



MARSHALL UNIVERSITY RESEARCH CORPORATION
 1050 Fourth Avenue
 Huntington, West Virginia 25755
 304/696-3368 or 696-6203 FAX 304/696-6280

97-51 (H)
 Community oriented
 Health Care Project

Letters setting
 non-material weaknesses
 not included in report.
 ARC grant would be non-major
 and probably received no
 specific coverage

April 28, 1997

Mr. Hubert N. Sparks
 Inspector General
 Appalachian Regional Commission
 1666 Connecticut Avenue, NW
 Washington, DC 20235

Re: ARC Contract 95-77, Grant WV-11888-95,
 Community Oriented Health Care Project

Dear Mr. Sparks:

The Marshall University Research Corporation acknowledges receipt of your April 14, 1997, letter regarding an upcoming audit of the Community Oriented Health Care Project.

For your information, I have enclosed a copy of the audit report for our most recently completed fiscal year ending June 30, 1996.

Please be informed that I should be the contact person for any communication regarding this audit.

Sincerely,

R. L. Schelling
 Executive Director

lb

c: Mr. Timothy Crofton
 Dr. James Hooper



MARSHALL UNIVERSITY RESEARCH CORPORATION

**Financial Statements for the Years Ended June 30, 1996 and 1995, and
Supplemental Schedule of Federal Awards for the
Year Ended June 30, 1996 and
Independent Auditors' Report and
Related Independent Auditors' Reports on Internal Controls and
Compliance for Federally Funded Programs
for the Year Ended June 30, 1996**

MARSHALL UNIVERSITY RESEARCH CORPORATION

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS	None
STATUS OF PRIOR YEAR FINDINGS	30



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Marshall University Research Corporation:

We have audited the accompanying financial statements of Marshall University Research Corporation (the "Corporation") as of June 30, 1996 and 1995, and for the years then ended, listed in the foregoing Table of Contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Corporation as of June 30, 1996 and 1995, and the changes in fund balances and the current funds revenues, expenditures and other changes for the years then ended in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information listed as a supplemental schedule in the foregoing Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the Corporation's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued reports dated October 10, 1996 on our consideration of the Corporation's internal control structure and reports dated October 10, 1996 on its compliance with laws and regulations.

Deloitte & Touche LLP

October 10, 1996

MARSHALL UNIVERSITY RESEARCH CORPORATION

BALANCE SHEET JUNE 30, 1996

ASSETS	Current Funds		Loan Fund	Agency Fund	Plant Funds
	Unrestricted	Restricted			
CASH	\$ 1,348,992		\$ 143,782	\$ 29,565	
GRANTS AND CONTRACTS RECEIVABLE - Net of an allowance for doubtful accounts of \$58,000	61,795	\$ 1,756,921			
LOANS RECEIVABLE - Net of an allowance for doubtful loans of \$248,000			82,565		
DUE FROM OTHER FUNDS	371,833				
ADVANCES	152,121				
PREPAID EXPENSES	16,804				
INVESTMENT IN PLANT					\$ 5,732,474
Total assets	<u>\$ 1,951,545</u>	<u>\$ 1,756,921</u>	<u>\$ 226,347</u>	<u>\$ 29,565</u>	<u>\$ 5,732,474</u>
LIABILITIES AND FUND BALANCE					
ACCOUNTS PAYABLE	\$ 46,639	\$ 451,356			
ACCRUED LIABILITIES	66,412	135,299		\$ 29,565	
DUE TO OTHER FUNDS		371,833			
LOANS PAYABLE			\$ 18,674		
COMPENSATED ABSENCES	90,260				
FUND BALANCE:					
Corporation funds	1,748,234				
Restricted		798,433	207,673		
Net investment in plant					\$ 5,732,474
Total liabilities and fund balance	<u>\$ 1,951,545</u>	<u>\$ 1,756,921</u>	<u>\$ 226,347</u>	<u>\$ 29,565</u>	<u>\$ 5,732,474</u>

See notes to financial statements.

MARSHALL UNIVERSITY RESEARCH CORPORATION

BALANCE SHEET JUNE 30, 1995

ASSETS	Current Funds		Loan Fund	Plant Funds
	Unrestricted	Restricted		
CASH	\$ 1,125,256		\$ 124,034	
GRANTS AND CONTRACTS RECEIVABLE - Net of an allowance for doubtful accounts of \$45,500	79,658	\$ 1,155,121		
LOANS RECEIVABLE - Net of an allowance for doubtful loans of \$63,000			19,145	
DUE FROM OTHER FUNDS	366,142	465		
ADVANCES	121,265			
PREPAID EXPENSES	24,827			
INVESTMENT IN PLANT				\$ 10,139,094
Total assets	<u>\$ 1,717,148</u>	<u>\$ 1,155,586</u>	<u>\$ 143,179</u>	<u>\$ 10,139,094</u>
LIABILITIES AND FUND BALANCE				
ACCOUNTS PAYABLE	\$ 40,553	\$ 175,675		
ACCRUED LIABILITIES	58,404	96,602		
DUE TO OTHER FUNDS		366,142	\$ 465	
LOANS PAYABLE			15,559	
COMPENSATED ABSENCES	62,093			
FUND BALANCE:				
Corporation funds	1,556,098			
Restricted		517,167	127,155	
Net investment in plant				\$ 10,139,094
Total liabilities and fund balance	<u>\$ 1,717,148</u>	<u>\$ 1,155,586</u>	<u>\$ 143,179</u>	<u>\$ 10,139,094</u>

See notes to financial statements.

MARSHALL UNIVERSITY RESEARCH CORPORATION

STATEMENT OF CHANGES IN FUND BALANCES YEAR ENDED JUNE 30, 1996

	Current Funds		Loan Fund	Plant Funds
	Unrestricted	Restricted		
FUND BALANCES, BEGINNING OF YEAR	\$ 1,556,098	\$ 517,167	\$ 127,155	\$ 10,139,094
REVENUES AND OTHER ADDITIONS:				
Unrestricted current fund revenues	1,626,006			
Federal grants and contracts		7,508,603	256,875	
State grants and contracts		387,159		
Private grants, contracts and gifts		1,135,112	11,226	
Miscellaneous income		409,003		
Expended for plant facilities				535,005
Total revenues and other additions	<u>1,626,006</u>	<u>9,439,877</u>	<u>268,101</u>	<u>535,005</u>
EXPENDITURES AND OTHER DEDUCTIONS:				
Educational and general	1,481,939	8,106,834		
Indirect costs recovered		1,003,708		
Loan cancellations and write-offs			187,583	
Disposal of plant facilities				4,941,625
Total expenditures and other deductions	<u>1,481,939</u>	<u>9,110,542</u>	<u>187,583</u>	<u>4,941,625</u>
TRANSFERS AMONG FUNDS	<u>48,069</u>	<u>(48,069)</u>		
NET INCREASE (DECREASE) FOR THE YEAR	<u>192,136</u>	<u>281,266</u>	<u>80,518</u>	<u>(4,406,620)</u>
FUND BALANCES, END OF YEAR	<u>\$ 1,748,234</u>	<u>\$ 798,433</u>	<u>\$ 207,673</u>	<u>\$ 5,732,474</u>

See notes to financial statements.

MARSHALL UNIVERSITY RESEARCH CORPORATION

STATEMENT OF CHANGES IN FUND BALANCES YEAR ENDED JUNE 30, 1995

	Current Funds		Loan Fund	Plant Funds
	Unrestricted	Restricted		
FUND BALANCES, BEGINNING OF YEAR	\$ 1,093,552	\$ 444,373	\$ 127,155	\$ 9,104,097
REVENUES AND OTHER ADDITIONS:				
Unrestricted current fund revenues	1,446,249			
Federal grants and contracts		5,388,172	63,225	
State grants and contracts		665,233		
Private grants, contracts and gifts		517,327		
Expended for plant facilities				1,034,997
Miscellaneous income		27,409		
Total revenues and other additions	<u>1,446,249</u>	<u>6,598,141</u>	<u>63,225</u>	<u>1,034,997</u>
EXPENDITURES AND OTHER DEDUCTIONS:				
Educational and general	1,125,196	5,480,294		
Indirect costs recovered		903,560		
Loan cancellations and write-offs			63,225	
Total expenditures and other deductions	<u>1,125,196</u>	<u>6,383,854</u>	<u>63,225</u>	
TRANSFERS AMONG FUNDS	141,493	(141,493)		
NET INCREASE FOR THE YEAR	<u>462,546</u>	<u>72,794</u>		<u>1,034,997</u>
FUND BALANCES, END OF YEAR	<u>\$ 1,556,098</u>	<u>\$ 517,167</u>	<u>\$ 127,155</u>	<u>\$ 10,139,094</u>

See notes to financial statements.

MARSHALL UNIVERSITY RESEARCH CORPORATION

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES YEAR ENDED JUNE 30, 1996

	Unrestricted	Restricted	Total
REVENUES:			
Grants, contracts and gifts:			
Federal	\$ 912,270	\$ 6,557,331	\$ 7,469,601
State	41,190	561,022	602,212
Private	174,664	790,506	965,170
Total grants and contracts	1,128,124	7,908,859	9,036,983
Interest income	50,667		50,667
Other sources of current revenue	447,215	197,975	645,190
Total revenues	1,626,006	8,106,834	9,732,840
EXPENDITURES, TRANSFERS AND OTHER CHANGES:			
Educational and general:			
Research	177,803	3,862,698	4,040,501
Public service	271,825	3,921,696	4,193,521
Academic support	143,659		143,659
Student services	14,961		14,961
Institutional support	498,453	230,497	728,950
Instruction	105,154	91,943	197,097
Operation and maintenance of plant	270,084		270,084
Total expenditures	1,481,939	8,106,834	9,588,773
Nonmandatory transfers	(48,069)	48,069	
Total expenditures, transfers and other changes	1,433,870	8,154,903	9,588,773
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER CHANGES	192,136	(48,069)	144,067
EXCESS OF RESTRICTED RECEIPTS OVER TRANSFERS TO REVENUES		329,335	329,335
NET INCREASE IN FUND BALANCE	\$ 192,136	\$ 281,266	\$ 473,402

See notes to financial statements.

MARSHALL UNIVERSITY RESEARCH CORPORATION

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES YEAR ENDED JUNE 30, 1995

	Unrestricted	Restricted	Total
REVENUES:			
Grants, contracts and gifts:			
Federal	\$ 831,407	\$ 4,668,246	\$ 5,499,653
State	47,227	357,336	404,563
Private	82,536	428,767	511,303
Total grants and contracts	961,170	5,454,349	6,415,519
Interest income	41,843		41,843
Other sources of current revenue	443,236	25,945	469,181
Total revenues	1,446,249	5,480,294	6,926,543
EXPENDITURES, TRANSFERS AND OTHER CHANGES:			
Educational and general:			
Research	214,314	4,493,803	4,708,117
Public service	150,501	955,358	1,105,859
Academic support	16,804		16,804
Student services	1,376		1,376
Institutional support	486,100	23,849	509,949
Instruction	30,595	7,284	37,879
Operation and maintenance of plant	225,506		225,506
Total expenditures	1,125,196	5,480,294	6,605,490
Nonmandatory transfers	(141,493)	141,493	
Total expenditures, transfers and other changes	983,703	5,621,787	6,605,490
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER CHANGES	462,546	(141,493)	321,053
EXCESS OF RESTRICTED RECEIPTS OVER TRANSFERS TO REVENUES		214,287	214,287
NET INCREASE IN FUND BALANCE	\$ 462,546	\$ 72,794	\$ 535,340

See notes to financial statements.

MARSHALL UNIVERSITY RESEARCH CORPORATION

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 1996 AND 1995

1. ORGANIZATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Corporation have been prepared in accordance with the accounting guidance and reporting practices applicable to colleges and universities, as outlined in the American Institute of Certified Public Accountants Industry Audit Guide, *Audits of Colleges and Universities*, the *College and University Business Administration*, published by the National Association of College and University Business Officers, and pronouncements issued by the Governmental Accounting Standards Board ("GASB").

- a. *Accrual Basis* - The financial statements of the Corporation have been prepared on the accrual basis of accounting. Revenues are reported when earned and expenditures are reported when materials or services are received. The statement of current funds revenues, expenditures and other changes is a statement of financial activity of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or statement of revenues and expenses.
- b. *Fund Accounting* - The accounts of the Corporation are maintained in accordance with the principles of fund accounting to reflect the limitations and restrictions on the use of available resources. Restricted resources are distinguished from unrestricted resources allocated to specific purposes by the Board of Directors. Restricted resources may only be used for the purposes established by the source of such funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

Loan funds are used to account for resources that may be lent to small businesses and businesses owned and operated by minorities, women or those who are economically disadvantaged. These funds are provided by various sources, including the State government and private donors. Generally, loan funds are operated on a revolving fund basis with principal payments remaining in the loan fund for future lending.

Agency funds consist of funds held by the Corporation as custodian for Ebenezer Medical Outreach, Inc. and Community Learning Information Network of the Tri-State.

The plant fund group is used to account for unexpended plant funds, long-lived assets and retirement of indebtedness. Maintenance and repairs are recorded as current unrestricted fund expenditures.

- c. *Plant* - Plant consists primarily of equipment which is stated at cost at the date of acquisition or fair value at date of donation in the case of gifts. Consistent with current generally accepted accounting principles for public colleges and universities, depreciation on plant is not recorded.
- d. *Compensated Absences* - Liability for compensated absences (annual leave) is accounted for in accordance with the provisions of GASB Statement - 16, "Accounting for Compensated Absences," and, accordingly, the liability for employees' rights to receive compensation for future absences is recorded in the current unrestricted fund group.
- e. *Grants and Contracts* - Grants and contracts receivable are recorded by the Corporation as services are performed.
- f. *Retirement Plan* - All eligible employees of the Corporation participate in the Teachers Insurance and Annuities Association - College Retirement Equities Fund ("TIAA - CREF"). The TIAA - CREF is a defined contribution benefit 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 Corporation matches the employees' 6% contribution. Contributions are immediately and fully vested.
- g. *Tax Status* - The Corporation has applied for and received from the Internal Revenue Service an exemption from taxation under Section 501(c)(3) of the Internal Revenue Code as an entity organized for educational, research and economic development purposes.
- h. *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 expenditures during the reporting period. Actual results could differ from those estimates.

3. CASH

The composition of cash as of June 30, 1996 and 1995 consists primarily of cash in bank, with \$5,250 and \$1,850, respectively, of cash on hand. The combined carrying amount of cash in bank at June 30, 1996 and 1995 was \$1,517,089 and \$1,247,440, respectively, as compared with combined bank balances of \$1,911,670 and \$1,288,683, respectively. The difference is primarily caused by items in transit. Of these balances at June 30, 1996 and 1995, \$107,779 and \$114,467, respectively, were covered by federal depository insurance and \$1,546,829 and \$1,032,189, respectively, were collateralized while \$257,062 and \$142,027, respectively, were uninsured and uncollateralized.

4. REVOLVING LOAN FUND

A Revolving Loan Fund ("RLF") was established during the year ended June 30, 1994 between the Corporation and the United States Economic Development Authority ("US EDA"). The RLF will aid in the development of small businesses and businesses owned and operated by minorities, women or those who are economically disadvantaged. Under the provisions of the RLF, the Corporation will receive an amount not to exceed \$500,000 from the US EDA, and is required to obtain \$167,000 in matching funds from local sources.

During the year ended June 30, 1996 and 1995, grants of \$256,875 and \$63,225, respectively, were received from the US EDA, and matching funds, consisting of loans and grants, of \$11,101 and \$15,559, respectively, were received from local sources. Matching funds received in the form of loans have a thirty year maturity and do not bear interest. Loans payable are recorded by the Corporation at their net present value.

5. RELATED PARTY TRANSACTIONS

A summary of transactions with the University as of and for the years ended June 30, 1996 and 1995 is as follows:

	1996	1995
Grants and contracts receivable	\$ 19,643	\$ 13,894
Advances	150,000	100,000
Accounts payable	5,465	12,612
Accrued liabilities	158,904	136,581
Other sources of revenue	5,977	6,665
Payroll and benefits	1,118,190	962,612
Other expenditures	204,088	118,249

6. RETIREMENT PLAN

Total contributions to the TIAA - CREF for the year ended June 30, 1996 and 1995 were \$215,300 and \$176,600, respectively, which consisted of \$93,600 and \$81,200, respectively, from the Corporation and \$121,700 and \$95,400, respectively, from employees.

The Corporation's total payroll for the year ended June 30, 1996 and 1995 was \$2,218,300 and \$1,740,500, respectively; total covered employees' salaries in TIAA - CREF were \$1,560,200 and \$1,354,000, respectively.

7. CONTINGENCIES

The nature of the educational industry is such that, from time to time, claims will be presented against universities on account of alleged negligence, acts of discrimination, breach of contract or disagreements arising from the interpretation of laws or regulations. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system.

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. Corporation management believes disallowances, if any, will not have a significant impact on the Corporation's financial position.

* * * * *

MARSHALL UNIVERSITY RESEARCH CORPORATION
 Supplemental Schedule of Federal Awards
 Year ended June 30, 1996

FEDERAL GRANTOR / PROGRAM TITLE	SOURCE (NOTE 1)	CFDA NUMBER (NOTE 2)	INDIRECT AGENCY	AGENCY NUMBER	FEDERAL EXPENDITURES
MAJOR PROGRAMS:					
Research and Development:					
APPALACHIAN REGIONAL COMMISSION Community Oriented Health Care Project	D			\$	41,042
BUREAU OF EMPLOYMENT PROGRAMS					
Job Training Partnership Act Contract Titled "Advanced Training in Manufacturing for Dislocated Workers"	I		Private Industry Council		164,131
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION					
Interaction of Light & Ethylene in Stem Gravitropism	D				25,617
Vitamin D Endocrine System after Short-Term Space Flight	D				22,081
Optical and Digital Image Processing of EOS Satellite Data					
NATIONAL SCIENCE FOUNDATION					
Stabilized Electron-Deficient Transition Metal Complexes	D				57
Interfacial Processes in Compound Elect.	D				470
Interfacial Processes in Compound Elect.	D				23,522
Diet and Molar Microwear	D				16,947
West Virginia EPSCOR program	I		West Virginia University	OSR-9255224-01	157,193
West Virginia EPSCOR program	I		West Virginia University	OSR-9255224-02	261,286
The West Virginia K-12 Ruralnet	D				133,372
Develop. of Lecture/Demonstration Experiments to Improve Computer Literacy Course	D				29,810
RPG: Regulation of Prolactin Gene Expression by Cell Contacts	D				16,399
Science Career Enhancement Awards for Women & Minorities in WV	I		West Virginia University	NSF	20,000
Purchase & Install An Autoanalyzer System for Analytical Laboratory	I		West Virginia University	NSF	30,000
Appalachian Rural Systemic Initiative	I		Ky Science & Technology Council	NSF	12,055
Paramagnetic Group IVB Complexes	D				2,655
U.S. AIR FORCE					
Center for Adv. Flexible Manufacturing Sys.	I		National Center for Manufacturing	MDA972-93-1-0001	1,939,387

MARSHALL UNIVERSITY RESEARCH CORPORATION
 Supplemental Schedule of Federal Awards
 Year ended June 30, 1996

FEDERAL GRANTOR / PROGRAM TITLE	SOURCE (NOTE 1)	CFDA NUMBER (NOTE 2)	INDIRECT AGENCY	AGENCY NUMBER	FEDERAL EXPENDITURES
U.S. ARMY CORPS OF ENGINEERS					
Development of Systems Impact Modeling	D				\$ 23,276
Mitigation Plans Marmet Lock Repl. Study	D				7,583
Studies of Wetland Soils & Ecological Studies	D				7,702
Upgrading the Navigation Center's Environmental Impact Model	D				2,459
Adopt a Strategy to Incorporate Risk Analysis	D				
Economic Impact Study of Whitewater Rafting on the Russell Fork River in Virginia & Kentucky	D				16,625
Greenbrier River Basin River Corridor Management Plan	D				15,944
Kanawha River/Marmet Dam Shoreline Revegetation	D				1,199
U.S. DEPT OF AGRICULTURE					
Nitrogen Recycling Central App. Hdw. For. A Comp. Study of <i>Peltoperia Arcuata</i> and <i>Tallopertia</i> Study of the Aquatic Fauna of Weir Ponds on the Fernow Experimental Forest	D	10.652			2,482
Seasonal & Flow Related Variation in Structure & Function of Hyporheic Fauna...Fernow	D	10.652			10,406
Effects of Gypsy Moth Treatment on Forest Salamanders in the GWNF & MNF	I		West Virginia University	42-793	16,998
USDA FOREST SERVICE					
Status of Amphibians in Dolly Sods and Otter Creek, WV	D				25,719
U.S. DEPT OF COMMERCE					
WV Partnership for Industrial Modernization	D				9,387
Economic Adjustment Long-Term Economic Deterioration Implementation Project	D				198,887
U.S. DEPT OF DEFENSE					
Functions of Prop. Inputs in Normal & Perturbed Walking	D	12.300			276,016
Functions of Prop. Inputs in Normal & Perturbed Walking Morphological Studies of Leg Sense Organs that Adapt Development of Health, Safety, & Environmental Protocol for US Navy Neurobiology of Locomotion & its Implementation in Robotics	D	12.300			21,109
					113,284
					60,166
					13,683

MARSHALL UNIVERSITY RESEARCH CORPORATION
 Supplemental Schedule of Federal Awards
 Year ended June 30, 1996

FEDERAL GRANTOR / PROGRAM TITLE	SOURCE (NOTE 1)	CFDA NUMBER (NOTE 2)	INDIRECT AGENCY	AGENCY NUMBER	FEDERAL EXPENDITURES
U.S. DEPT OF EDUCATION					
Upgrading of Morrow Lib. Mainframe Cmpt.	D			\$	17,816
A Project to Develop & Maintain an Interdisciplinary, Family, Focused Teacher Train...	D				6,914
A Project to Develop & Maintain an Interdisciplinary, Family, Focused Teacher Train...	D				83,955
Classroom: The Ohio River	I		State College & University Systems of WV	DEMSEA	10,977
Oceans of Air & Water	I		State College & University Systems of WV	DEMSEA	6,852
U.S. DEPT OF ENERGY					
A GIS-Based Infrastructure for Site Characterization and Remediation	I		West Virginia University	DE-FC21MC29467	136,610
A GIS-Based Infrastructure for Site Characterization and Remediation	I		West Virginia University	DE-FC21MC29467	60,689
Calibrate & Validate Previously Developed METC Groundwater Computer Model	I				2,387
U.S. DEPT OF HEALTH & HUMAN SERVICE					
Adolescent Health Specialist	I		WV Bureau of Public Health	96162	20,242
Mechanism of Synaptic Modulation	D	93.854			3,530
Mechanism of Synaptic Modulation	D	93.854			81,843
Mechanism of Synaptic Modulation	D	93.854			22,805
Mechanisms of Hyperoxia Induced Airway Hyperactivity	D	93.838			16,311
Mechanisms of Hyperoxia Induced Airway Hyperactivity	D	93.838			100,229
Infant Temperament: Stability/Change in Rural Appalachia	D	93.110			8,893
Grants for Predoc. Train. in Family Medicine	D	93.896			62,096
Professional Nurse Traineeship	D	93.358			41,292
PKC in Retinoid - Induced Melanoma Diff.	D	93.396			2,136
PKC in Retinoid - Induced Melanoma Diff.	D	93.396			13,821
Tracheal Epithelial Cell Growth & Diff.	D	93.838			47,045
Factors Modulating Cephaloridine Nephrot.	D	93.849			20,648
Synaptic Assembly and Localization of S-Laminin	D	93.854			82,935
Prevention of Secondary Conditions Related to Autism/Pervasive Developmental Delay	D	93.283			121,838
Preventive/Therapeutic Products For Vaginitis & STD's	D	93.864			51,069

MARSHALL UNIVERSITY RESEARCH CORPORATION
 Supplemental Schedule of Federal Awards
 Year ended June 30, 1996

FEDERAL GRANTOR / PROGRAM TITLE	SOURCE (NOTE 1)	CFDA NUMBER (NOTE 2)	INDIRECT AGENCY	AGENCY NUMBER	FEDERAL EXPENDITURES
Resident Skin Cells & Their Cytokines in Autoimmunity	D	93.855			\$ 29,459
Infant Temperament: Neonatal - 5 years in Rural Appalachia	D	93.110			4,324
Signal Transduction in Stretched Smooth Muscle Cells	D	93.837			2,481
Program to Encourage Minority Scientists	D	93.337			20,920
Program to Encourage Minority Scientists	D	93.337			5,025
Services of Project Coordinator to Manage Operations of the ADHPN	I		WV Bureau of Public Health	96203	18,304
Ambulatory Care Center Construction Project	D	93.887			94,567
TCFC to Work w/Communities to form a Broad-Based Community	I		WV Bureau of Public Health	96385	31,049
Efforts to Reduce the Prevalence of Tobacco Use in S. WV	I		Society of Teachers of Family		
Interdisciplinary Generalist Curriculum Called Introduction to	I		Medicine	HRSA 240-93-0010	67,853
Patient Care	I				
Provide Services thru Developing & Delivering Training & Support	I		WV Bureau of Public Health	H23/CCCH304461-06	640
Dealing with Required Reportable Diseases					
U.S. DEPT OF INTERIOR					
Survey of Upland Vertebrates	D				4,688
Survey of Upland Vertebrates	D				6,880
U.S. DEPT OF NAVY					
Naval Ordnance Station Training	I		Mason Research Institute	N00164-93-D-0005	18,919
Naval Ordnance Station Training	I		Mason Research Institute	N00164-93-D-0005	43,037
Total Research and Development					5,090,028
Other Major Programs:					
U.S. DEPT OF HOUSING & URBAN DEVELOPMENT					
Special Purpose Grant for the Construction of a New Ultra-					
Modern Library	D				1,139,652
Ambulatory Care Center & Health Science Library					
Project S. WV Center for Rural Health	D				566,556
Total Other Major Programs					1,706,208

MARSHALL UNIVERSITY RESEARCH CORPORATION
 Supplemental Schedule of Federal Awards
 Year ended June 30, 1996

FEDERAL GRANTOR / PROGRAM TITLE	SOURCE NUMBER (NOTE 1)	CFDA NUMBER (NOTE 2)	INDIRECT AGENCY	AGENCY NUMBER	FEDERAL EXPENDITURES
NONMAJOR PROGRAMS:					
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION					
Challenge Program	I		West Virginia University	NTG-40047	\$ 11
Scholarships 1992-93	I		West Virginia University	NTG-40047	9,330
Fellowship-Chadwick Smith	I		West Virginia University	NTG-40047	3,000
Research Grant-M. Harrison	I		West Virginia University	NTG-40047	44
Telomeric DNA and Gene Regulation of Lactate Dehydrogenase in Long-term Cell Culture	I		West Virginia University	NTG-40047	3,937
Use of Real-World Scenarios to Conceptually Visualize and Develop Computer Algorithms	I		West Virginia University	NTG-40047	3,157
Real-Time Diagnostics and Production Management System Using Cultured Fibroblasts to Determine Telomeric Activity Regulation of 3 LDH Genes & Genetic diversity in Fish Pop	I		West Virginia University	NTG-40047	6,367
Visual Illustration of Object-Orientation: A Tool for Teaching Object-Oriented Concepts	I		West Virginia University	NTG-40047	5,115
Software Development for Enhanced Multiple-Stream FTIR Environmental Monitoring	I		West Virginia University	NTG-40047	7,435
Optical & Digital Image Processing of EOS Satellite Data Project	I		West Virginia University	NTG-40047	9,346
Software Tools for independent Verification & Validation (S.TIVV)	I		West Virginia University	NAGW-4464	17,572
				NAGW-4464	11,732
NATIONAL ENDOWMENT FOR THE ARTS					
Extra-Musical: Text and Subtext in Performance	I		WV Humanities Council	NEA	565
Extra-Musical: Text and Subtext in Performance	I		WV Humanities Council	NEA	25
WV Art Education State Conference & Regional Art Exhibit Opening Influences Conference on Design	I		WV Arts & Humanities	NEA	1,000
James Kessler Composer & Conductor Residency	I		WV Arts & Humanities	NEA	5,000
			WV Arts & Humanities	NEA	1,200
U.S. DEPT OF ARMY					
Planning the West Virginia DOD/Epscort Program	I		West Virginia University	DAAH04-93-G-0433	403
U.S. DEPT OF COMMERCE					
EDA University Center	D	11.303			21,534
EDA University Center	D	11.303			86,475
Shared Manufacturing Facilities	D				9,284
U.S. DEPT OF EDUCATION					
National Writing Project	I	84.994T	The National Writing Project Corp.	DEC	16,680

MARSHALL UNIVERSITY RESEARCH CORPORATION
 Supplemental Schedule of Federal Awards
 Year ended June 30, 1996

FEDERAL GRANTOR / PROGRAM TITLE	CFDA SOURCE NUMBER (NOTE 1)	INDIRECT AGENCY (NOTE 2)	AGENCY NUMBER	FEDERAL EXPENDITURES
U.S. DEPT OF HEALTH & HUMAN SERVICE Head Start Transition Evaluation	I	93.600	90CD087/04	\$ 185,365
U.S. DEPT OF JUSTICE Statistical Analysis Center Statistical Analysis Center To Develop a Formal Police-Researcher Partnership Between WV Sac & the Charleston Police Department	D D D			11,641 59,509 1,842
U.S. SMALL BUSINESS ADMINISTRATION Small Business Institute Program Limited International Program Intern Grant Establish & Operate A SBDC Subcenter to Implement A Program to Service Small Businesses	D I I	59.005	6-7770-0055-11	3,440 2,150 27,402
U.S. DEPT OF HOUSING & URBAN DEVELOPMENT COPC	D			<u>218,378</u>
TOTAL NONMAJOR PROGRAMS:				<u>728,939</u>
GRAND TOTAL - FEDERAL AWARDS				<u>\$ 7,525,175</u>

MARSHALL UNIVERSITY RESEARCH CORPORATION

NOTES TO SUPPLEMENTAL SCHEDULE OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 1996

1. The purpose of the Supplemental Schedule of Federal Awards (the "Schedule") is to present a summary of the activities of Marshall University Research Corporation (the "Corporation") for the year ended June 30, 1996 which have been financed by the federal government. For purposes of the Schedule, federal awards have been classified into two types:

- Direct federal funds
- Indirect federal funds received from non-federal organizations made under federally sponsored programs conducted by those organizations.

Because the Schedule presents only a selected portion of the activities of the Corporation, it is not intended to and does not present either the financial position, changes in fund balances or the current funds revenues, expenditures and other changes of the Corporation.

The Schedule is prepared on the accrual basis of accounting.

2. Catalog of Federal Domestic Assistance ("CFDA") numbers are presented for those programs for which such numbers are available.
3. Federal direct and indirect programs are presented in the accompanying Schedule by the federal department and, where applicable, the funding agency within the department. Federal indirect programs are also presented by the entity through which the Corporation received the federal award.
4. The Corporation receives significant financial assistance from the Federal government, including the sponsorship of federal research projects. Research grants and contracts normally provide for the recovery of direct and indirect costs. Recovery of the related indirect costs is generally recorded at predetermined rates negotiated with the Federal government. Entitlement to these resources for the recovery of the applicable direct and related indirect costs is generally conditioned upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants and the Corporation's indirect cost rate are subject to financial and compliance reviews and audits by the grantors. In management's opinion, the likelihood of an adverse material outcome upon the Corporation's financial position from those reviews and audits is remote.

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**INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL STRUCTURE
BASED ON THE AUDIT OF THE 1996 FINANCIAL STATEMENTS**

To the Board of Directors of
Marshall University Research Corporation:

We have audited the financial statements of Marshall University Research Corporation (the "Corporation") as of and for the year ended June 30, 1996, and have issued our report thereon dated October 10, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the Corporation is responsible for establishing and maintaining the internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the Corporation for the year ended June 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we have communicated other observations involving the internal control structure and its operation to management of the Corporation in a separate letter dated October 10, 1996.

We also noted matters involving the internal control structure and its operation used to administer federal award programs, which we reported to management of the Corporation in a report dated October 10, 1996.

This report is intended solely for the information of the Board of Directors, management and others within the Corporation, officials of the Cognizant Federal Audit Agency and other federal and state agencies as detailed on the Supplemental Schedule of Federal Awards and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Deloitte & Touche LLP

October 10, 1996



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE BASED ON THE AUDIT
OF THE 1996 FINANCIAL STATEMENTS**

To the Board of Directors of
Marshall University Research Corporation:

We have audited the financial statements of Marshall University Research Corporation (the "Corporation") as of and for the year ended June 30, 1996, and have issued our report thereon dated October 10, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts and grants applicable to the Corporation is the responsibility of the management of the Corporation. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Corporation's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

We also noted matters involving compliance with laws and regulations related to federal awards, which we reported to the Corporation's management in our reports dated October 10, 1996 on compliance related to federal award programs.

This report is intended solely for the information of the Board of Directors, management and others within the Corporation, officials of the Cognizant Federal Audit Agency and other federal and state agencies as detailed on the Supplemental Schedule of Federal Awards and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Deloitte & Touche LLP

October 10, 1996



**INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL STRUCTURE
USED IN ADMINISTERING FEDERAL AWARDS FOR THE YEAR ENDED
JUNE 30, 1996**

To the Board of Directors of
Marshall University Research Corporation:

We have audited the financial statements of Marshall University Research Corporation (the "Corporation") as of and for the year ended June 30, 1996, and have issued our report thereon dated October 10, 1996. We have also audited the Corporation's compliance with requirements applicable to major federal award programs and have issued our report thereon dated October 10, 1996.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget ("OMB") Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Institutions*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the Corporation complied with laws and regulations, noncompliance with which would be material to a major federal award program.

In planning and performing our audits for the year ended June 30, 1996, we considered the Corporation's internal control structure and assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinions on the Corporation's financial statements and on its compliance with requirements applicable to major programs, and to report on the internal control structure in accordance with OMB Circular A-133. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal award programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated October 10, 1996.

The management of the Corporation is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles, and that federal award programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal award programs in the following categories:

CYCLES OF ENTITY ACTIVITIES:

- Revenues/receivables/cash receipts
- Purchases/accounts payable/cash disbursements
- Payroll
- Budgeting
- Books and records

CONTROLS USED IN ADMINISTERING FEDERAL PROGRAMS:

General Requirements

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and
real property management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

Specific Requirements

- Types of services allowed or not allowed
- Eligibility
- Matching, level of effort or earmarking
- Reporting
- Cost allocation
- Monitoring subrecipients
- Various special tests and provisions

CLAIMS FOR ADVANCES AND REIMBURSEMENTS

AMOUNTS CLAIMED OR USED FOR MATCHING

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the year ended June 30, 1996, the Corporation expended 90% of its total federal awards under major federal award programs.

We performed tests of controls, as required by OMB Circular A-133, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the Corporation's major federal award programs, which are identified in the accompanying Supplemental Schedule of Federal Awards. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal awards would not necessarily disclose all matters in the internal control structure that might constitute material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal award program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure used in administering federal award programs and its operations that we consider to be material weaknesses as defined above.

We also noted matters involving the internal control structure and its operation based on our audit of the financial statements that we reported to management of the Corporation in a report dated October 10, 1996.

We have also communicated other observations involving the internal control structure and its operation to management of the Corporation in a separate letter dated October 10, 1996.

This report is intended solely for the information of the Board of Directors, management and others within the Corporation, officials of the Cognizant Federal Audit Agency and other federal and state agencies as detailed on the Supplemental Schedule of Federal Awards and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Deloitte & Touche LLP

October 10, 1996



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH SPECIFIC
REQUIREMENTS APPLICABLE TO MAJOR FEDERAL AWARDS PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1996**

To the Board of Directors of
Marshall University Research Corporation:

We have audited the financial statements of Marshall University Research Corporation (the "Corporation") as of and for the year ended June 30, 1996, and have issued our report thereon dated October 10, 1996.

We have also audited the Corporation's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; cost allocation; monitoring subrecipients; special tests and provisions; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal award programs, which are identified in the accompanying Supplemental Schedule of Federal Awards, for the year ended June 30, 1996. The management of the Corporation is responsible for the Corporation's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with these requirements in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget ("OMB") Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Institutions*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Corporation complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; cost allocation; monitoring subrecipients; special tests and provisions; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal award programs for the year ended June 30, 1996.

This report is intended solely for the information of the Board of Directors, management and others within the Corporation, officials of the Cognizant Federal Audit Agency and other federal and state agencies as detailed on the Supplemental Schedule of Federal Awards and should not be used for any other purpose. However, this report is a matter of public record and distribution is not limited.

Deloitte & Touche LLP

October 10, 1996



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE GENERAL
REQUIREMENTS APPLICABLE TO FEDERAL AWARDS FOR THE YEAR ENDED
JUNE 30, 1996**

To the Board of Directors of
Marshall University Research Corporation:

We have audited the financial statements of Marshall University Research Corporation (the "Corporation") as of and for the year ended June 30, 1996, and have issued our report thereon dated October 10, 1996. We have also audited the Corporation's compliance applicable to requirements of major federal award programs and have issued our report thereon dated October 10, 1996.

We have applied procedures to test the Corporation's compliance with the following requirements applicable to its federal award programs, which are identified in the accompanying Supplemental Schedule of Federal Awards for the year ended June 30, 1996:

- Political activity (Hatch Act and Intergovernmental Personnel Act of 1970, as amended)
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property acquisition
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's *Compliance Supplement for Audits of Institutions of Higher Learning and Other Nonprofit Institutions*. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the Corporation's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the Corporation had not complied, in all material respects, with those requirements.

We also noted matters involving compliance with laws and regulations related to our audit of the financial statements and with requirements related to major and nonmajor federal award programs that we reported to the Corporation's management in our report dated October 10, 1996.

This report is intended solely for the information of the Board of Directors, management and others within the Corporation, officials of the Cognizant Federal Audit Agency and other federal and state agencies as detailed on the Supplemental Schedule of Federal Awards and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Deloitte & Touche LLP

October 10, 1996



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO NONMAJOR FEDERAL AWARD PROGRAM TRANSACTIONS
FOR THE YEAR ENDED JUNE 30, 1996**

To the Board of Directors of
Marshall University Research Corporation:

We have audited the financial statements of Marshall University Research Corporation (the "Corporation") as of and for the year ended June 30, 1996, and have issued our report thereon dated October 10, 1996. We have also audited the Corporation's compliance applicable to requirements of major federal award programs and applied procedures to test compliance with general requirements applicable to federal award programs and have issued our reports thereon dated October 10, 1996.

In connection with our audit of the 1996 financial statements of the Corporation and with our consideration of the Corporation's control structure used to administer federal award programs and our assessment of control risk, as required by Office of Management and Budget ("OMB") Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Institutions*, we selected certain transactions applicable to certain nonmajor federal award programs for the year ended June 30, 1996.

As required by OMB Circular A-133, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; cost allocation; monitoring subrecipients; and special tests and provisions that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is to express an opinion on the Corporation's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of our procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came our attention that caused us to believe that the Corporation had not complied, in all material respects, with those requirements.

This report is intended solely for the information of the Board of Directors, management and others within the Corporation, officials of the Cognizant Federal Audit Agency and other federal and state agencies as detailed on the Supplemental Schedule of Federal Awards and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Deloitte & Touche LLP

October 10, 1996

MARSHALL UNIVERSITY RESEARCH CORPORATION

STATUS OF PRIOR YEAR FINDINGS YEAR ENDED JUNE 30, 1996

The Corporation has taken corrective action on the findings from the prior audit report as follows:

Finding No. 1: The Corporation has not established policies and procedures to monitor subrecipient's compliance with laws and regulations.

Status: The Corporation has implemented policies and procedures to monitor subrecipient activity. These policies require that the grant's principal investigator approve all subrecipient requests for advances and/or reimbursement and also requires the periodic review of subrecipient audit and compliance reports.

Finding No. 2: We noted that certain financial reports were not filed on a timely basis.

Status: The Corporation has implemented procedures to more closely monitor the reporting process to ensure that the Corporation is in compliance with the requirements of all grant agreements.

Finding No. 3: The Corporation does not appear to have complied with the matching provisions of the grant agreement and approved budget for U.S. Department of Commerce (CFDA 11.303) grant.

Status: The Corporation has implemented procedures to more closely monitor cash and in-kind matching contributions by budget line item to ensure that the Corporation is in compliance with the requirements of all grant agreements.