30, 2016 and 2015, the University recognized TRS pension expense of \$794,205 and \$680,453, respectively. Of this amount, \$143,201 and \$150,893, respectively, was recognized as the University's proportionate share of the TRS expense, \$611,835 and \$529,560, respectively, as the amount of pension expense attributable to special funding from a non-employer contributing entity and \$39,169 and \$0, respectively as the amount of pension expense from a non-employer contributing entity not attributable to a special funding situation. The University also recognized revenue of \$651,004 and \$529,560, respectively, for support provided by the State.

At June 30, 2016, deferred outflows of resources and deferred inflows of resources related to the TRS pension are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Proportion and Difference between Employer Contributions and Proportionate Share of Contributions	\$ 20,051	\$ 434,483
Net Difference between Projected and Actual Investment Earnings	-	159,487
Difference between Expected and Actual Experience	-	32,718
Contributions after the Measurement Date	427,698	-
Total	<u>\$ 447,749</u>	<u>\$ 626,688</u>

**MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 14 RETIREMENT PLANS (CONTINUED)

TRS (Continued)

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and
Deferred Inflows of Resources Related to Pensions (Continued)**

At June 30, 2015, deferred outflows of resources and deferred inflows of resources related to the TRS pension are as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in Proportion and Difference between Employer Contributions and Proportionate Share of Contributions	\$ -	\$ 318,011
Net Difference between Projected and Actual Investment Earnings	-	524,377
Contributions after the Measurement Date	<u>499,696</u>	<u>-</u>
Total	<u>\$ 499,696</u>	<u>\$ 842,388</u>

The University will recognize the \$427,698 reported as deferred outflows of resources resulting from pension contributions after the measurement date as a reduction of the TRS net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in TRS pension expense as follows:

<u>Fiscal Year Ended</u>	<u>Amortization</u>
June 30, 2017	\$ 183,905
June 30, 2018	183,905
June 30, 2019	183,905
June 30, 2020	50,283
June 30, 2021	<u>4,640</u>
Total	<u>\$ 606,638</u>

Payables to the pension plan

The University did not report any amounts payable for normal contributions to the TRS as of June 30, 2016 and 2015.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 15 MARSHALL UNIVERSITY FOUNDATION, INC.

The Foundation is a separate nonprofit organization incorporated in the State whose purpose is to benefit the work and services of the University and its affiliated nonprofit organizations. The Foundation has a board of directors authorized to have 40 members selected by its Board members. At present, there are 34 members, including the President of the University as a nonvoting ex-officio member. In carrying out its responsibilities, the board of directors of the Foundation employs management, forms policy, and maintains fiscal accountability over funds administered by the Foundation. The University administration does not control the resources of the Foundation. The Foundation's financial statements are presented as a discretely presented component unit of the University's financial statements in accordance with GASB.

Total funds expended by the Foundation in support of University activities totaled \$10,446,533 and \$22,253,099 during the years 2016 and 2015, respectively. This support and related expenditures are recorded in the University's financial statements.

NOTE 16 BIG GREEN SCHOLARSHIP FOUNDATION, INC.

Big Green is a separate nonprofit organization incorporated in the State whose purpose is to provide scholarship aid to student athletes and program support for the University's intercollegiate athletic program. Big Green has a board of directors authorized to have 48 members selected by its Board members. The following persons are ex-officio, non-voting members of the Board: the University Director of Athletics, the Associate Athletic Director, the Athletic Director Executive Director, Director of Athletic Development, Assistant Director of Athletic Development and the Director of External Affairs. In carrying out its responsibilities, the board of directors of Big Green is responsible for all the business of Big Green and all lawful corporate powers including the selection and removal of all officers, agents, and employees. The University administration does not control the resources of Big Green. Big Green's financial statements are presented as a discretely presented component unit of the University's financial statements in accordance with GASB.

Total funds expended by the Foundation in support of University activities totaled \$2,760,181 and \$2,574,795 during the years 2016 and 2015, respectively. This support and related expenditures are recorded in the University's financial statements.

NOTE 17 PROVIDENT – MARSHALL PROPERTIES L.L.C.

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

**MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 17 PROVIDENT – MARSHALL PROPERTIES L.L.C. (CONTINUED)

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

NOTE 18 AFFILIATED ORGANIZATION

The University has a separately incorporated affiliated organization, Marshall Health, Inc. (formerly UP & S) (Marshall Health). Oversight responsibility for Marshall Health rests with its independent board and management not otherwise affiliated with the University. Accordingly, the financial statements of Marshall Health are not included in the accompanying financial statements under the blended component unit requirements. Marshall Health is not included in the University's accompanying financial statements under discretely presented component unit requirements as they have dual purposes (i.e., not entirely or almost entirely for the benefit of the University).

NOTE 19 CONTINGENCIES AND COMMITMENTS

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

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

The Code establishes rules and regulations for arbitrage rebates. No arbitrage rebate liabilities have been recorded in the accompanying financial statements as of June 30, 2016 and 2015.

The University owns various buildings that are known to contain asbestos. The University is not required by federal, state, or local law to remove the asbestos from its buildings. The University is required under federal environmental, health, and safety regulations to manage the presence of asbestos in its buildings in a safe manner. The University addresses its responsibility to manage the presence of asbestos in its buildings on a case-by-case basis.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 19 CONTINGENCIES AND COMMITMENTS (CONTINUED)

Significant problems of dangerous asbestos conditions are abated as the conditions become known. The University also addresses the presence of asbestos as building renovation or demolition projects are undertaken and through asbestos operation and maintenance programs directed at containing, managing, or operating with the asbestos in a safe manner.

NOTE 20 SERVICE CONCESSION ARRANGEMENTS

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

The University has a contract with Sodexo to provide food services within University facilities on the Huntington campus. These services provide the University with the best, most accurate and appropriate campus dining program that enhances the student's quality of life and is supportive of the education experience. The current contract began on August 16, 2009, and allows for nine annual renewals. Sodexo provides meal plans to students through the University as well as offering cash sales to the University community. The University receives annual commission payments from Sodexo calculated as a contractually agreed percentage of cash sales and the University pays Sodexo for the meal plans from fees collected by the University from students. In 2016 and 2015, the University received \$630,752 and \$621,476, respectively, in commissions from Sodexo. Renovations to the University facilities of \$1,300,000 were made by Sodexo and capitalized by the University in 2016, no renovations to University facilities were made by Sodexo in 2015. Sodexo made renovations that were capitalized by the University totaling \$3,075,159 in prior years of the contract. These renovations are accreted over the remaining life of the contract and if the contract is not renewed the University will be required to pay Sodexo for the unaccreted portion of these renovations. At June 30, 2016 and 2015, the University has a deferred inflow of \$781,753 and \$1,031,914, respectively, for the unaccreted inflow for renovations, and an accrued service concession liability of \$221,051 and \$325,075, respectively, for estimated insurance and maintenance costs that the University will be required to pay through the end of the contract.

The University contracts with Follett to operate bookstores located within University facilities on the Huntington, South Charleston, and Mid-Ohio Valley campuses. These services provide the University community with a professional bookstore that will provide the highest caliber of services to Marshall University's campuses. The current contract began on April 15, 2005 and allows for nine annual renewals. The University receives annual commission payments calculated as a contractually agreed percentage of bookstore revenue. In 2016 and 2015, the University received \$565,878 and \$578,933, respectively, in commissions from Follett. No significant renovations to University facilities were made by Follett in either 2016 and 2015.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 21 CONDENSED COMPONENT UNIT INFORMATION

Condensed component unit information for MURC, the University's blended component unit, for the years ended June 30, 2016 and 2015, is as follows:

Condensed Statements of Net Position

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets	\$ 15,175,447	\$ 13,090,297
Receivable from University	310,859	416,842
Capital Assets, Net	12,797,922	14,185,243
Other Assets	29,801,484	34,557,956
Total Assets	<u>58,085,712</u>	<u>62,250,338</u>
Liabilities		
Current Liabilities	6,989,018	6,816,369
Long-term Liabilities	<u>2,367,658</u>	<u>2,579,505</u>
Total Liabilities	9,356,676	9,395,874
Net Position		
Net Investment in Capital Assets	10,856,649	12,079,045
Restricted		
Nonexpendable	15,000,000	15,000,000
Sponsored Projects	13,753,830	16,523,201
Unrestricted	9,118,557	9,252,218
Total Net Position	<u>\$ 48,729,036</u>	<u>\$ 52,854,464</u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 21 CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Federal, State, Local Grants	\$ 27,335,731	\$ 29,303,728
Other Operating Revenues	<u>5,193,344</u>	<u>3,975,035</u>
Total Operating Revenues	32,529,075	33,278,763
Operating Expenses		
Operations	34,640,224	34,347,968
Depreciation	<u>2,314,201</u>	<u>2,502,209</u>
Total Operating Expenses	<u>36,954,425</u>	<u>36,850,177</u>
Operating Loss	(4,425,350)	(3,571,414)
Nonoperating Revenues (Expenses)		
Investment Income	343,683	999,321
Other Nonoperating Expenses	<u>(43,761)</u>	<u>(73,328)</u>
Total Nonoperating Revenues	<u>299,922</u>	<u>925,993</u>
Decrease in Net Position	(4,125,428)	(2,645,421)
Net Position - Beginning of Year	<u>52,854,464</u>	<u>55,499,885</u>
Net Position - End of Year	<u>\$ 48,729,036</u>	<u>\$ 52,854,464</u>

Condensed Statements of Cash Flows

	<u>2016</u>	<u>2015</u>
Net Cash Provided (Used) By:		
Operating Activities	\$ (2,371,269)	\$ (2,369,445)
Noncapital Financing Activities	-	-
Capital Financing Activities	(1,134,905)	(1,032,059)
Investing Activities	<u>3,680,682</u>	<u>(2,124,580)</u>
Decrease in Current Cash and Cash Equivalents	174,508	(5,526,084)
Current Cash and Cash Equivalents - Beginning of Year	<u>6,021,311</u>	<u>11,547,395</u>
Current Cash and Cash Equivalents - End of Year	<u>\$ 6,195,819</u>	<u>\$ 6,021,311</u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 22 SEGMENT INFORMATION

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

Board of Governors of Marshall University, University Revenue Bonds, Series 2011

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

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

In November 2010, the Board sold \$37,140,000 of 2010 Bonds. The 2010 Bonds were issued under the authority contained in Article 10, Chapter 18B of the Code of West Virginia, 1931, as amended, and the 2010 Bonds are secured pursuant to an indenture dated as of November 1, 2010, by and between the trustee. The 2010 bonds are secured by and payable from auxiliary fees as defined in the indenture.

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

**MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 22 SEGMENT INFORMATION (CONTINUED)

**Board of Governors of Marshall University, University Refunding Revenue Bonds,
Series 2010 (Continued)**

Condensed accrual basis financial information for the University's segment as of June 30, 2016 and 2015 is as follows:

Condensed Schedules of Position	2016	2015
Assets:		
Current Assets	\$ 11,235,473	\$ 15,853,044
Noncurrent Assets	146,951,419	148,662,678
Total Assets	158,186,892	164,515,722
Deferred Outflows of Resources	1,047,802	1,180,172
Total	\$ 159,234,694	\$ 165,695,894
Liabilities and Deferred Inflows:		
Current Liabilities	\$ 4,381,833	\$ 4,249,087
Noncurrent Liabilities	83,854,667	86,821,244
Total Liabilities	88,236,500	91,070,331
Deferred Inflows of Resources	672,968	923,129
Total	88,909,468	91,993,460
Net Position:		
Net Investment in Capital Assets	62,765,240	62,548,514
Restricted for Debt Service	499	15
Unrestricted	7,559,487	11,153,905
Total Net Position	70,325,226	73,702,434
Total	\$ 159,234,694	\$ 165,695,894

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 22 SEGMENT INFORMATION (CONTINUED)

**Board of Governors of Marshall University, University Refunding Revenue Bonds,
Series 2010 (Continued)**

**Condensed Schedules of Revenues, Expenses, and
Changes in Net Position**

Operating:		
Operating Revenues	\$ 28,240,478	\$ 27,417,509
Operating Expenses	<u>(18,781,434)</u>	<u>(16,360,344)</u>
Net Operating Income	9,459,044	11,057,165
Nonoperating:		
Nonoperating Revenues	1,698,062	370,692
Nonoperating Expenses	<u>(6,047,279)</u>	<u>(2,824,447)</u>
Total Nonoperating	<u>(4,349,217)</u>	<u>(2,453,755)</u>
Net Revenues	5,109,827	8,603,410
Transfers (to) from the University	<u>(8,487,035)</u>	<u>47,844,096</u>
Changes in Net Position	(3,377,208)	56,447,506
Net Position - Beginning of Year	<u>73,702,434</u>	<u>17,254,928</u>
Net Position - End of Year	<u><u>\$ 70,325,226</u></u>	<u><u>\$ 73,702,434</u></u>

	<u>2016</u>	<u>2015</u>
Condensed Schedules of Cash Flows		
Net Cash Provided by Operating Activities	\$ 6,063,244	\$ 6,439,059
Net Cash Used by Capital and Related Financing	<u>(10,320,734)</u>	<u>(5,533,924)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(4,257,490)	905,135
Cash and Cash Equivalents - Beginning of Year	<u>15,422,713</u>	<u>14,517,578</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 11,165,223</u></u>	<u><u>\$ 15,422,713</u></u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 23 NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The operating expenses within both natural and functional classifications for the years ended June 30, 2016 and 2015 are as follows:

2016	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Other Operating Expense	Fees Assessed by the Commission	Total
Instruction	\$ 65,608,751	\$ 19,466,339	\$ 6,842,550	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 91,917,640
Research	5,990,670	1,422,626	5,895,838	21,588	-	-	-	-	13,330,722
Public Service	10,928,691	2,931,713	5,239,409	141,814	-	-	-	-	19,241,627
Academic Support	12,188,750	3,981,070	7,338,655	9,490	-	-	-	-	23,517,965
Student Services	6,498,309	1,920,134	4,541,651	4,272	-	-	-	-	12,964,366
General Institutional Support	13,356,534	2,292,550	5,036,845	369,162	-	-	-	-	21,055,091
Operations and Maintenance of Plant	4,590,879	1,466,925	4,595,778	6,709,045	-	-	-	-	17,362,627
Student Financial Aid	-	-	-	-	21,392,297	-	-	-	21,392,297
Auxiliary Enterprises	10,029,607	3,642,965	19,935,783	2,259,794	-	-	-	-	35,868,149
Depreciation	-	-	-	-	-	16,536,663	-	-	16,536,663
Other	-	-	-	-	-	-	173,123	741,343	914,466
Total	<u>\$ 129,192,191</u>	<u>\$ 37,124,322</u>	<u>\$ 59,426,509</u>	<u>\$ 9,515,165</u>	<u>\$ 21,392,297</u>	<u>\$ 16,536,663</u>	<u>\$ 173,123</u>	<u>\$ 741,343</u>	<u>\$ 274,101,613</u>

2015	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Other Operating Expense	Fees Assessed by the Commission	Total
Instruction	\$ 61,542,391	\$ 20,111,165	\$ 6,675,154	\$ 11	\$ -	\$ -	\$ -	\$ -	\$ 88,328,721
Research	5,441,424	1,739,502	5,339,146	10,947	-	-	-	-	12,531,019
Public Service	10,274,819	2,765,725	6,378,967	124,854	-	-	-	-	19,544,365
Academic Support	13,147,406	3,611,423	6,481,346	976	-	-	-	-	23,241,151
Student Services	6,938,863	2,253,823	3,116,184	4,778	-	-	-	-	12,313,648
General Institutional Support	14,348,135	1,999,948	5,183,335	387,086	-	-	-	-	21,918,504
Operations and Maintenance of Plant	4,575,065	1,497,804	5,615,886	6,059,296	-	-	-	-	17,748,051
Student Financial Aid	-	-	-	-	22,539,953	-	-	-	22,539,953
Auxiliary Enterprises	9,540,720	3,389,507	20,521,999	2,251,863	-	-	-	-	35,704,089
Depreciation	-	-	-	-	-	14,581,627	-	-	14,581,627
Other	-	-	-	-	-	-	259,990	723,345	983,335
Total	<u>\$ 125,808,823</u>	<u>\$ 37,368,897</u>	<u>\$ 59,312,017</u>	<u>\$ 8,839,811</u>	<u>\$ 22,539,953</u>	<u>\$ 14,581,627</u>	<u>\$ 259,990</u>	<u>\$ 723,345</u>	<u>\$ 269,434,463</u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 24 COMPONENT UNIT DISCLOSURES - FOUNDATION

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

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

NATURE OF ACTIVITIES

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

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

PUBLIC SUPPORT AND REVENUE

Contributions are generally available for unrestricted use unless specifically restricted by the donor. Unconditional promises to give are recorded as received. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts. An allowance for uncollectible promises is provided based on management's evaluation of potential uncollectible promises receivable at year end.

Contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

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

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

ESTIMATES

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

CASH AND CASH EQUIVALENTS

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

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS

Investments are reported in the consolidated financial statements at fair value. The current year increase or decrease in fair value over book value is recognized currently in the consolidated statement of activities. The Foundation uses a number of valuation techniques to value its investments which are described in Note 19. The majority of the investment funds are pooled into three categories – Operating Pool, Project Pool and Endowment Pool. The total investment return consists of interest and dividend income, realized gains and losses and capital appreciation (depreciation), net of related investment expenses.

PROPERTY AND EQUIPMENT

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

OTHER ASSETS

Other assets consists of donated works of art and musical instruments which do not meet the definition of a collection and have been recorded at their estimated fair values at the date of donation.

BASIS OF ACCOUNTING

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

ADVERTISING COSTS

Advertising costs totaling \$23,639 and \$45,639 for 2016 and 2015, respectively are charged to operations when incurred.

FUNDS HELD IN CUSTODY FOR OTHERS

The Foundation holds and invests funds for Marshall University under an agency agreement. The investments and other funds are reported as assets, while the corresponding liability is reported as funds held in custody for others.

ADOPTION OF NEW ACCOUNTING PRONOUNCEMENT

In May 2015, FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820) Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (Or Its Equivalent)* which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure fair value using that practical expedient. The Marshall University Foundation, Inc. early adopted ASU 2015-07 effective June 30, 2016, which has been applied retroactively.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECLASSIFICATIONS

Certain amounts in the accompanying 2015 financial statements have been reclassified for comparative purposes.

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2016 and 2015 are comprised of the following:

	<u>2016</u>	<u>2015</u>
Cash and overnight repurchase agreements	\$ 6,518,181	\$ 5,720,818
Short-term investments	<u>25,356,705</u>	<u>7,830,852</u>
TOTAL	\$ <u>31,874,886</u>	\$ <u>13,551,670</u>

NOTE 3 - INVESTMENTS

Investments as of June 30, 2016 and 2015 are summarized as follows:

	<u>2016</u> <u>Fair</u> <u>Value</u>	<u>2015</u> <u>Fair</u> <u>Value</u>
Fixed income	\$ 30,013,333	\$ 18,885,097
Equities	81,612,197	58,510,965
Other	<u>51,707,132</u>	<u>43,234,175</u>
TOTAL	\$ <u>163,332,662</u>	\$ <u>120,630,237</u>

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

The following summarizes the investment income for the years ended June 30, 2016 and 2015 inclusive of income on cash equivalents, perpetual trusts, the investments described above, and interest rate swap:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 552,313	\$ 813,177
Realized gain	297,115	(3,479,444)
Unrealized gains	(4,570,283)	3,749,422
Investment fees	<u>(192,373)</u>	<u>(217,098)</u>
Net investment return	\$ <u>(3,913,228)</u>	\$ <u>866,057</u>

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

**MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 4 - DIRECT FINANCING LEASES AND BONDS PAYABLE

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

The MUGCFI had borrowed funds in the form of two separate bond issues and utilized the funds to construct buildings on properties that had been donated to MUGCFI in previous years. The facilities and land are leased to the State of West Virginia, and the bonds are to be liquidated by pass-through lease payments from the State of West Virginia in amounts exactly equal to the debt requirements. The lease agreements provide that, upon retirement of the bonds, title to the leased property passes to the State of West Virginia. Although the State of West Virginia can cancel the lease, the intent is that all other requirements of payment will be honored. Therefore, the leases have been capitalized and the transactions recorded as though the properties had been sold and transferred. As of June 30, 2016, one of the lease agreements had been fulfilled and the related bond was paid off.

Investment in direct financing leases

At June 30, 2016, the Foundation's net investment in the remaining direct financing lease is summarized as follows:

Future minimum lease payments to be received in years ending June 30:	
2017	\$ 323,071
2018	<u>161,535</u>
Gross investment in direct financing leases	484,606
Less unearned income	<u>(18,711)</u>
Net investment in direct financing leases	\$ <u>465,895</u>

The remaining lease agreement expires September, 2017.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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

Bonds payable

Bonds payable are as follows at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
City of South Charleston, West Virginia Commercial Development Refunding Revenue Bonds, Series 1998, original principal amount \$3,630,470, interest at 4.60%, payable in monthly installments of principal and interest of approximately \$25,610 through February 1, 2016, secured by real property leased to the State of West Virginia under direct finance lease.	\$ -0-	\$ 201,380
City of South Charleston, West Virginia Commercial Development Refunding Revenue Bonds, Series 2005, original principal amount \$3,177,495, interest at 3.99%, payable in semi-annual installments of principal and interest of \$161,535 through September 1, 2017, secured by real property leased to the State of West Virginia under direct finance lease.	465,895	761,501
The County Commission of Cabell County, West Virginia Commercial Development Revenue Bond, Series 2010, (The Marshall University Foundation, Inc. Projects) original principal amount \$9,200,000, interest at LIBOR + 2% X 67%, interest is payable monthly, semi-annual installments of principal are due each August and February with the final installment due February 21, 2031, secured by real property with a book value of \$10,646,837 at June 30, 2016.	<u>7,202,000</u>	<u>7,617,000</u>
Total bonds payable	\$ <u>7,667,895</u>	\$ <u>8,579,881</u>

Scheduled bond principal and interest payments are as follows at June 30, 2016:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 729,519	\$ 135,316	\$ 864,835
2018	588,376	115,455	703,831
2019	438,000	105,024	543,024
2020	446,000	97,619	543,619
2021	<u>454,000</u>	<u>90,330</u>	<u>544,330</u>
Total due in next five years	2,655,895	543,744	3,199,639
Amounts due in later years	<u>5,012,000</u>	<u>455,890</u>	<u>5,467,890</u>
Total bonds payable	\$ <u>7,667,895</u>	\$ <u>999,634</u>	\$ <u>8,667,529</u>

Interest expense on bonds payable charged to operations was \$248,280 and \$281,194 for the years ended June 30, 2016 and 2015, respectively.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 5 - NOTES PAYABLE

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

Payments on the loan including interest on the outstanding balance at a rate of 5% per annum, compounded annually, are to be paid from any profits, distributions, dividends, or payments that Marshall Services Corporation receives from INTO MARSHALL, LLC after the payment of any taxes and reasonable and customary operating and administrative expenses of Marshall Services Corporation. No interest or principal payments were made on the loan during the years ended June 30, 2016 and 2015. The outstanding loan balance totaled \$300,000 at June 30, 2016 and 2015.

Interest expense on notes payable charged to operation was \$16,882 and \$16,078 for the years ended June 30, 2016 and 2015, respectively.

NOTE 6 - PROMISES TO GIVE

Unconditional promises to give at June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Receivable in less than one year	\$ 7,505,690	\$ 5,822,929
Receivable in one to five years	11,969,980	20,849,562
Receivable in more than five years	<u>2,053,875</u>	<u>3,759,575</u>
Total unconditional promises to give	21,529,544	30,432,066
Less discounts to net present value	(266,899)	(472,502)
Less allowance for uncollectible promises	<u>(3,088,459)</u>	<u>(859,741)</u>
Net unconditional promises to give	\$ <u>18,174,187</u>	\$ <u>29,099,823</u>

Discount rates used on long-term promises to give ranged from 0.50% to 9.50% for fiscal years ended June 30, 2016 and 2015.

NOTE 7 - PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Land	\$ 2,442,000	\$ 2,442,000
Buildings	12,323,230	12,304,863
Office equipment	<u>1,095,672</u>	<u>1,070,665</u>
	15,860,902	15,817,528
Less: Accumulated depreciation	<u>(2,684,950)</u>	<u>(2,282,043)</u>
Property and equipment, net	\$ <u>13,175,952</u>	\$ <u>13,535,485</u>

Depreciation expense charged to operations was \$412,648 and \$417,633 for the years ended June 30, 2016 and 2015, respectively.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 8 - CONTINGENT ASSETS

The Foundation is the beneficiary of various whole life insurance policies. Proceeds payable to the Foundation upon the demise of the insured parties totaled approximately \$2,136,694 at June 30, 2016 and \$2,161,694 at June 30, 2015.

NOTE 9 - INCOME TAXES

The Foundation is a tax exempt organization under Internal Revenue Code Section 501(c)(3). The Foundation does, however, engage in some activities that are considered by the Internal Revenue Service to be unrelated business activities and therefore subject to unrelated business tax at the prevailing corporate rates. The Foundation's income tax expense for the fiscal years ended June 30, 2016 and 2015 totaled \$-0-. Management believes the Organization is no longer subject to income tax examinations for years prior to 2013.

The Foundation's subsidiary, Marshall Services Corporation, is a for-profit entity and, therefore, is subject to federal and state income taxation. The company files its own federal and state income tax returns. Marshall Services Corporation incurred a net loss in its operations for 2016 and 2015 and, therefore, no income tax expense (benefit) is recognized in the accompanying consolidated financial statements.

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

NOTE 10 - CHARITABLE GIFT ANNUITIES

As of June 30, 2016 and 2015, the Foundation had liabilities under irrevocable charitable gift annuities. The Foundation agrees to pay to the donors' quarterly annuity payments until the donors' deaths. Based on the donors' life expectancy and the IRS discount rate (1.8% at June 30, 2016), the present value of future liabilities expected to be paid by the Foundation to the beneficiaries totaled \$343,570 and \$367,709 as of June 30, 2016 and 2015, respectively.

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

Contribution revenue net of change in valuation of charitable gift annuities totaled \$(32,414) and \$(104,586) for the years ended June 30, 2016 and 2015, respectively.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 11 - CHARITABLE REMAINDER TRUSTS

The Foundation is named as the residual beneficiary of charitable remainder unitrusts. Under the terms of the unitrusts, a primary beneficiary receives annual distributions of a certain percentage of the net fair market value of the trust as of the first day of the taxable year. At the death of the primary beneficiary the Foundation receives all of the principal and income of the trust. Because these unitrusts are administered by third-party trustees, the Foundation records this as a contribution receivable and contribution revenue for the present value of the future benefits expected to be received from the trusts. The present value is calculated based on IRS actuarial formulas based on the primary beneficiary's life expectancy utilizing a rate of 1.8% at June 30, 2016. At June 30, 2016 and 2015, the contribution receivable from the remainder trusts totaled \$374,957 and \$647,855 respectively.

Contribution revenue net of change in valuation of charitable remainder trusts totaled \$(272,898) and \$(185,474) for the years ended June 30, 2016 and 2015, respectively.

NOTE 12 - PERPETUAL TRUSTS HELD BY THIRD PARTIES

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

The Foundation records its beneficial interest in the perpetual trust assets at fair market value with a corresponding entry to permanently restricted contribution revenue. At June 30, 2016 and 2015, the beneficial interest in perpetual trusts totaled \$9,070,277 and \$9,423,213, respectively.

The change in the beneficial interest in perpetual trust assets is recorded in permanently restricted other income and investment income in the accompanying consolidated financial statements and totaled \$(354,597) and \$(373,155) for the years ended June 30, 2016 and 2015, respectively.

NOTE 13 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2016 and 2015 are available for the following purposes or periods:

Periods after June 30, Program activities	<u>2016</u>	<u>2015</u>
Academic assistance	\$ 47,397,022	\$ 54,767,699
Student assistance	<u>8,072,088</u>	<u>10,268,487</u>
Total temporarily restricted net assets	\$ <u>55,469,110</u>	\$ <u>65,036,186</u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 13 - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

Net assets were released from donor restrictions during the years ended June 30, 2016 and 2015 by incurring expenses satisfying the purpose specified by donors as follows:

Purpose restrictions accomplished:

	<u>2016</u>	<u>2015</u>
Academic assistance	\$ 6,344,339	\$ 16,738,977
Student assistance	3,614,754	3,260,575
Fundraising	<u>68,830</u>	<u>73,584</u>
Total	\$ <u>10,027,923</u>	\$ <u>20,073,136</u>

NOTE 14 - PERMANENTLY RESTRICTED NET ASSETS

Net assets were permanently restricted for the following purposes at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Academic assistance	\$ 36,836,184	\$ 36,058,081
Student assistance	<u>65,865,246</u>	<u>63,508,322</u>
Total permanently restricted net assets	\$ <u>102,701,430</u>	\$ <u>99,566,403</u>

NOTE 15 - CONCENTRATIONS OF CREDIT RISK

The Foundation receives pledges from alumni as well as other individuals and companies. The pledges are unsecured. Unconditional promises to give are recorded net of an allowance for bad debts of \$3,088,459 and \$859,741 at June 30, 2016 and 2015, respectively.

The Foundation maintains substantially all of its cash balances with four financial institutions. At June 30, 2016 and 2015, balances at these financial institutions exceeded the amounts insured by the Federal Deposit Insurance Corporation and collateralized by securities pledged by the respective financial institutions by \$2,783,423 and \$3,763,431, respectively.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 16 - RETIREMENT PLAN AND DEFERRED COMPENSATION PLAN

Retirement Plan

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

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

Employer	6%
Employee	6%

Pension expense for the fiscal years ended June 30, 2016 and 2015 was \$88,120 and \$79,857, respectively.

Deferred Compensation

The Foundation has a deferred compensation agreement with a key employee under Section 457(b) of the Internal Revenue Code. During the years ended June 30, 2016 and 2015, the Foundation's contribution under the deferred compensation plan totaled \$22,500 and \$15,000, respectively.

NOTE 17 - FUNCTIONAL ALLOCATION OF EXPENSES

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

NOTE 18 - DONATED SERVICES

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

NOTE 19 - FAIR VALUE MEASUREMENTS

The Foundation determines the fair values of its financial instruments based on the fair value hierarchy established by the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification which specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 19 - FAIR VALUE MEASUREMENTS (CONTINUED)

the Foundation's market assumptions. The three levels of the fair value hierarchy based on these two types of inputs are as follows:

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

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

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

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

Fair values of assets measured on a recurring basis at June 30, 2016 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices In Active Markets For Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
ASSETS				
Contributions Receivable				
From Remainder Trusts	\$ 374,957	\$ 374,957	\$ -0-	\$ -0-
Beneficial Interest In				
Perpetual Trusts	9,070,277	9,070,277	-0-	-0-

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 19 - FAIR VALUE MEASUREMENTS (CONTINUED)

	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Fixed Income				
Commingled Global				
Fixed*	\$ 28,578,840	\$ -0-	\$ -0-	\$ -0-
U.S. Government Bonds	55,500	55,500	-0-	-0-
Domestic Mutual Funds	209,154	209,154	-0-	-0-
International Mutual Funds	<u>1,169,839</u>	<u>1,169,839</u>	<u>-0-</u>	<u>-0-</u>
Total Fixed Income	<u>30,013,333</u>	<u>1,434,493</u>	<u>-0-</u>	<u>-0-</u>
Equities				
Publicly Traded Equity	28,065	28,065	-0-	-0-
Domestic Mutual Funds	288,270	288,270	-0-	-0-
International Mutual Funds	56,202	56,202	-0-	-0-
Commingled Global				
Equity*	81,231,410	-0-	-0-	-0-
Other	<u>8,250</u>	<u>8,250</u>	<u>-0-</u>	<u>-0-</u>
Total Equities	<u>81,612,197</u>	<u>380,787</u>	<u>-0-</u>	<u>-0-</u>
Other				
Commingled Hedge Funds*	18,553,685	-0-	-0-	-0-
Commingled				
Real Asset Fund*	20,243,544	-0-	-0-	-0-
Public Real Assets	32,719	32,719	-0-	-0-
Private Capital				
Commingled Private				
Capital Fund*	6,923,323	-0-	-0-	-0-
Private Equity*	2,184,574	-0-	-0-	-0-
Natural Resources*	651,339	-0-	-0-	-0-
Venture*	2,384,452	-0-	-0-	-0-
Distressed Debt*	<u>733,495</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Other	<u>51,707,132</u>	<u>32,719</u>	<u>-0-</u>	<u>-0-</u>
Total Assets	\$ <u>172,777,896</u>	\$ <u>11,293,233</u>	\$ -0-	\$ -0-

* In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Statement of Financial Position.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 19 - FAIR VALUE MEASUREMENTS (CONTINUED)

Fair values of assets measured on a recurring basis at June 30, 2015 are as follows:

	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS				
Contributions Receivable				
From Remainder Trusts	\$ 647,855	\$ 647,855	\$ -0-	\$ -0-
Beneficial Interest In				
Perpetual Trusts	9,423,213	9,423,213	-0-	-0-
Investments				
Fixed Income				
Commingled Global Fixed*	15,584,080	-0-	-0-	-0-
U.S. Government Bonds	55,500	55,500	-0-	-0-
Domestic Mutual Funds	214,680	214,680	-0-	-0-
International Mutual Funds	<u>3,030,838</u>	<u>3,030,838</u>	<u>-0-</u>	<u>-0-</u>
Total Fixed Income	<u>18,885,098</u>	<u>3,301,018</u>	<u>-0-</u>	<u>-0-</u>
Equities				
Publicly Traded Equity	436,107	436,107	-0-	-0-
Domestic Mutual Funds	2,026,153	2,026,153	-0-	-0-
International Mutual Funds	1,813,346	1,813,346	-0-	-0-
Commingled Global Equity*	54,227,109	-0-	-0-	-0-
Other	<u>8,250</u>	<u>8,250</u>	<u>-0-</u>	<u>-0-</u>
Total Equities	<u>58,510,965</u>	<u>4,283,856</u>	<u>-0-</u>	<u>-0-</u>
Other				
Commingled Hedge Funds*	17,975,190	-0-	-0-	-0-
Commingled Real				
Asset Fund*	15,269,854	-0-	-0-	-0-
Public Real Assets	32,402	32,402	-0-	-0-
Private Capital				
Commingled Private				
Capital Fund*	3,762,512	-0-	-0-	-0-
Private Equity*	2,095,819	-0-	-0-	-0-
Natural Resources*	681,944	-0-	-0-	-0-
Venture*	2,327,608	-0-	-0-	-0-
Distressed Debt*	<u>1,088,845</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Other	<u>43,234,174</u>	<u>32,402</u>	<u>-0-</u>	<u>-0-</u>
Total Assets	\$ <u>130,701,305</u>	\$ <u>17,688,344</u>	\$ -0-	\$ -0-

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 19 - FAIR VALUE MEASUREMENTS (CONTINUED)

* In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Statement of Financial Position.

The table below summarizes the changes in fair value measurements for Level 3 financial instruments. There were no transfers between Level 1, Level 2, and Level 3 of the fair value hierarchy, except where the retrospective application of ASU 2015-07 removed the assets using Net Asset Value as a practical expedient were removed from the fair value hierarchy.

	<u>2016</u>	<u>2015</u>
BEGINNING BALANCE	\$ -0-	\$ 108,022,436
Transfer out for new standard Topic 820	<u>-0-</u>	<u>(108,022,436)</u>
ENDING BALANCE	\$ <u>-0-</u>	\$ <u>-0-</u>

There were no Level 3 assets during the year on which to report the amount of the total gains and losses for the period included in changes in net assets, reported in investment income, attributable to the change in unrealized gains and losses relating to assets still held at June 30, 2016 and June 30, 2015.

Fair values of liabilities measured on a recurring basis at June 30, 2016 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices In Active Markets For Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
LIABILITIES				
Annuity payment liability	\$ 343,569	\$ 343,459	\$ -0-	\$ -0-
Interest rate swap	<u>3,606</u>	<u>3,606</u>	<u>-0-</u>	<u>-0-</u>
Total Liabilities	\$ <u>347,175</u>	\$ <u>347,175</u>	\$ <u>-0-</u>	\$ <u>-0-</u>

Fair values of liabilities measured on a recurring basis at June 30, 2015 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices In Active Markets For Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
LIABILITIES				
Annuity payment liability	\$ 367,709	\$ 367,709	\$ -0-	\$ -0-
Interest rate swap	<u>75,795</u>	<u>75,795</u>	<u>-0-</u>	<u>-0-</u>
Total Liabilities	\$ <u>443,504</u>	\$ <u>443,504</u>	\$ <u>-0-</u>	\$ <u>-0-</u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 19 - FAIR VALUE MEASUREMENTS (CONTINUED)

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

Contribution Receivable from Remainder Trusts

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

Beneficial Interest in Perpetual Trusts

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

Investments

The Foundation uses quoted market prices in an active market when available. These investments consist principally of equities and fixed income securities and are included in Level 1. The quoted market prices are provided by independent third party banks and brokers. The Foundation had no Level 2 or Level 3 investments at June 30, 2016 and 2015.

Additional disclosures for the Foundation's investments for which fair value is measured using the net asset value per share practical expedient, as required by ASU 2015-07 including the liquidity terms and conditions of the External Funds, are included in Note 20 of the consolidated financial statements. The total fair value of the External Funds valued using the practical expedient that are not included in the fair value hierarchy table is \$161,484,663 and \$113,012,961 at June 30, 2016 and June 30, 2015, respectively. The accompanying 2015 disclosure has been changed for the retrospective application of ASU 2015-07.

Annuity Payment Liability

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

Interest Rate Swap

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

**MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 19 - FAIR VALUE MEASUREMENTS (CONTINUED)

Fair values of assets measured on a nonrecurring basis at June 30, 2016 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices In Active Markets For Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
ASSETS				
Other assets	\$ 15,525	\$ -0-	\$ 15,525	\$ -0-
Total assets	\$ 15,525	\$ -0-	\$ 15,525	\$ -0-

Fair values of assets measured on a nonrecurring basis at June 30, 2015 are as follows:

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

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

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

NOTE 20 – ASSETS MEASURED AT NET ASSET VALUE PER SHARE

The Foundation invests in External Funds including for which fair value is measure at the net asset per share as a practical expedient per ASU 2015-07. The Foundation's investment in External Funds may involve varying degrees of illiquidity and varying time periods to fund commitments to certain of those investments.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 20 – ASSETS MEASURED AT NET ASSET VALUE PER SHARE (CONTINUED)

The following table summarizes liquidity for the External Funds which are not private equity:

<u>Asset Class</u>	<u>Withdrawal Frequency</u>	<u>Notice Period</u>
Commingled Global Fixed Income	Monthly, Quarterly	5 Day, 90 Day
Commingled Global Equity	Monthly, Quarterly	5 Day, 90 Day
Commingled Hedge Funds	Monthly, Quarterly	5 Day, 90 Day
Commingled Real Assets	Monthly, Quarterly	5 Day, 90 Day

Commingled Global Fixed Income: This class includes investments in commingled funds that invest in foreign and domestic debt, including exposure to global sovereign bonds, opportunistic and high-yield instruments and attempt to meet or exceed the Barclays Global Aggregate Bond Index. External Funds that are not private equity in nature provide for monthly liquidity in the form of an automatic withdrawal of up to 10% of the balance at the end of the preceding fiscal year with five day notice. The balance of the External Funds that are not private equity are available quarterly with a 90 day notice limited to 25% of the balance of the fund each quarter.

Commingled Global Equity: This class includes investments in commingled funds that invest primarily in U.S. or foreign equities, and which attempt to meet or exceed the return of specific equity indices, including the MSCI All Country World Total Return Net Index (ACWI) in the aggregate. External Funds that are not private equity in nature provide for monthly liquidity in the form of an automatic withdrawal of up to 10% of the balance at the end of the preceding fiscal year with five day notice. The balance of the External Funds that are not private equity are available quarterly with a 90 day notice limited to 25% of the balance of the fund each quarter.

Commingled Hedge Funds: This class includes investments in hedge funds that expand the universe of potential investment approaches available by employing a variety of strategies and techniques within and across various asset classes. The primary objective for these funds is to produce attractive returns with moderate to low correlations to equity and credit markets, to generate fixed income like volatility, and to be opportunistic during periods of market duress. The objective is pursued by allocating to external portfolio managers selected for expertise in one or more investment strategies which may include, but are not limited to, equity long/short, event driven, relative value, and directional. External Funds that are not private equity in nature provide for monthly liquidity in the form of an automatic withdrawal of up to 10% of the balance at the end of the preceding fiscal year with five day notice. The balance of the External Funds that are not private equity are available quarterly with a 90 day notice limited to 25% of the balance of the fund each quarter.

Commingled Real Assets: This class includes investments in commingled funds that invest primarily in liquid real assets with the objective of providing an inflation hedge, diversification in assets with low or negative correlation to other assets, and attractive risk adjusted returns. This class achieves its objective by allocating to external portfolio managers selected for expertise in one or more investment strategies which may include, but are not limited to real estate, commodities, infrastructure, energy, credit strategies, and asset backed securities. External Funds that are not private equity in nature provide for monthly liquidity in the form of an automatic withdrawal of up to 10% of the balance at the end of the preceding fiscal year with five day notice.

MARSHALL UNIVERSITY
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JUNE 30, 2016 AND 2015

NOTE 20 – ASSETS MEASURED AT NET ASSET VALUE PER SHARE (CONTINUED)

The balance of the External Funds that are not private equity are available quarterly with a 90 day notice limited to 25% of the balance of the fund each quarter.

Certain External Funds include private equity investments (“PE Funds”) which are illiquid in nature and typically cannot be redeemed. Commitments to PE Funds are typically funded through capital calls. The following table provides details about the inception, commitment and uncalled portion of the commitments to these illiquid PE Funds.

<u>Asset Class</u>	<u>Inception</u>	<u>Commitment</u>	<u>Uncalled Commitment</u>	<u>Redemption</u>
Commingled Real Assets	2014	\$ 6,000,000	\$ 3,871,867	Illiquid
Commingled Private Capital	2013, 2015	17,500,000	10,828,473	Illiquid
Private Equity	2007, 2010, 2011	3,300,000	812,200	Illiquid
Natural Resources	2008	1,000,000	113,500	Illiquid
Venture	2007, 2010	1,800,000	152,500	Illiquid
Distressed Debt	2006, 2008	2,500,000	376,700	Illiquid

Commingled Real Assets: This class includes investments in commingled funds that invest primarily in illiquid real assets with the objective of providing an inflation hedge, diversification in assets with low or negative correlation to other assets, and attractive risk adjusted returns. This class achieves its objective by allocating to external portfolio managers selected for expertise in one or more investment strategies which may include, but are not limited to real estate, energy, infrastructure, credit strategies, and asset backed securities. There is no provision for redemption during the life of these funds. Distributions from each fund will be received as the underlying investments of the fund are liquidated, estimated at June 30, 2016 to be over the next 7 to 10 years.

Commingled Private Capital: This class includes investments in commingled funds that invest primarily in illiquid private capital with the objective of providing enhanced returns, diversification through investments with low correlations to other assets, and access to private companies. This class achieves its objective by allocating to external portfolio managers selected for expertise in one or more investment strategies which may include, but are not limited to buyouts, growth equity, venture capital, and opportunistic credit. There is no provision for redemption during the life of these funds. Distributions from each fund will be received as the underlying investments of the fund are liquidated, estimated at June 30, 2016 to be over the next 10 to 15 years.

Private Equity: This class includes investments in funds that invest primarily in a diversified group of both U.S. and foreign private equity investments with the objective of providing enhanced returns, diversification through investments with low correlations to other assets, and access to private companies. This class achieves its objective by allocating to external portfolio managers selected for expertise in one of more investment strategies which may include, but are not limited to equity securities, warrants, and other options that are not generally actively traded. There is no provision for redemption during the life of these funds. Distributions from each fund will be received as the underlying investments of the fund are liquidated, estimated at June 30, 2016 to be over the next 2 to 7 years.

**MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 20 – ASSETS MEASURED AT NET ASSET VALUE PER SHARE (CONTINUED)

Natural Resources: This class includes investments in funds that invest primarily in natural gas and oil, power, and other natural resource opportunities with the objective of providing long-term capital appreciation and superior risk-adjusted returns. This class achieves its objective by allocating to external portfolio managers selected for expertise in one of more investment strategies which may include, but are not limited to equity securities, and property acquisition that are not generally actively traded. There is no provision for redemption during the life of these funds. Distributions from each fund will be received as the underlying investments of the fund are liquidated, estimated at June 30, 2016 to be over the next 4 years.

Venture Capital: This class includes investments in funds that invest primarily in emerging growth companies with the objective of obtaining long-term growth capital and superior risk-adjusted returns. This class achieves its objective by allocating to external portfolio managers selected for expertise in one of more investment strategies which may include, but are not limited to early stage information technology, and late stage healthcare technology that are not generally actively traded. There is no provision for redemption during the life of these funds. Distributions from each fund will be received as the underlying investments of the fund are liquidated, estimated at June 30, 2016 to be over the next 3 to 5 years.

Distressed Debt: This class includes investments in funds that invest primarily in a diverse set of debt investments across the U.S. and globally with the objective of providing enhanced returns in a variety of credit environments. This class achieves its objective by allocating to external portfolio managers selected for expertise in one or more investment strategies which may include, but are not limited to restructured debt, stressed debt, distressed debt, "special situation" and mezzanine debt. There is no provision for redemption during the life of these funds. Distributions from each fund will be received as the underlying investments of the fund are liquidated, estimated at June 30, 2016 to be over the next 1 to 3 years.

NOTE 21 - ENDOWMENTS

The Marshall University Foundation, Inc.'s endowment consists of approximately 852 funds established for the benefit of the students of Marshall University through both scholarship assistance and supplemental support of various university departments and endeavors. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by Generally Accepted Accounting Principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment Net Asset Composition by Type of Fund as of June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -0-	\$ 5,844,815	\$ 93,731,376	\$ 99,576,191
Board-designated endowment funds	<u>10,849,241</u>	<u>-0-</u>	<u>-0-</u>	<u>10,814,241</u>
Total funds	\$ <u>10,849,241</u>	\$ <u>5,844,815</u>	\$ <u>93,731,376</u>	\$ <u>110,425,432</u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 21 - ENDOWMENTS (CONTINUED)

Endowment Net Asset Composition by Type of Fund as of June 30, 2015

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -0-	\$ 6,183,855	\$ 93,823,215	\$ 100,007,070
Board-designated endowment funds	<u>11,658,596</u>	<u>-0-</u>	<u>-0-</u>	<u>11,658,596</u>
Total funds	\$ <u>11,658,596</u>	\$ <u>6,183,855</u>	\$ <u>93,823,215</u>	\$ <u>111,665,666</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2016

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 11,658,596	\$ 6,183,855	\$ 93,823,215	\$ 111,665,666
Investment return:				
Investment income	20,379	9,991	157,053	187,423
Fees	(5,800)	(2,872)	(45,818)	(54,490)
Realized & unrealized gain (loss)	<u>(495,840)</u>	<u>(253,917)</u>	<u>(3,840,303)</u>	<u>(4,590,060)</u>
Total investment return	<u>(481,261)</u>	<u>(246,798)</u>	<u>(3,729,068)</u>	<u>(4,457,127)</u>
Contributions	124,410	245,517	7,169,709	7,539,636
Appropriation of endowment assets for expenditure	(452,504)	(351,114)	(3,519,807)	(4,323,425)
Other changes:				
Appreciation transfer in from other institution	-0-	-0-	682	682
Transfers in endowment classification	<u>-0-</u>	<u>13,355</u>	<u>(13,355)</u>	<u>-0-</u>
Endowment net assets, end of year	\$ <u>10,849,241</u>	\$ <u>5,844,815</u>	\$ <u>93,731,376</u>	\$ <u>110,425,432</u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 21 - ENDOWMENTS (CONTINUED)

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 14,441,296	\$ 2,449,980	\$ 89,392,874	\$ 106,284,150
Investment return:				
Investment income	50,449	21,207	361,043	432,699
Fees	(6,954)	(3,132)	(50,843)	(60,929)
Realized & unrealized gain (loss)	<u>58,676</u>	<u>45,930</u>	<u>491,567</u>	<u>596,173</u>
Total investment return	<u>102,171</u>	<u>64,005</u>	<u>801,767</u>	<u>967,943</u>
Contributions	137,996	1,670,359	8,225,311	10,033,666
Appropriation of endowment assets for expenditure	(764,001)	(346,707)	(4,509,385)	(5,620,093)
Other changes:				
Transfers in endowment classification	<u>(2,258,866)</u>	<u>2,346,218</u>	<u>(87,352)</u>	<u>-0-</u>
Endowment net assets, end of year	\$ <u>11,658,596</u>	\$ <u>6,183,855</u>	\$ <u>93,823,215</u>	\$ <u>111,665,666</u>

Permanently and Temporarily Restricted Net Assets (Endowment Only)

	<u>2016</u>	<u>2015</u>
Permanently Restricted Net Assets		
Portion of perpetual endowment funds that is required to be retained permanently by explicit donor stipulation	\$ <u>93,731,376</u>	\$ <u>93,823,215</u>
Total endowment funds classified as permanently restricted net assets	\$ <u>93,731,376</u>	\$ <u>93,823,215</u>
Temporarily Restricted Net Assets		
Term endowment funds	\$ <u>5,844,815</u>	\$ <u>6,183,855</u>
Total endowment funds classified as temporarily restricted net assets	\$ <u>5,844,815</u>	\$ <u>6,183,855</u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 21 - ENDOWMENTS (CONTINUED)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level the donor requires the Organization to retain as a fund of perpetual duration. In accordance with Generally Accepted Accounting Principles, deficiencies of this nature that are reported as unrestricted net assets were \$731,672 and \$4,242 as of June 30, 2016 and 2015, respectively. These deficiencies resulted from unfavorable market fluctuations.

Interpretation of Relevant Law

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

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

Objective of the Endowment

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

Performance Goals

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

- Equal or exceed the spending rate plus inflation over a market cycle; and,
- Equal or exceed the average return of appropriate capital market indices weighed by the asset allocation target percentages over rolling five-year periods; and,
- Equal or exceed the average return of a universe of similarly sized Endowment Funds as reported in a published study (NACUBO-Commonfund Study of Endowments).

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 21 - ENDOWMENTS (CONTINUED)

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

Investment Philosophy

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

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

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

Investment Program Policy

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

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

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

Investment Program Strategy

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

<u>Asset Class</u>	<u>Minimum Weight</u>	<u>Target Weight</u>	<u>Maximum Weight</u>
Global Equity	30%	45%	60%
Global Fixed Income	0%	7.5%	17.5%
Absolute Return	7.5%	17.5%	27.5%
Real Assets	5%	15%	25%
Private Capital	0%	15%	25%

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 21 - ENDOWMENTS (CONTINUED)

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

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

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

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

Spending Policy

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

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

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

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

NOTE 22 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Financial Instruments Topic of the FASB Accounting Standards Codification, requires disclosure of fair value information about financial instruments, whether or not recognized in the consolidated statement of financial position. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. The Financial Instruments Topic of the FASB Accounting Standards Codification excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Foundation.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 22 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

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

Other receivables - The carrying amount reported in the consolidated statements of financial position for other receivables approximates those assets' fair value.

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

Investments - Fair value for investments is based on quoted market prices in active markets for identical investments, where available. If quoted market prices for identical investments in active markets are not available, fair value is based on observable inputs including quoted prices in active markets for similar investments, quoted prices for identical or similar investments in less active markets, model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market, or model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market. Certain investments were measured at Net Asset Value per Share (or Its Equivalent) as a practical expedient as permitted by ASC 820.

Cash surrender value - life insurance, net of policy loans - The carrying amount reported in the consolidated statements of financial position for cash surrender value - life insurance, net of policy loans approximate those assets' fair values.

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

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

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

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

Notes payable - it is not practicable to estimate the fair value of notes payable due to the lack of available software capable of calculating fair value.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 22 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

The estimated fair values of the Organization's financial instruments at June 30, 2016 and 2015 are as follows:

	2016		2015	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial Assets:				
Cash and cash Equivalents	\$ 31,874,841	\$ 31,874,841	\$ 13,551,670	\$ 13,551,670
Unconditional promises to give, net	18,174,187	Not Practicable	29,099,823	Not Practicable
Contribution receivable from Remainder Trusts	374,957	374,957	647,855	647,855
Other receivables	27	27	48,372	48,372
Beneficial interest in Perpetual Trusts	9,070,277	9,070,277	9,423,213	9,423,213
Investments	163,332,707	163,332,707	120,630,237	120,630,237
Cash surrender value - life insurance, net	509,438	509,438	502,552	502,552
Financial Liabilities:				
Accounts payable	28,146	28,146	32,675	32,675
Accrued vacation and wages	134,802	134,802	191,060	191,060
Accrued interest payable	65,933	65,933	53,910	53,910
Bonds payable	7,667,895	Not Practicable	8,579,881	Not Practicable
Notes Payable	300,000	Not Practicable	300,000	Not Practicable
Annuity payable liability	343,570	343,570	367,709	367,709

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 22 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

	2016		2015	
	Carrying <u>Amount</u>	Fair <u>Value</u>	Carrying <u>Amount</u>	Fair <u>Value</u>
Deferred revenue	\$ 319,025	\$ 319,025	\$ 280,530	\$ 280,530
Interest rate swap	3,606	3,606	75,795	75,795
Agency liabilities	59,438,399	59,438,399	-0-	-0-

NOTE 23 - DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

	<u>2016</u>	<u>2015</u>
Fair value of interest rate swap agreement	\$ 3,606	\$ 75,795
Consolidated statement of financial position location of fair value amount	Liability	Liability
Gain recognized in change in net assets	\$ 72,189	\$ 93,325
Location of gain recognized in change in net assets	Gifts, contributions and other	Gifts, contributions and other

NOTE 24 - EQUITY INVESTMENT IN JOINT VENTURE

Marshall Services Corporation owns a 50% interest in INTO MARSHALL, LLC. The investment is accounted for under the equity method of accounting, whereby the initial investment of \$250,000 is adjusted for profit or loss and distributions. The equity investment is carried at \$0 at June 30, 2016 and 2015 as the joint venture's accumulated losses are in excess of the initial capital contribution. When profits accumulate to return the capital account to a positive amount, the value of the equity investment in joint venture will appear on the consolidated statement of financial position.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 25 – FUNDS HELD IN CUSTODY FOR OTHERS

The Foundation invests funds for Marshall University. These investments are held in an agency relationship; therefore, assets and liabilities are always equal and no net assets are reported. The liability for agency investments was \$59,438,399 and \$0 at June 30, 2016 and June 30, 2015, respectively.

NOTE 26 - SUBSEQUENT EVENTS

Management has reviewed events occurring subsequent to June 30, 2016 through October 7, 2016 (the date the financial statements were available to be issued) for possible adjustment to, or disclosure in, the accompanying financial statements as required by the Subsequent Events Topic of the FASB Accounting Standards Codification.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 25 COMPONENT UNIT DISCLOSURES – PROVIDENT MARSHALL

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Assets Held by Trustee: In accordance with the loan agreement and trust indenture, the Company is required to fund monthly amounts into reserve accounts for debt service, and repair and replacements, which are held by the trustee. As of June 30, 2016 and 2015, such balances consisted of cash and cash equivalents. Such funds may be released, as approved by the trustee, as needed, by the Company for construction, major repairs and betterments. Assets required to fund the current portion of such payments are included in current assets.

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

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

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Buildings	29 years
Building improvements and equipment	3 - 25 years
Furniture, fixtures, and equipment	3 - 20 years

Long-lived assets, such as buildings, improvements, and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheets. At June 30, 2016 and 2015, management has concluded that they are unaware of any impairments to be recorded.

Ground Lease: On July 30, 2010, the Company assumed a 40 year ground lease dated October 1, 2007 with the Board of Governors of Marshall University, on behalf of Marshall University (MU). The ground lease agreement requires the Company to pay rent of \$1 annually along with additional rent, as outlined in the ground lease. At June 30, 2016 and 2015, no additional rent payment was due.

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

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

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

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

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

U.S. GAAP prescribes recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Tax benefits will be recognized only if the tax position is more-likely-than-not sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit will be recorded. Management has concluded that they are unaware of any tax benefits or liabilities to be recognized at June 30, 2016 and 2015.

The Company is not subject to examination by U.S. federal taxing authorities for years before 2013 and for all state income taxes before 2013. The Company does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

The Company would recognize interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. The Company has no amounts accrued for interest or penalties as of June 30, 2016 and 2015.

New Accounting Standards: In May 2014, the Financial Accounting Standards Board (FASB) issued (ASU) 2014-09, *Revenue from Contracts with Customers: Topic 606*. This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective retrospectively for fiscal years beginning after December 15, 2017. The Company has not yet implemented this ASU and is in the process of assessing the effect on the Company's financial statements.

In February 2016, the FASB issued (ASU) 2016-02, *Leases*. This ASU affects any entity that enters into a lease, with some specified scope exemptions. The main difference between previous GAAP and this ASU is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019 (i.e., January 1, 2020, for a calendar year entity). Early application is permitted for all public business entities and all nonpublic business entities upon issuance. The Company has not yet implemented this ASU and is in the process of assessing the effect on the Company's financial statements.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2016, to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2016. Management has performed their analysis of subsequent events through September 30, 2016, the date the financial statements were issued.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 - REVENUE BONDS PAYABLE

	<u>2016</u>	<u>2015</u>
Series 2010A senior tax-exempt revenue bonds payable to Cabell County, by and through the County Commission on behalf of Cabell County, West Virginia with interest at a variable rate, which adjusts weekly (.43% and .10% at June 30, 2016 and 2015, respectively). Interest on the bonds is payable on the first business day of each month commencing September 1, 2010. An irrevocable letter of credit was issued by Bank of America in the amount of \$80,711,596, which expires on January 30, 2017. The bonds mature July 1, 2039, but are subject to certain mandatory and optional redemption and tender provisions as stated in the Trust Indenture.	\$ 79,750,000	\$ 79,945,000
Series 2010B subordinate tax-exempt revenue bonds payable to Cabell County, by and through the County Commission on behalf of Cabell County, West Virginia with interest at a fixed rate (7.5%). Principal and interest on the subordinate tax-exempt revenue bonds are payable solely out of available surplus cash in accordance with the trust indenture. The bonds mature on July 1, 2039, but are subject to certain mandatory and optional redemption and tender provisions as stated in the trust indenture.	<u>8,918,000</u> 88,668,000	<u>8,929,000</u> 88,874,000
Unamortized discount on Series 2010A bonds underlying the note payable.	<u>(301,864)</u> 88,366,136	<u>(320,247)</u> 88,553,753
Less current maturities	<u>79,884,000</u>	<u>319,000</u>
	<u>\$ 8,482,136</u>	<u>\$ 88,234,753</u>

The bonds are collateralized by all the assets of the Company. Pursuant to the loan agreement, reimbursement agreement, trust indenture and ground lease, the Company is subject to certain financial covenants, reporting covenants, and other requirements. At June 30, 2016 and 2015, management believes the Company was in compliance with all covenants.

Aggregate annual maturities of the revenue bonds payable at June 30, 2016, are as follows:

2017	\$ 79,884,000
2018	144,000
2019	154,000
2020	167,000
2021	179,000
Thereafter	<u>8,140,000</u>
	<u>\$ 88,668,000</u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 - REVENUE BONDS PAYABLE (Continued)

Interest expense was \$3,587,762 and \$3,611,122 for the years ended June 30, 2016 and 2015, respectively.

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

NOTE 3 - DERIVATIVES

In connection with the issuance of the senior variable rate tax-exempt revenue bonds, the Company entered into an interest rate swap agreement with Deutsche Bank AG, New York Branch (Counterparty).

Interest Rate Swap Not Designated as a Hedge:

Summary information about the interest rate swap not designated as a hedge as of June 30, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Notional amounts	\$ 79,750,000	\$ 79,945,000
Weighted average pay rates (fixed)	3.728%	3.728%
Weighted average receive rates (LIBOR x 70%)	0.229%	0.117%
Weighted average maturity	12 years	13 years

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

	<u>Amounts Recognized</u>	
	<u>2016</u>	<u>2015</u>
Unrealized loss on interest rate swap agreement	\$ (5,871,881)	\$ (1,268,548)
Interest expense - senior bonds payable	2,787,323	2,885,815

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

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

	<u>2016</u>	<u>2015</u>
Current liabilities		
Interest rate swap agreement, current portion	\$ 2,679,922	\$ 2,756,592
Long-term liabilities		
Interest rate swap agreement	20,320,904	14,372,353

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

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 4 - RELATED PARTY TRANSACTIONS

Provident receives a fee from the Company to cover corporate administrative overhead costs. For the years ended June 30, 2016 and 2015, corporate administrative overhead costs, which are included in management fees in the statements of income, were \$205,728 and \$190,006, respectively. Per the Trust Indenture, the Company has deferred a portion of the corporate administrative overhead costs as of June 30, 2016 and 2015. As of June 30, 2016 and 2015, \$39,940 and \$37,696, respectively, remained outstanding.

NOTE 5 - MANAGEMENT AGREEMENT

The Company's housing facility is managed by Capstone On-Campus Management, LLC, an unaffiliated management agent. The management fee was \$177,020 and \$176,720 for the years ended June 30, 2016 and 2015, respectively. The management agreement is for a period of fifteen years beginning on July 30, 2010. The management agreement may be terminated for cause in accordance with the provisions of the management agreement. Per the Trust Indenture, the Company has deferred a portion of the management fee as of June 30, 2016 and 2015. As of June 30, 2016 and 2015, \$66,383 and \$55,225, respectively, remains outstanding.

The Company's wellness center is managed by Centers, LLC, an unaffiliated management agent. The management fee was \$243,356 and \$243,112 for the years ended June 30, 2016 and 2015, respectively. The management agreement is for a period of fifteen years beginning on July 30, 2010. The management agreement may be terminated for cause in accordance with the provisions of the management agreement. Per the Trust Indenture, the Company has deferred a portion of the management fee as of June 30, 2016 and 2015. As of June 30, 2016 and 2015, \$76,049 and \$75,973, respectively, remains outstanding.

NOTE 6 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Basis of Fair Value Measurement

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

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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

The fair value of the interest rate swap agreement, which is provided directly by the Counterparty, is based on the expected cash flows over the life of the trade of the instrument and was estimated using the closing mid-market rate/price environment at June 30 (Level 2). The interest rate swap agreement trades in less liquid markets with limited pricing information available, and as such, the fair value for the interest rate swap agreement is inherently more difficult. The fair value provided may differ from actual trade prices as a result of various factors, including (but not limited to) market liquidity, interest rates, credit spreads, position size, transaction and financing costs, hedging costs and risks and uses of capital, as well as certain assumptions regarding past, present and future market conditions. As a result, it is possible that a different valuation model could produce a materially different estimate of fair value. No other assets or liabilities as of June 30, 2016 or 2015, were valued using Level 2.

The total amount of losses for the years ended June 30, 2016 and 2015, included in expenses attributable to the change in unrealized losses relating to liabilities still held at June 30, 2016 and 2015, was \$5,871,881 and \$1,268,548, respectively.

Unlike typical long-term debt, interest rates and other terms for subordinated debt are not readily available and generally involve a variety of factors, including due diligence by the debt holders. As such, it is not practicable to determine the fair value of the subordinated tax-exempt revenue bonds payable without incurring excessive cost.

The fair values of financial instruments other than the interest rate swap agreement and subordinate tax-exempt revenue bonds payable, which include cash, accounts receivable, assets held by trustee and senior tax-exempt revenue bonds are based on a variety of factors. In some cases, fair values represent quoted market prices for identical or comparable instruments (Level 1). In other cases, fair values have been estimated based on assumptions about the amount and timing of estimated future cash flows and assumed discount rates reflecting varying degrees of risk (Level 2). Accordingly, the fair values may not represent actual values that could have been realized at year-end or that will be realized in the future. All other financial instruments' carrying values approximate fair value as of June 30, 2016 and 2015.

NOTE 7 - MANAGEMENT'S PLAN FOR CONTINUING OPERATIONS

The Company's senior tax-exempt revenue bonds payable (Note 2) are secured by an irrevocable letter of credit issued by the Bank of America which expires on January 30, 2017. Therefore, the bonds are currently classified as a current obligation in the balance sheet as of June 30, 2016. The Company continues to have high occupancy, performs to budgeted expectations, and generates sufficient cash to maintain operation and fund senior debt service and a portion of subordinate debt service. The Company intends to work with Bank of America to either renew or extend the terms of the Letter of Credit prior to January 30, 2017.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 26 COMPONENT UNIT DISCLOSURES – BIG GREEN SCHOLARSHIP FOUNDATION, INC.

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

Note 1 – Summary of Significant Accounting Policies:

A. Business Operations and Basis of Presentation

Big Green Scholarship Foundation, Inc. (the Foundation), provides scholarship aid to student athletes and program support for Marshall University's (Marshall) intercollegiate athletic program. In 2015-2016, Marshall sponsored sixteen varsity sports (six men and ten women), and provided for approximately 375 athletes, equivalent to approximately 215 full scholarships. The Foundation's main sources of revenue are contributions, endowments, and special fundraising events.

The Foundation follows the accrual method of accounting and its accounting and reporting policies conform to accounting principles generally accepted in the United States of America. The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reporting in the financial statements and accompanying notes. Actual results could differ from these estimates. The following is a summary of the more significant accounting and reporting policies.

B. Cash Equivalents

The Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Cash on hand and deposits with banking institutions either in checking or other accounts are presented as cash in the accompanying financial statements. Such deposits at June 30, 2016, have been fully secured by federal depository insurance or adequate collateral.

C. Basis of Presentation

Financial statement presentation follows the recommendations of the Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*. Under ASC 958, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. At June 30, 2016, the Foundation had unrestricted, temporarily restricted, and permanently restricted net assets.

D. Fund Accounting

The accounts of the Foundation are maintained in accordance with the principles of fund accounting; resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 1 – Summary of Significant Accounting Policies (Continued):

E. Combined Financial Statements

The financial statements include the accounts of the Foundation. In addition, the Booster Club accounts of the Foundation represent the various related Marshall intercollegiate sports Booster Clubs and other related organizational accounts of the Foundation, which encourage and promote support for their respective intercollegiate teams at Marshall.

F. “Memorandum Only” Total Columns

Total columns on the financial statements are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with accounting principles generally accepted in the United States of America. Neither are such data comparable to a consolidation; interfund activities have not been eliminated in the aggregation of this data.

G. Investments

The Foundation carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

H. Promises to Give

Contributions are recognized when the donor makes a promise to give to the Foundation, that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restriction(s) expire in the fiscal year in which the contributions are recognized. Depending on the restriction, other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Foundation uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made, currently by pool of pledges, which range from 5 to 100%.

I. Deferred Revenue

Income for subsequent year special events held by the Foundation, Branch, or Booster Clubs is deferred and recognized in the period in which the special event is going to occur.

**MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

Note 1 – Summary of Significant Accounting Policies (Continued):

J. Donated Assets

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair value at the date of donation.

K. Income Tax Status

The Foundation is exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code.

The Foundation's Form 990, *Return of Organization Exempt from Income Tax*, for the fiscal years 2015, 2014, and 2013 are subject to examination by the IRS, generally three years after they were filed.

L. Property and Equipment

Property and equipment is recorded at estimated fair market value at date of donation or cost if purchased. Depreciation is computed on the straight-line method and is based on useful lives ranging from 3 to 10 years.

Note 2 – Investments:

Investments, valued at fair market value as of June 30, 2016 and 2015, are summarized as follows:

	<u>2016</u>	<u>2015</u>
Cash and Cash Equivalents	\$ 579,210	\$ 1,083,786
Corporate Stock	4,471,836	4,260,676
Government Securities	2,047,794	1,955,748
Mutual Funds	685,021	749,385
Other	—	—
Total Investments	\$ <u>7,783,861</u>	\$ <u>8,049,595</u>

The following schedule summarizes investment return and its classification in the statement of activities for the fiscal years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 145,813	\$ 115,269
Unrealized (loss) / gain	<u>(149,700)</u>	<u>(143,711)</u>
Total Investment Return	\$ <u>(3,887)</u>	\$ <u>(28,442)</u>

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 3 – Fair Value Measurements:

Fair value of assets measured on a recurring basis at June 30, 2016 and 2015, are as follows:

Fair Value Measures at Reporting Date Using:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
June 30, 2016				
Cash and Cash Equivalents	\$ 579,210	\$ 579,210	\$ -	\$ -
Corporate Stock	4,471,836	4,471,836	-	-
Government Securities	2,047,794	2,047,794	-	-
Mutual Funds	685,021	685,021	-	-
Other	-	-	-	-
Total	<u>\$ 7,783,861</u>	<u>\$ 7,783,861</u>	<u>\$ -</u>	<u>\$ -</u>
June 30, 2015				
Cash and Cash Equivalents	\$ 1,083,786	\$ 1,083,786	\$ -	\$ -
Corporate Stock	4,260,676	4,260,676	-	-
Government Securities	1,955,748	1,955,748	-	-
Mutual Funds	749,385	749,385	-	-
Other	-	-	-	-
Total	<u>\$ 8,049,595</u>	<u>\$ 8,049,595</u>	<u>\$ -</u>	<u>\$ -</u>

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Financial assets valued using Level 3 inputs are based on unobservable inputs. There were no Level 2 or Level 3 inputs for the fiscal years ended June 30, 2016 and 2015.

Note 4 – Promises to Give:

Promises to give at June 30, 2016, were as follows:

<u>Description</u>	<u>Amount</u>
Pledges due in less than one year	\$ 592,550
Pledges due in one to five years	<u>50,000</u>
Total pledges receivable	642,550
Less: Discounts to present value	(10,274)
Less: Allowance for uncollectible pledges	<u>(74,968)</u>
Total promises to give	<u>\$ 557,308</u>

As of June 30, 2016, \$141,970 (net of allowances and present value discounts) represented promises to the Foundation's endowment fund. This income is used for scholarships and other support of the Marshall University Athletic Department.

**MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

Note 5 – Donated Services:

The Foundation received donated services and assets during the fiscal year ended June 30, 2016, which meet the criteria of ASC 958. These services and assets are recorded in the financial statements at fair value as determined by the donor.

The value of donated services included in the financial statements and the corresponding expenses for the fiscal year ended June 30, 2016, are as follows:

<u>Services</u>	<u>Value</u>
Courtesy cars	\$ 136,252
Housing	66,012
Meals	3,184
Medical	192,430
Travel	<u>16,400</u>
Total Services	\$ <u>414,278</u>

Note 6 – Property and Equipment:

Property and equipment at June 30, 2016 and 2015, are present at their net book value. The property and equipment consists of vehicles. Property and equipment balances, by fund, for the fiscal year ended June 30, 2016, are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Operating Fund				
Vehicles	\$ 208,860	\$ -	\$ -	\$ 208,860
Less: Accumulated Depreciation	<u>(90,506)</u>	<u>(41,772)</u>	-	<u>(132,278)</u>
Total Operating Fund	118,354	<u>(41,772)</u>	-	76,582
Booster Clubs				
Vehicles	53,881	-	-	\$ 53,881
Less: Accumulated Depreciation	<u>(53,881)</u>	-	-	<u>(53,881)</u>
Total Booster Clubs	-	-	-	-
Total Property and Equipment	\$ <u>118,354</u>	\$ <u>(41,772)</u>	\$ -	\$ <u>76,582</u>

**MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

Note 6 – Property and Equipment (Continued):

Depreciation expense for the year was charged to the following funds:

<u>Fund</u>	<u>Amount</u>
Operating Fund	\$ 41,772
Booster Clubs	<u> -</u>
Total Depreciation	\$ <u>41,772</u>

Note 7 – Endowment Investment Fees:

Total endowment investment fees paid for the fiscal year ended June 30, 2016, were as follows:

	<u>Amount</u>
Unrestricted investment and administrative fees	\$ 53,562
Temporarily restricted investment and administrative fees	-
Permanently restricted investment and administrative fees	<u> -</u>
Total investment and administrative fees	\$ <u>53,562</u>

The Foundation's investments policy requires the management fees to be paid out of interest and dividends which are considered unrestricted even though the investments are considered permanently restricted.

Note 8 – Debt:

The Foundation has a 3.94% interest-bearing note that is payable in monthly installments of \$3,349 that is secured by all corporate assets. The note has an outstanding balance of \$32,829 at June 30, 2016, all of which is classified as short-term debt. The note was obtained in order to finance the acquisition of vehicles and will reach full maturity in fiscal year 2017.

The Foundation has an interest-free note that is payable in monthly installments of \$512 that is secured by all corporate assets. The note has an outstanding balance of \$5,142 at June 30, 2016, all of which is classified as short-term debt. The note was obtained in order to finance the acquisition of a vehicle and will reach full maturity in fiscal year 2017.

**MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

Note 8 – Debt (Continued):

The Foundation has a 4.95% interest-bearing, eleven-year note that is payable in quarterly installments of \$94,150 that is secured by an agreement between Marshall and Marshall's athletics marketing firm, IMG. The note has an outstanding balance of \$1,574,734 at June 30, 2016, \$304,334 of which is classified as short-term debt. The note was obtained in order to finance facility improvements for the Marshall University Athletic Department. In the agreement with IMG, the firm will make payments to Marshall for the improvements and Marshall has agreed to the assignment of payments from IMG to the Foundation for this note. This note will reach full maturity in fiscal year 2021.

The Foundation has an interest-bearing, eight-year note, which allowed the Foundation to access \$1,700,000 of principal to assist with the financing of facility improvements for the Marshall University Athletic Department football stadium. The interest rate on the note will be fixed at 2.43% through July 15, 2018, at which time the rate will be adjusted to the current market rate, not to exceed 5.00% for the remaining two years. The note is secured by an agreement between Marshall and individual donors for long-term leases for sky deck level suites at the Marshall University Athletic Department football stadium. The note has an outstanding balance of \$1,037,711 at June 30, 2016, \$214,465 of which is classified as short-term debt. This note will reach full maturity in fiscal year 2021.

The future scheduled maturities of notes payable are:

<u>Fiscal Years Ending June 30:</u>	<u>Amount</u>
2017	\$ 556,751
2018	539,429
2019	545,271
2020	572,763
2021	436,184
Thereafter	<u> -</u>
Total	<u>\$ 2,650,398</u>

Note 9 – Financial Instruments:

A. Concentrations of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of the aforementioned temporary cash investments and pledges receivable. Concentrations of credit risk with respect to pledges receivable are due to the large number of contributors and their dispersion across an economically depressed geographic area. A change in the economic climate could alter the collections of the current receivables and could affect the ability to raise funds for future campaigns.

MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 9 – Financial Instruments (Continued):

B. Fair Value of Financial Instruments

The Foundation has a number of financial instruments consisting of cash, pledges receivable and contributions receivable, money market funds, and marketable securities. The Foundation estimates that the fair value of these financial instruments at June 30, 2016, does not materially differ from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position.

Note 10 – Risk Management:

The Foundation is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors, and omissions; injuries to employees; employees' health and life; and natural disasters. The Foundation manages these risks of loss through the purchase of various insurance policies.

Note 11 – Revenue Concentrations:

During the fiscal year ended June 30, 2016, a large portion of the Foundation's revenue consisted of monies given by individual donors. The amounts of contributions from these donors are dependent upon the populous, alumni, and friends of Marshall. Future levels of contributions are dependent upon these individuals.

Note 12 – Beneficial Interest In Charitable Remainder Trust:

In September 2004, a donor designated the Foundation as the sole beneficiary of their charitable remainder trust. The trust agreement calls for the balance of the trust to be distributed to the beneficiary upon the recipient's death. The trust had a fair value at the date of designation of \$798,778 which was recorded as a temporarily restricted contribution based on ASC 958. For the fiscal year ended June 30, 2016, the trust incurred a loss of \$64,363, and the fair value of the Foundation's beneficial interest in the trust was \$685,021.

Note 13 – Other Receivables:

As discussed in Note 8, the Foundation has two interest-bearing notes that were obtained to finance improvements to facilities of the Marshall University Athletic Department.

A. General Facility Improvements

A note has been placed in the Foundation's name for operational purposes and the payments on the note will be made by an outside organization, Marshall's athletics marketing firm, IMG. As the facility improvements allow IMG to market the Marshall University Athletic Department, IMG has agreed to pay this debt on behalf of the Foundation. IMG has an agreement with the Marshall University Athletic Department for this arrangement and the Marshall University Athletic Department has agreed to assign the payments from IMG to the Foundation to pay this obligation. Due to this assignment, the Foundation will have a receivable on the statement of financial position.

**MARSHALL UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

Note 13 – Other Receivables (Continued):

B. Football Stadium Sky Suite Additions

A note has been placed in the Foundation's name for operational purposes and the payments on the note will be made by the Marshall University Athletic Department. As the addition of sky suites to the football stadium supports the Marshall University Athletic Department and allows for added fund-raising opportunities for the Foundation, Marshall has agreed to pay this debt on behalf of the Foundation. Individual donors have lease agreements with the Marshall University Athletic Department for this arrangement and the Marshall University Athletic Department has agreed to assign the payments from the donors to the Foundation for this obligation. Due to this assignment, the Foundation will have a receivable on the statement of financial position.

Note 14 – Subsequent Events:

The Foundation has evaluated all subsequent events through September 13, 2016, the date the financial statements were available to be issued.

MARSHALL UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION (RSI)
SCHEDULES OF PROPORTIONATE SHARE OF
NET PENSION LIABILITY AND CONTRIBUTIONS
JUNE 30, 2016 AND 2015
(UNAUDITED)

Schedule of Proportionate Share of TRS Net Pension Liability
(In Thousands)

Measurement Date	University's Proportionate Share as a Percentage of Net Pension Liability	University's Proportionate Share	State's Proportionate Share	Total Proportionate Share	University's Covered Employee Payroll	University's Proportionate Share as a Percentage of Covered Payroll	University's Plan Fiduciary Net Position as a Percentage of Total Pension Liability
June 30, 2014	0.114986%	\$ 3,967	\$ 8,963	12,930	\$ 3,562	111%	65.95%
June 30, 2015	0.109047%	\$ 3,779	\$ 8,622	12,401	\$ 2,844	133%	66.25%

Schedule of Employer Contributions
(In Thousands)

Measurement Date	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actuarial Contribution as a Percentage of Covered Payroll
June 30, 2014	\$ 149	\$ 151	\$ (2)	\$ 3,562	14.85%
June 30, 2015	\$ 280	\$ 303	\$ (23)	\$ 2,844	10.65%

These schedules are intended to show information for ten years. Additional years will be displayed as they become available.

Notes to Required Supplementary Information
For the Year Ended June 30, 2016

There are no factors that affect trends in the amounts reported, such as change in benefit terms or assumptions. With only two years reported in the required supplementary information, there is no additional information to include in notes. Information, if necessary, can be obtained from the CPRB Comprehensive Annual Financial Report.



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

Governing Board
Marshall University
Huntington, West Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Marshall University (the University) as of and for the year ended June 30, 2016, and the related notes to the financial statements and have issued our report thereon dated December 22, 2016. Our report includes a reference to other auditors who audited the financial statements of the Marshall University Research Corporation (MURC), the Marshall University Foundation, Inc. (the Foundation), Provident Group – Marshall Properties L.L.C. (Provident – Marshall), and the Big Green Scholarship Foundation, Inc. (Big Green), as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by the auditors of the MURC. The financial statements of the Foundation, Provident – Marshall, and Big Green were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of This Report

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

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

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
December 22, 2016