KPMG

MARQUETTE UNIVERSITY

Consolidated Financial Statements

June 30, 2023 and 2022

(With Independent Auditors' Report Thereon)

MARQUETTE UNIVERSITY

Table of Contents

KPMG LLP
Suite 1050
833 East Michigan Street
Milwaukee, WI 53202-5337

Independent Auditors' Report

Board of Trustees
Marquette University:

Opinion

We have audited the consolidated financial statements of Marquette University (the University), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

Milwaukee, Wisconsin
September 7, 2023

MARQUETTE UNIVERSITY

Consolidated Statements of Financial Position

June 30, 2023 and 2022

(Dollars in thousands)

Assets		**2023**	**2022**
Cash and cash equivalents	$	73,438	117,434
Pledges receivable, net		74,623	75,146
Student accounts and loans receivable, net		44,146	47,064
Investments		1,078,672	1,037,512
Other assets		12,196	10,565
Right of use assets – operating leases, net		14,548	16,059
Property, buildings, and equipment, net		657,440	635,440
Total assets	$	1,955,063	1,939,220
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	65,328	74,088
Deferred revenue and deposits		41,360	41,379
Refundable federal loan grants		25,938	28,204
Lease obligation – operating		16,253	17,640
Notes and bonds payable, net		336,616	353,468
Total liabilities		485,495	514,779
Net assets:			
Without donor restrictions		460,212	401,593
With donor restrictions		1,009,356	1,022,848
Total net assets		1,469,568	1,424,441
Total liabilities and net assets	$	1,955,063	1,939,220

See accompanying notes to consolidated financial statements.

MARQUETTE UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2023

(Dollars in thousands)

	Without donor restrictions	With donor restrictions	Total
Operating revenues:			
Student tuition and fees, net	$ 249,121	—	249,121
Government and private grants	41,646	—	41,646
Contributions	6,761	59,761	66,522
Auxiliary enterprises	57,812	—	57,812
Sales by educational departments	10,957	—	10,957
Investment income	6,373	989	7,362
Endowment income used in operations	7,872	34,674	42,546
Other income	34,993	—	34,993
Net assets released from restrictions	50,908	(50,908)	—
Total operating revenues	466,443	44,516	510,959
Operating expenses:			
Instruction	156,941	—	156,941
Academic support and libraries	56,121	—	56,121
Research and grants	55,459	—	55,459
Student services	77,460	—	77,460
Auxiliary enterprises	44,696	—	44,696
Institutional support	57,431	—	57,431
Public services	5,561	—	5,561
Total operating expenses	453,669	—	453,669
Operating income	12,774	44,516	57,290
Nonoperating activities:			
Endowment loss in excess of amounts designated for current operations, net	(6,111)	(1,449)	(7,560)
Other, net	51,956	(56,559)	(4,603)
Total nonoperating activities, net	45,845	(58,008)	(12,163)
Change in net assets	58,619	(13,492)	45,127
Net assets, beginning of year	401,593	1,022,848	1,424,441
Net assets, end of year	$ 460,212	1,009,356	1,469,568

See accompanying notes to consolidated financial statements.

(Continued)

MARQUETTE UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2022

(Dollars in thousands)

		Without donor restrictions	With donor restrictions	Total
Operating revenues:				
Student tuition and fees, net	$	250,872	—	250,872
Government and private grants		52,450	—	52,450
Contributions		6,051	86,569	92,620
Auxiliary enterprises		51,844	—	51,844
Sales by educational departments		10,541	—	10,541
Investment income		1,481	471	1,952
Endowment income used in operations		7,321	31,225	38,546
Other income		37,510	—	37,510
Net assets released from restrictions		36,411	(36,411)	—
Total operating revenues		454,481	81,854	536,335
Operating expenses:				
Instruction		155,620	—	155,620
Academic support and libraries		52,911	—	52,911
Research and grants		48,794	—	48,794
Student services		75,254	—	75,254
Auxiliary enterprises		45,589	—	45,589
Institutional support		58,255	—	58,255
Public services		5,314	—	5,314
Total operating expenses		441,737	—	441,737
Operating income		12,744	81,854	94,598
Nonoperating activities:				
Endowment loss in excess of amounts designated for current operations, net		(37,945)	(39,963)	(77,908)
Other, net		(5,083)	(2,782)	(7,865)
Total nonoperating activities, net		(43,028)	(42,745)	(85,773)
Change in net assets		(30,284)	39,109	8,825
Net assets, beginning of year		431,877	983,739	1,415,616
Net assets, end of year	$	401,593	1,022,848	1,424,441

See accompanying notes to consolidated financial statements.

MARQUETTE UNIVERSITY

Consolidated Statements of Cash Flows

Years ended June 30, 2023 and 2022

(Dollars in thousands)

		2023	2022
Cash flows from operating activities:			
Change in net assets	$	45,127	8,825
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		38,803	39,142
Discount amortization		(2,335)	(1,554)
Net realized and unrealized loss (gain) on investments		(30,209)	39,314
Bad debt expense		2,055	2,002
Contributions for major capital projects including gifts in kind		(23,741)	(43,196)
Contributions restricted for long-term endowments		(17,235)	(34,953)
Endowment income used in operations from net assets to be maintained permanently		(186)	(173)
Loss on sale of property, buildings, and equipment		1,061	61
Reduction in carrying amount of right to use assets		124	161
Changes in assets and liabilities:			
Student accounts and loans receivable		(799)	(7,445)
Pledges receivable		(5,581)	1,269
Other assets, net		(1,631)	(1,974)
Accounts payables and other liabilities		(11,554)	(13,891)
Deferred revenue and deposits		(18)	(7,434)
Net cash (used in) operating activities		(6,119)	(19,846)
Cash flows from investing activities:			
Purchases of property, buildings, and equipment		(63,437)	(56,209)
Proceeds from sale of property, buildings, and equipment		5,206	7,826
Student loans repayments		5,029	5,028
Student loans issued		(2,183)	(1,611)
Purchase of investments		(145,505)	(240,292)
Proceeds from the sale of investments		134,554	235,464
Net cash (used in) investing activities		(66,336)	(49,794)
Cash flows from financing activities:			
Contributions received for major capital projects		22,901	43,196
Proceeds from contributions restricted for long-term endowments		22,155	45,743
Endowment income used in operations from net assets to be maintained permanently		186	173
Decrease in refundable federal loan grants		(2,266)	(3,987)
Issuance of notes and bonds payable		64,943	—
Repayment of notes and bonds payable		(79,460)	(9,316)
Net cash provided by financing activities		28,459	75,809
Net increase (decrease) in cash, cash equivalents and restricted cash		(43,996)	6,169
Cash, cash equivalents and restricted cash, beginning of year		117,434	111,265
Cash, cash equivalents and restricted cash, end of year	$	73,438	117,434
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	14,421	14,381
Change in construction payables		2,585	(1)
Capital gifts in kind		840	—

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

Marquette University (the university) is an independent, coeducational, not-for-profit institution of higher learning and research located in Milwaukee, Wisconsin, formally opened in 1881 and conducted under the auspices of the Society of Jesus. The university provides education and training services, primarily for students enrolled in undergraduate, graduate, and professional degree programs and performs research, training and other services under grants, contracts and other agreements with sponsoring organizations, including both government agencies and private enterprises.

The consolidated financial statements include Flora Real Properties LLC (Flora). Flora is fully controlled by the university through 100% ownership. Flora operates commercial real estate activities in the university campus area.

(b) Basis of Presentation

The consolidated financial statements of the university have been prepared in conformity with U.S. generally accepted accounting principles (GAAP).

The accompanying consolidated financial statements present information regarding the university's financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

(i) Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions.

(ii) With Donor Restrictions

Net assets that are subject to donor restrictions that will be met either by actions of the university or the passage of time. Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the university, wherein the donor stipulates that the corpus of the gift be held in perpetuity and the income from those assets be made available for scholarships or program operations.

(c) Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses during the reporting period as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

Cash equivalents with original maturities of three months or less are classified as cash and cash equivalents, except those amounts held by investment managers, which are classified as investments. The fair value of cash equivalents is estimated to be the same as book value due to the short maturity of these instruments.

(Dollars in thousands)

(e) Pledges Receivable, Net

Unconditional promises to give are recognized initially at fair value as contribution revenue in the period a donor makes the promise. The fair value of the pledge is estimated based on anticipated future cash payments discounted using a risk-adjusted rate commensurate with the duration of the planned payments. In subsequent periods, the discount rate is unchanged. Pledges receivable are net of an allowance for uncollectible amounts. Allowance for uncollectible pledges is calculated based upon the university's past collection experience. The allowance is reassessed and adjusted as necessary. Balances are written off when they are deemed permanently uncollectible.

(f) Student Accounts and Loans Receivable, Net

At June 30, student accounts and loans receivable consisted of the following:

		2023	2022
Federal government loan programs	$	19,993	22,855
Institutional loan programs		1,822	1,701
Student receivables		8,816	7,823
Grants receivables		9,315	15,386
Other receivables		8,287	2,556
Subtotal		48,233	50,321
Less allowances for doubtful accounts		(4,087)	(3,257)
Student accounts and loans receivable, net	$	44,146	47,064

The university records an allowance for uncollectible accounts when, in management's judgment, it is probable a portion of the receivable or loan will not be collected. Allowances for doubtful accounts are established based on prior collections. Balances are written off when they are deemed permanently uncollectible.

(g) Investments

Investments are reported at fair value based on market quotes with unrealized gains and losses thereon included in the consolidated statements of activities. For alternative investments, the net asset value is used as a practical expedient in estimating fair value, based on information provided by fund managers or general partners. The estimated values are reviewed and evaluated by the university. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed.

(h) Property, Buildings, and Equipment, Net

Property, buildings, and equipment are recorded at cost at the date of acquisition or fair value at the date of donation including, where appropriate, capitalized interest. Property and equipment under capital leases are initially valued and recorded on the present value of minimum lease payments. The university depreciates buildings, building improvements, land improvements, equipment, library contents, and eBooks over the estimated useful lives of the assets (25 to 50, 10 to 20, 10 to 20, 5 to 7, 20 and 20 years, respectively) using the straight-line method. Leasehold improvements are amortized over the shorter of the expected useful life of the asset or term of the related lease.

(Dollars in thousands)

Property, buildings, and equipment include the following at June 30, 2023 and 2022:

		2023	2022
Land and improvements	$	48,971	51,423
Buildings and improvements		899,764	853,897
Construction in progress		42,955	52,994
Furniture, fixtures, and equipment		175,840	174,730
Library contents		125,652	124,735
eBooks and other intangibles		40,668	31,541
Less accumulated depreciation		(676,410)	(653,880)
Property, buildings, and equipment, net	$	657,440	635,440

Construction in progress includes the following as of June 30, 2023 and 2022:

		2023	2022
O'Brien Hall	$	—	37,716
New home for the College of Nursing		18,110	3,279
Wellness + Recreation		11,010	1,445
Information technology infrastructure upgrade		2,334	783
Lemonis Student Success Center		1,322	143
Athletic and Human Performance Research Center II		1,249	—
Dental clinic remodel		1,268	1,352
Utility infrastructure upgrade		1,139	—
Other renovation and construction projects		6,523	8,276
Total construction in progress	$	42,955	52,994

Long-lived assets such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

Capital gifts to acquire or construct long-lived assets are recorded as a gift with donor restrictions until the related asset is placed in service, at which time the capital gift is released from net assets with donor restrictions to net assets without donor restrictions as other non-operating activity and subsequently amortized into operations over the estimated useful life of the acquired or constructed asset. This amortization, which amounted to $7,957 in fiscal year 2023 and $6,668 in fiscal year 2022, is recorded as a reclassification between non-operating and operating sections of the changes in net assets without donor restrictions in the consolidated statement of activities.

(Continued)

(Dollars in thousands)

(i) Refundable Federal Loan Grants

The university participates in the Perkins, Health Professionals Student, Nursing Student, Nurse Faculty, ARRA-Nurse Faculty, and Loans for Disadvantaged Student federal revolving loan programs. The university holds certain amounts advanced from the federal government to facilitate these loan programs. In the event the university no longer participates, the amounts related to the program are generally refundable to the government.

(j) Student Tuition and Fees

Student tuition revenue is recognized in the fiscal year in which the academic programs are delivered. Scholarships reduce the amount of revenue recognized. The university provided student tuition discounts of $199,032 and $197,062 in 2023 and 2022, respectively. Students who withdraw may receive a full or partial refund in accordance with the university's refund policy.

Deferred tuition revenue and deposits represents payments for summer term courses conducted in July and August along with deposits for the fall academic term.

The following tables depict activities for student – related deferred revenue.

	Balance at June 30, 2022	Revenue recognized	Cash received in advance of performance	Accounts receivable for summer courses	Balance at June 30, 2023
$	9,746	9,746	9,115	480	9,595

	Balance at June 30, 2021	Revenue recognized	Cash received in advance of performance	Accounts receivable for summer courses	Balance at June 30, 2022
$	9,271	9,271	9,259	487	9,746

The balance of deferred tuition revenue at June 30, 2023, will be recognized as revenue in the year ending June 30, 2024, as services are rendered.

(k) Auxiliary Enterprises

Auxiliary enterprises include revenues and expenses of the university for room and board, parking services, commercial property rentals and gift shops.

(l) Contributions

Contributions, including unconditional promises to give (pledges), are recorded as operating revenue. Gifts, excluding artwork, are recognized in the appropriate category of net assets in the period received. Contributions are recorded at their estimated fair value at the date the gift is received. Contributions receivable due beyond one year are stated at estimated net present value, net of an allowance, and recorded as net assets with donor restrictions until cash payments are received and donor restrictions are fulfilled. Allowances and revisions to previous year contributions based on donor amendments or clarifications of intent are reflected within the consolidated statements of activities as a nonoperating item. Contributions with donor-imposed conditions are not recognized unless it is reasonably expected that the conditions can be met.

(m) Operating Income

Operating results in the consolidated statement of activities reflect all transactions that change net assets without donor restrictions, except for activity associated with endowment investments and certain other nonrecurring transactions, including adjustments to allowance for uncollectible contributions, changes due to adopting new accounting guidance, and other gains and losses. In accordance with the university's endowment distribution policy as described in note 4, only the portion of total investment return distributed under this policy to meet operating needs is included in operating revenue. Operating investment income consists of dividends, interest, and realized gains and losses on unrestricted non-endowed investments.

(n) Income Taxes

The university is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and Section 71.26(1)(a) of the Wisconsin statutes and is generally not subject to federal and state income taxes. However, the university is subject to income taxes on any income that is derived from a trade or business regularly carried on, and not in furtherance of the purposes for which it was granted exemption.

There was no provision for income taxes due on unrelated business income and there are no uncertain tax positions considered to be material.

As of June 30, 2023, the university has a federal tax credit carryforward of $2,046, which expires between fiscal years 2033 and 2041.

(o) Post-retirement Benefits

The university provides retired employees access to certain healthcare and life insurance benefits. University employees become eligible to access these benefits when their years of service plus age equal 70 with a minimum age of 55. Qualified retired employees under the age of 65 are eligible to participate in the university's healthcare plan. Retirees are expected to pay the full cost of their premiums, based on the claims experience associated with that defined group of retired employees. The university also pays group life insurance premiums for active or future retired employees hired prior to February 1, 1982, that provide for limited death benefits. The premiums paid are based on the group community rate associated with death claims filed for the entire population of employees and retirees participating in the program. As of June 30, 2023 and 2022, the university had post-retirement benefits payable of $3,613 and $4,906, respectively.

(Dollars in thousands)

(p) Art Collection

The university has various collections of fine arts and rare books in museums, libraries, and on loan. The university does not assign or record a value to art works and other collections received as gifts or purchased with contributions restricted for that purpose. Valuations for some collections are updated periodically, and as such, the total of all fine arts may vary with appraisals and / or auction prices. Accordingly, the values of fine art and other collections have been excluded from the consolidated statements of financial position. Proceeds, if any, deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes. The art and other collections are subject to a requirement that proceeds from their sales be used to acquire other items for the collections. Fine arts are included in insurance coverage for the university property and a separate policy is also secured for fine art of high value and where appraised values are listed. As of June 30, 2023, the specific policy covering highly valued works provides for insured coverage of $100,000 aggregate limit (subject to policy sublimit including $3,000 for the Joan of Arc Chapel) for any one loss or any one occurrence and includes some appraised items from the library collections.

(t) Reclassifications

Certain amounts in the 2022 net asset footnote have been reclassified to conform to the 2023 presentation.

(2) Availability of Financial Assets for General Expenditures

Resources available to the university to fund general expenditures, such as operating expenses, scheduled principal payments on debt, and internally funded capital costs have seasonal variations related to the timing of tuition payments, receipts of gifts and pledge payments, and transfers from the endowment. The university actively manages its resources, utilizing a combination of short-term and long-term operating investment strategies to align cash inflows with anticipated outflows. At June 30, 2023, existing financial assets and liquidity resources available within one year were as follows:

Financial assets:		
Cash and cash equivalents	$	73,438
Accounts receivable		22,434
Pledges payments available for operations		6,795
Working capital investments		150,999
Endowment spending payout		42,360
Total financial assets available within one year		296,026
Liquidity resources:		
Bank line of credit		50,000
Total financial assets and liquid resources available within one year	$	346,026

(Dollars in thousands)

Additionally, the university has $112,551 in board designated funds functioning as endowment of which $84,027 could be liquidated within one year with Board approval, however no liquidation is anticipated as of June 30, 2023. The university's investment policy follows Wisconsin's Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), which requires institutions to maintain intergenerational equity, meaning the university must make efforts to preserve purchasing power of the endowment for both current and future generations served by the university.

(3) Investments

A summary of the university's investment return net of expenses is presented below for the years ended June 30, 2023 and 2022:

		2023	2022
Interest and dividends	$	15,068	6,891
Gain (loss) on investments, net		27,280	(44,300)
Return on investments	$	42,348	(37,409)

The fair value of the university's financial instruments is determined using the valuation methods and assumptions as set forth below. While the university believes that its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value at the reporting date.

Fair values of cash and cash equivalents are based on observable market quotation prices provided by investment managers and the custodian bank at the reporting date.

Investments include money funds, federal, state, local agency, nongovernment, asset and mortgage-backed and foreign fixed income securities, stocks, mutual funds, commingled funds, real estate, multi-strategy hedge funds and private equity partnership and membership interests. Investments are based on valuations provided by external investment managers and the custodian banks. Valuations provided by external investment managers and the custodian bank include observable market quotation prices, observable inputs other than quoted prices such as price services or indexes, estimates, appraisals, assumptions and other methods that are reviewed by management. Real estate, multi-strategy hedge funds, commingled funds and private equity partnerships are valued using net asset value; however, it is possible that the redemption rights of certain investments may be restricted by the funds in the future in accordance with the underlying fund agreements. Changes in market conditions and the economic environment may impact the net asset value of the funds and consequently the fair value of the university's interests in the funds.

Accounting standards establish 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 measurements) and the lowest priority to measurements involving

(Continued)

(Dollars in thousands)

significant unobservable inputs (Level 3 measurements). The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Observable inputs such as quoted prices in active markets that the university has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices in active markets such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs where there is little or no market data and requires the reporting entity to develop its own assumptions and includes funds held in trust by others.

The university's policy is to reflect transfers between levels at the end of the year in which a change in circumstances results in the transfer.

The following table presents the university's financial instruments at fair value as of June 30, 2023. The categorization of financial instruments within the hierarchy is based on price transparency and does not necessarily correspond to the perceived risk of the instruments.

	Total	Level 1	Level 2	Level 3
June 30, 2023:				
Assets:				
Recurring:				
Cash and cash equivalents	$ 73,438	73,438	—	—
Investments:				
Money funds and other	33,972	33,972	—	—
Federal, state, and local agency securities	542	—	542	—
Nongovernment bonds and notes	254	—	254	—
Asset and mortgage-backed securities	644	—	644	—
Foreign bonds and notes	125	—	125	—
Common and preferred stocks	51,162	51,162	—	—

(Dollars in thousands)

	Total	Level 1	Level 2	Level 3
Mutual funds – bonds	$ 235,580	235,580	—	—
Mutual funds – equity	115,238	115,238	—	—
Investments measured at net asset value	641,155	—	—	—
Total investments	1,078,672	435,952	1,565	—
Total assets measured at fair value on recurring basis	$ 1,152,110	509,390	1,565	—

Certain investment companies and partnerships in which the university has invested have imposed restriction as to the frequency at which the university might redeem, in part or whole, its investment. Redemption frequencies can vary based on several criteria, including the liquidity of an investment company's underlying investments or initial investment lockup periods. Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2023, are as follows:

Fiscal year ended June 30, 2023	Net assets value	Unfunded commitments	Redemption frequency	Redemption notice period
Commingled funds	$ 105,375	—	Weekly, Monthly, Annually	10–30 days
Multi-strategy hedge funds	308,404	—	Quarterly, Semi-annually, Annually, 2 years, 3 years, Liquidating	45–90 days
Private equity partnerships	208,251	62,518	Illiquid	
Real estate limited partnership and membership interests	19,125	8,330	Illiquid	
	$ 641,155	70,848		

(Dollars in thousands)

The following table presents the university's financial instruments at fair value as of June 30, 2022. The categorization of financial instruments within the hierarchy is based on price transparency and does not necessarily correspond to the perceived risk of the instruments.

	Total	Level 1	Level 2	Level 3
June 30, 2022:				
Assets:				
Recurring:				
Cash and cash equivalents	$ 117,434	117,434	—	—
Investments:				
Money funds and other	32,200	32,200	—	—
Federal, state, and local agency securities	585	—	585	—
Nongovernment bonds and notes	256	—	256	—
Asset and mortgage-backed securities	684	—	684	—
Foreign bonds and notes	125	—	125	—
Common and preferred stocks	46,284	46,284	—	—
Mutual funds – bonds	230,636	230,636	—	—
Mutual funds – equity	105,853	105,853	—	—
Investments measured at net asset value	620,889	—	—	—
Total investments	1,037,512	414,973	1,650	—
Total assets measured at fair value on recurring basis	$ 1,154,946	532,407	1,650	—

(Continued)

(Dollars in thousands)

Certain investment companies and partnerships in which the university has invested have imposed restriction as to the frequency at which the university might redeem, in part or whole, its investment. Redemption frequencies can vary based on several criteria, including the liquidity of an investment company's underlying investments or initial investment lockup periods. Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2022, are as follows:

Fiscal year ended June 30, 2022		Net assets value	Unfunded commitments	Redemption frequency	Redemption notice period
Commingled funds	$	101,135	—	Weekly, Monthly, Annually	10–30 days
Multi-strategy hedge funds		277,565	—	Quarterly, Semi-annually, Annually, 2 years, 3 years, Liquidating	45–90 days
Private equity partnerships		221,939	67,478	Illiquid	
Real estate limited partnership and membership interests		20,250	11,439	Illiquid	
	$	620,889	78,917		

(4) Endowment

(a) Interpretation of Relevant Law Governing Endowments

The State of Wisconsin enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) on July 20, 2009. This law provides, among other things, expanded spending flexibility by allowing, subject to a standard of prudence, the university to spend from an endowment fund without regard to the book value of the corpus. The university classifies as net assets with donor restrictions (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 donor gift instrument. Also included in net assets with donor restrictions is accumulated appreciation on endowment funds which are available for expenditure in a manner consistent with the standard of prudence established by UPMIFA.

(b) Underwater Endowment Funds

From time to time, the value of assets associated with a permanently restricted fund may fall below the historical cost. Deficiencies of this nature are reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market conditions that occurred after the investment of endowed contributions and from appropriations to certain programs. As of June 30, 2023 and 2022, funds with fair market values of $32,867 and $33,873, and original gift values of $35,738 and $36,466, were underwater by $2,871 and $2,593, respectively.

(c) Endowment Spending Policy

The primary objective of the spending policy is to provide a steady cash flow stream while at the same time protecting the purchasing power of the endowment fund's principal. Adopting the target rate approach provides the university with a level-spending plan. Spending allotments will begin with the flat amount allocated to each individual endowment fund balance as of June 30, 2004, that may grow each year by an inflationary amount not to exceed 3%. Spending allotments will be increased by new gift additions to the individual endowment funds receiving spending authority equal to 5% of the new gift amount.

Compliant with UPMIFA, the university will be allowed to prudently withdraw spendable funds even if an endowment's market value is less than its historical book value. Any "return" that is not required to meet spending shall be retained in the endowment funds and invested in accordance with the investment policy statement.

A risk control mechanism will be employed that keeps spending within a range of 4 – 6% of market value in order for the asset allocation policy to work with a minimum target rate of return of 8% (5% average spending and 3% inflation).

(d) Endowment Investment Policy

The endowment fund's investment objective is to preserve its purchasing power while providing a continuing and stable funding source to support the overall mission of the university. To accomplish this objective, the endowment fund seeks to generate a total return that will exceed its annual spendable amount, all expenses associated with managing the endowment fund, and the eroding effects of inflation. It is the intention that any excess return (interest income, dividends, realized gains, and unrealized gains), above and beyond the amount approved for expenditure or distribution, will be reinvested in the endowment fund. The endowment fund will be managed on a total return basis, consistent with the applicable standard of conduct set forth in UPMIFA.

The endowment fund has a long-term investment horizon with relatively low liquidity needs. For this reason, the endowment fund can tolerate short- and intermediate-term volatility provided that long-term returns meet or exceed its investment objective. Consequently, the endowment fund may take advantage of less liquid investments, such as private equity, hedge funds, and other partnership vehicles, which typically offer higher risk-adjusted return potential as compensation for forfeiture of liquidity. To ensure adequate liquidity for distributions and to facilitate rebalancing, the university will conduct ongoing reviews of total fund liquidity.

Endowment net assets without donor restriction are "Investments functioning as endowment" that are not permanently restricted by donors but are designated by the university for endowment purposes.

(Dollars in thousands)

The following represents the composition and changes in endowment net assets for the year ended June 30, 2023:

		Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	$	117,537	776,589	894,126
Investment return:				
Investment loss		—	(124)	(124)
Endowment income used for spending policy		7,872	34,674	42,546
Net realized and unrealized losses		(7,097)	(2,045)	(9,142)
Total investment return		775	32,505	33,280
Appropriation of endowment assets for expenditure		(7,872)	(34,488)	(42,360)
Contributions		2,111	17,235	19,346
Endowment net assets, end of year	$	112,551	791,841	904,392

The following represents the composition and changes in endowment net assets for the year ended June 30, 2022:

		Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	$	151,782	777,217	928,999
Investment return:				
Investment loss		—	(29)	(29)
Endowment income used for spending policy		7,321	31,225	38,546
Net realized and unrealized losses		(34,325)	(35,725)	(70,050)
Total investment return		(27,004)	(4,529)	(31,533)
Appropriation of endowment assets for expenditure		(7,321)	(31,052)	(38,373)
Contributions		80	34,953	35,033
Endowment net assets, end of year	$	117,537	776,589	894,126

(Dollars in thousands)

(5) Irrevocable Split-Interest Agreements and Funds Held in Trust by Others

The university's split-interest agreements with donors consist primarily of charitable gift annuities, pooled income funds, and charitable remainder trusts for which the university serves as trustee. Assets held in these trusts are included in investments. Contribution revenues are recognized at the date the trusts are established after recording liabilities for the present value of the estimated future payments to be made to the donors or other beneficiaries. Annuity and other split-interest liabilities are recorded at their present value, using a risk-adjusted discount rate and, if applicable, the estimated life expectancy of the donor or other beneficiaries.

The university is the beneficiary of trusts that, in accordance with the decedent's instructions, are managed and maintained by separate trustees not affiliated with the university. The university receives distributions from the trusts. The fair value of the trusts was $26,010 and $24,572 at June 30, 2023 and 2022, respectively, and are included in investments on the consolidated statement of financial position.

For those agreements where the university does not serve as trustee but is designated as an irrevocable beneficiary of the trust, restricted funds held in trust and revenue are recognized for the present value of the estimated future benefits due to the university over the life of the trust and when the trust is distributed. The present value calculation of the trust considers both the discount rate and, if applicable, the estimated life expectancy of the trust originator.

(6) Pledges Receivable, Net

Pledges receivable expected to be collected within one year are recorded at net realizable value. Pledges receivable expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using an appropriate risk-free rate of return on the date the promise to give is received. Amortization of the discount is included in contribution revenues.

As of June 30, 2023, and 2022, the contributions receivable is due as follows:

		2023	2022
Less than one year	$	34,834	35,499
Two to five years		44,310	42,822
Over five years		5,641	5,973
Subtotal		84,785	84,294
Less unamortized discount		(3,447)	(2,166)
Allowance for uncollectible accounts		(6,715)	(6,982)
Pledges receivable, net	$	74,623	75,146

In addition, the university has received certain conditional promises to give that are in the form of revocable trusts, bequests and pledges. As of June 30, 2023 and 2022, the fair value of these conditional promises is approximately $187,176 and $165,363, respectively. These amounts can be recognized as revenue in the periods in which the conditions are fulfilled.

(Dollars in thousands)

(7) Leases

The university has operating leases, primarily for athletic facility use, clinic space, office space and vehicles, which expire over the next twelve years. Some leases contain renewal options. For instances where it is probable that the university will renew, the renewal period is included in the lease period and calculations. Certain leases include payment escalators based on stated rates. Variable lease payments based on stated rates such as mileage or sales volume are not included in the calculation of lease liabilities and right-of-use (ROU) assets but, rather, are recognized during the year incurred. The present value of the lease obligation is determined using a discount rate equal to the interest rate implicit in the lease or, if unavailable, the university's incremental borrowing rate is used. Included in ROU calculations are adjustments to lease payments made as a result of COVID-19 economic impact.

The components of operating lease costs for the fiscal year ended June 30, 2023 and 2022, were as follows:

		2023	2022
Operating lease costs	$	1,860	1,903
Variable lease costs		476	449
Total lease costs	$	2,336	2,352

Amounts reported in the consolidated statements of financial position as of June 30, 2023 and 2022, were as follows:

		2023	2022
Operating lease ROU assets net of amortization	$	14,548	16,059
Operating lease liabilities		16,253	17,640

Other information related to operating leases as of June 30, 2023 and 2022, were as follows:

	2023	2022
Weighted-average remaining lease term in years	9.9	10.6
Weighted-average discount rate	2.28 %	2.27 %

(Dollars in thousands)

Maturities of the operating leases as of June 30, 2023, are as follows:

2024	$ 1,797
2025	1,765
2026	1,814
2027	1,701
2028	1,755
Thereafter	9,652
Operating lease liabilities – undiscounted	18,484
Impact of present value discount	(2,231)
Operating lease liabilities	$ 16,253

(8) Notes and Bonds Payable, Net

As of June 30, 2023, and 2022, notes and bonds payable consisted of the following:

	2023	2022
Revenue Bonds, Series 2012, payable with fixed interest rates ranging from 2.00% to 5.00%, maturing through 2032	$ —	67,665
Revenue Bonds, Series 2016, payable with fixed interest rates ranging from 4.00% to 5.00%, maturing through 2047	73,040	74,985
Revenue Bonds, Series 2019, payable with fixed interest rate of 5.00%, maturing through 2033	35,415	38,295
Revenue Bonds, Series 2020, payable with fixed interest rates ranging from 1.00% to 4.00%, maturing through 2050	150,000	150,000
Revenue Bonds, Series 2022, payable with fixed interest rate of 5.00%, maturing through 2050	56,590	—
Other long-term payables with variable interest rates, maturing through 2024	319	565
Subtotal	315,364	331,510
Unamortized premiums, discount and issuance costs	21,252	21,958
Notes and bonds payable, net	$ 336,616	353,468

Notes are issued under the Master Indenture and are equally and ratably secured by any lien created under the Master Indenture.

The notes and bonds payable are subject to various covenants. Management confirms the university is in compliance with all covenants as of and for the years ended June 30, 2023 and 2022.

(Dollars in thousands)

Maturities of notes and bonds payable based on scheduled repayments at June 30, 2023, are as follows:

Fiscal Year 2024	$	13,289
Fiscal Year 2025		13,510
Fiscal Year 2026		14,105
Fiscal Year 2027		14,730
Fiscal Year 2028		15,390
Thereafter		244,340
Total	$	315,364

As of June 30, 2023, the university has two secured letters of credit with banks under which it may borrow up to $3,101. There were no borrowings outstanding under these letters of credit as of June 30, 2023 and 2022.

As of June 30, 2023, the university has a $50,000 line of credit with a bank. There were no borrowings outstanding under this line of credit as of June 30, 2023 and 2022.

(9) Restricted Cash and Investments

The composition of assets restricted to investment in land, buildings and equipment as of June 30, 2023 and 2022 is shown below.

		2023	2022
Restricted cash	$	12,823	31,182
Contributions receivable		42,327	39,694
Investments		26,367	16,760
Total assets restricted for investment in land, building and equipment	$	81,517	87,636

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated statement of financial position that sum to the total of same amounts shown in the consolidated statements of cash flows as of June 30:

		2023	2022
Cash and cash equivalents	$	60,615	86,252
Restricted cash included in assets restricted to investment in land, buildings and equipment		12,823	31,182
Total cash, cash equivalents, and restricted cash shown in the consolidated statement of cash flows	$	73,438	117,434

(Dollars in thousands)

Assets restricted to investment in land, buildings and equipment include restricted cash equivalents received with a donor-imposed restriction that limits the use of that cash to long-term purposes.

(10) Retirement Plan

All eligible full-time and part-time personnel who meet the waiting period criteria, may elect to participate in a defined contribution individual retirement plan. Under the provisions of the plan in order to receive the university's matching contribution, participants are required to contribute 5% of their annual wages to the plan. The university has neither administrative responsibilities nor any financial liabilities under this plan except to make contributions, currently limited to 8% of the annual wages of participants, up to defined limits. In addition, voluntary contributions by participants may be made subject to Internal Revenue Service limitations. Payments for contributions to this plan totaled $11,554 and $11,354 in fiscal years 2023 and 2022, respectively.

(11) Self-Funded Health, Dental and Vision Benefit Plans

The university has self-funded benefit plans covering all active and certain retired employees' health, dental and vision costs. The university's plans are protected against catastrophic losses through excess stop loss insurance. Excess stop loss provides reimbursement to the university when combined eligible claims for members are above $375 and $300. Claims paid under the plans for fiscal years 2023 and 2022 totaled $27,839 and $27,222, respectively. The university has also contracted with third party administrators to provide administrative services for the plans. Accrued liabilities include an estimate of the university's liability for claims incurred but not paid through June 30, 2023 and 2022.

(12) Net Assets

Net assets consist of the following as of June 30, 2023 and 2022:

		2023	2022
Without donor restrictions:			
Board designated endowments	$	112,551	117,537
Other net assets without donor restrictions		347,661	284,056
Total without donor restrictions		460,212	401,593
With donor restrictions:			
Amounts with time and purpose restrictions:			
Academic support, instruction and student services		240,402	235,808
Pledges receivable, net		56,146	53,001
Scholarships		109,309	112,140
Life income and annuity funds		2,630	2,577
Physical assets		17,384	55,998
Total net assets with time and purpose restrictions		425,871	459,524

(Continued)

(Dollars in thousands)

		2023	2022
Amount with perpetual restrictions:			
Academic support, instruction and student services	$	217,934	211,570
Pledges receivable, net		15,467	19,088
Scholarships		347,641	330,241
Life income and annuity funds		2,443	2,425
Total net assets with permanent restrictions		583,485	563,324
Total with donor restrictions		1,009,356	1,022,848
Total net assets	$	1,469,568	1,424,441

(13) Commitments and Contingencies

The university is involved in various litigation arising in the normal course of operations. On the basis of information presently available and the advice of legal counsel, management is of the opinion that any liability, to the extent not provided for through reserves or otherwise, for pending litigation is not expected to be material in relation to the university's financial position or activities.

As of June 30, 2023, the university has outstanding commitments for the following construction projects:

New home for College of Nursing	$	37,691
Wellness + Recreation		8,511
Lemonis Student Success Center		5,400
Athletic and Human Performance Research Center II		4,060
Dental clinic remodel		1,881
Total	$	57,543

(Dollars in thousands)

(14) Expenses

The university's primary programs are instruction, research, and public service. Academic support and libraries, student services, and auxiliary enterprises are considered integral to the delivery of these programs. Athletics expenses are included in student services. Costs related to the operation and maintenance of physical plant, including depreciation of plant assets, are allocated to operating programs and supporting activities based upon square footage. Interest expense on external debt is allocated to the activities that have most directly benefited from the debt proceeds. Natural expenses allocated by function for the years ended June 30, 2023 and 2022 are as follows:

2023

	Compensation	Supplies, repairs, utilities and other	Interest	Depreciation	Operations and maintenance	Total
Instruction	$ 113,656	15,604	1,678	14,723	11,280	156,941
Academic support and libraries	29,265	12,232	900	6,092	7,632	56,121
Research and grants	31,529	21,775	—	2,018	137	55,459
Student services	36,307	30,104	178	4,085	6,786	77,460
Auxiliary enterprises	6,085	23,070	3,241	6,735	5,565	44,696
Institutional support	41,507	9,009	3,238	2,284	1,393	57,431
Public services	4,733	710	3	—	115	5,561
Operations and maintenance	9,842	19,617	583	2,866	(32,908)	—
Total operating expenses	$ 272,924	132,121	9,821	38,803	—	453,669

2022

	Compensation	Supplies, repairs, utilities and other	Interest	Depreciation	Operations and maintenance	Total
Instruction	$ 111,956	16,322	2,569	13,462	11,311	155,620
Academic support and libraries	28,076	11,029	514	6,110	7,182	52,911
Research and grants	29,017	17,857	—	1,778	142	48,794
Student services	34,583	26,990	385	4,894	8,402	75,254
Auxiliary enterprises	6,357	22,506	4,448	6,931	5,347	45,589
Institutional support	39,918	10,116	3,587	2,744	1,890	58,255
Public services	4,458	743	3	—	110	5,314
Operations and maintenance	9,494	21,219	448	3,223	(34,384)	—
Total operating expenses	$ 263,859	126,782	11,954	39,142	—	441,737

(Dollars in thousands)

(15) Related Party Transactions

Members of the Board of Trustees can be associated, either directly or indirectly, with companies doing business with the university. When such relationships exist, measures are taken to appropriately manage the actual or perceived conflict in the best interests of the university, including that such transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable. The university has a written conflict of interest policy that includes, among other things, that Trustees annually complete a Conflicts of Interest Disclosure Statement indicating material financial interest or affiliation including, but is not limited to, service by the Trustee or by the Trustee's spouse as an officer, partner, director or trustee of an entity.

The Consolidated Statements of Activities include $1,740 and $1,210 of other goods and services expense, from companies affiliated with members of the Board of Trustees for the years ended June 30, 2023, and 2022, respectively.

(16) Research and Grant Costs

The university receives grant and contract revenue from various government agencies and private sources for the support of research, training, and other sponsored programs. Revenues associated with the direct costs of these programs are recognized as the related costs are incurred. Indirect cost reimbursements from federal agencies are based on negotiated predetermined rates. Research and grant costs reported for fiscal years 2023 and 2022 are comprised of the following:

		2023	2022
Sponsored research	$	40,528	35,824
Teaching and training		6,449	6,108
Development and others		8,482	6,862
Total research and grants	$	55,459	48,794

(17) Subsequent Events

Subsequent events have been evaluated through September 7, 2023, which is the date the consolidated financial statements were available to be issued. No other subsequent events were identified requiring recording or disclosure in the consolidated financial statements or related notes to the consolidated financial statements.