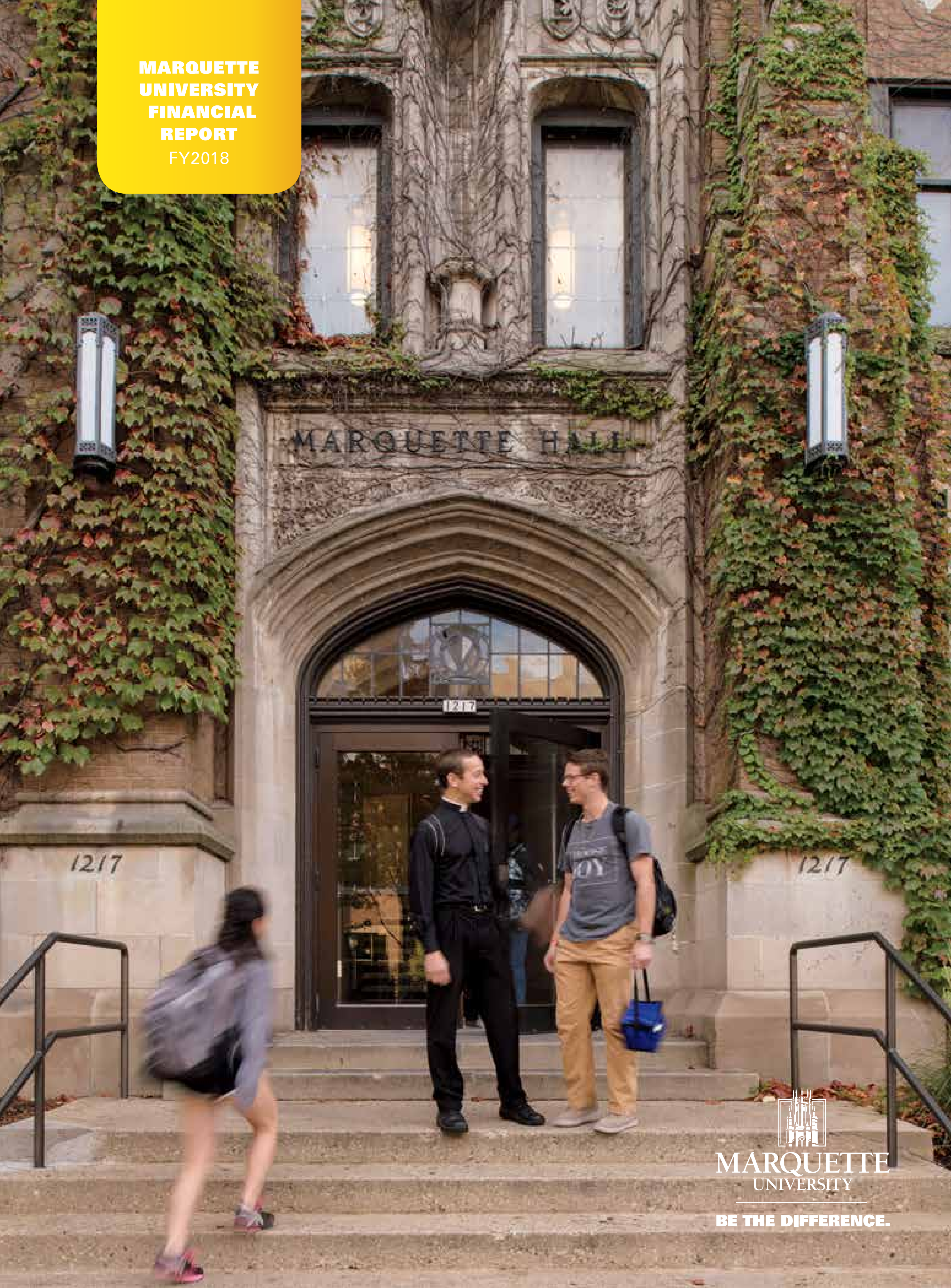
MARQUETTE UNIVERSITY FINANCIAL REPORT
FY2018



MARQUETTE
UNIVERSITY

BE THE DIFFERENCE.

BE YOU

MARQUETTE UNIVERSITY

BE THE DIFFERENCE.

MARQUETTE UNIVERSITY FINANCIAL REPORT
FY2018

BE THE DIFFERENCE.

It's not just a tagline — it's what Marquette University asks of its community. It's what our students, faculty and staff aspire to do every day.

We also ask them to be bold. Be visionary. Be fearless. Be themselves.

These are demanding requests, but we've given them a map. Grounded in our Catholic, Jesuit mission, vision and values, and guided by our visionary strategic plan, *Beyond Boundaries*, the entire university community has been called on to think differently and act differently so that we may truly Be The Difference.

To do this successfully requires responsible fiscal stewardship through a culture of investment and innovative revenue growth.

This financial report provides not only a snapshot in time of Marquette's financial health, but also a glimpse forward — how the university invests in itself today is the foundation for how it will Be The Difference in the future.

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UNIVERSITY FACTS

Marquette University is a Catholic, Jesuit university located near the heart of downtown Milwaukee, Wisconsin, that offers a comprehensive range of majors in 11 nationally and internationally recognized colleges and schools.

A Marquette education offers students a virtually unlimited number of paths and destinations, and prepares them for the world by asking them to think critically about it.

Along the way, we ask one thing of every student: Be The Difference.

COLLEGES AND SCHOOLS

Helen Way Klingler College of Arts and Sciences

College of Business Administration

J. William and Mary Diederich College of Communication

College of Education

Opus College of Engineering

College of Health Sciences

College of Nursing

School of Dentistry

Graduate School

Graduate School of Management

Law School

STUDENTS

11,426 total enrollment

8,335 undergraduate

3,091 graduate and professional

ACADEMICS

Undergraduate programs: 82 majors and 78 minors and pre-professional programs in dentistry, law and medicine

Postgraduate programs: 65 doctoral and master's degree programs, 21 graduate certificate programs, and professional degrees in dentistry and law

FACULTY AND STAFF

1,220 faculty and academic positions

1,635 exempt and non-exempt staff

ATHLETICS

16 NCAA Division I athletics teams

Competes in the BIG EAST Conference

A MESSAGE FROM

Dr. Michael R. Lovell,
President

Dr. Michael R. Lovell
President
Marquette University

Marquette will always be committed to an emphasis on the liberal arts and humanities in its teaching, a focus on cura personalis *and* magis*, a mission of service to and with others, and a desire to transform the broader community — not just the acres within our campus boundaries.*

It doesn't matter where on the Marquette University campus I go, there's energy everywhere. It's energy generated by faculty, staff and students collectively creating Marquette's future.

What's most exciting to me — whether considering new academic programs, new or renovated student housing, new buildings or new gathering spaces — is all have a common inspiration. They all are motivated by St. Ignatius Loyola and his dedication to Catholic, Jesuit core beliefs and values being nonnegotiable. As I've shared with others lately, that means Marquette will always be committed to an emphasis on the liberal arts and humanities in its teaching, a focus on *cura personalis* and *magis*, a mission of service to and with others, and a desire to transform the broader community — not just the acres within our campus boundaries.

We know, however, that we cannot reach our goals by ourselves. We live in an increasingly vibrant neighborhood and interact every day with those on Milwaukee's Near West Side. We seek to further involve ourselves beyond campus borders through our Office of Community Engagement and the new Office of Corporate Engagement. We know we'll all make progress when we all work together.

Where can you expect to see our energy, too, in the coming days? Think large and small. Look at the Ray and Kay Eckstein Common, a newly renovated large green expanse just east of the Alumni Memorial Union, and look also at the Marian Grotto being built in a secluded area behind St. Joan of Arc Chapel. Look at The Commons, our first newly built residence hall in more than half a century, and look also at the Henke Courtyard, a complementary, cozy gathering place built just outside the 707 Hub, where we're fostering collaboration and innovation.

And think really, really large — when more than 17,000 students, alumni and friends of Marquette men's basketball join in one full roar at Milwaukee's new Fiserv Forum. Personally, I can't wait to hear and see the energy there, and everywhere else, in the months and years ahead.

Joel Pogodzinski
Senior Vice President and
Chief Operating Officer

There is much the Marquette community should be proud of and excited about. This momentum marks one of the most pivotal times for the university.

A MESSAGE FROM

Joel Pogodzinski,

Senior Vice President and Chief Operating Officer

The word I most often hear around the Marquette University campus is *momentum*. Momentum on *Beyond Boundaries*, our strategic plan; momentum on our ambitious Campus Master Plan; momentum around numerous new academic programs, research ventures, and innovative community and corporate engagement initiatives.

In short, there is much the Marquette community should be proud of and excited about. This momentum marks one of the most pivotal times for the university.

The coming pages of our FY2018 Financial Report will give you a glimpse of why Marquette is, at this moment, poised to make major strides toward its vision to be among the most innovative and accomplished Catholic and Jesuit universities in the world.

You will read about elements of Marquette's building boom. The Commons, our modern, community-centric residence hall facility, opened its doors in August to nearly 900 students; the Athletic and Human Performance Research Center will open in early 2019, providing a home for three of our Division I athletics teams and catapulting research into human performance; our popular, nationally ranked Physician Assistant Studies program will have a contemporary new home come July 2019; and the men's basketball team will tip off this season at the Fiserv Forum, a new world-class NBA facility we are thrilled to call home.

We will also tell you about significant philanthropic gifts, including $12 million in student scholarship aid and other support through a marquee corporate partnership with Wintrust; a $1 million donation from one of Milwaukee's most celebrated entrepreneurs, Michael Cudahy; and a series of gifts from alumni and friends for mental health research. And we will explore how we are bolstering our undergraduate recruitment efforts and designing new and innovative graduate programs to help meet growing market demand.

Woven throughout these and other stories are themes that can be found every day on campus: mission, innovation, excellence, diversity.

As Marquette's senior vice president, chief operating officer and proud alumnus, I'm excited and honored to help lead what is surely a period of momentous progress in Marquette's long, rich history. More than that, it is a unique privilege to do so with the dedicated people of this great institution.

SACRED SPACES

Living our Catholic, Jesuit identity in all we do is a hallmark of the Marquette University community. The many sacred spaces on our campus serve as tangible reminders of our history and mission, inviting spiritual contemplation of the tenets of excellence, faith, leadership and service.

President Michael R. Lovell cataloged Marquette's religious spaces and artifacts this year as part of his final project for a rigorous program he completed to further integrate Marquette's mission into his leadership, teaching and life. On the Feast of the Immaculate Conception of the Blessed Virgin Mary, President Lovell announced that the university will install another sacred space — a Marian grotto — behind St. Joan of Arc Chapel.

FOR THE GREATER GLORY OF GOD

St. Ignatius of Loyola, founder of the Society of Jesus

A GENEROUS GIFT

The grotto (shown in the rendering to the left) and other sacred spaces provide opportunities for donors who feel called to invest in the university's mission. One generous donor pledged $420,000 this past fiscal year toward the grotto's construction.

Prominent local philanthropist's gift advances Jesuit mission of accessible education for all

Michael Cudahy sitting with four of the five scholarship recipients: (left to right) Francisco Arenal, Kou Vang, Jose Salinas Urrutia and Gerardo Ornelas Rodriguez

"I feel that now that I am in this position, nothing is stopping me from graduating, and that is all thanks to Mr. Cudahy."

Francisco Arenal, sophomore

IN FY2018, MARQUETTE PROVIDED FINANCIAL ASSISTANCE TO 1,761 FIRST-GENERATION COLLEGE STUDENTS:

$1,064,228
in donor-established scholarship funding

$24,684,625
in institutional scholarship aid

$12,320,896
in institutional grants

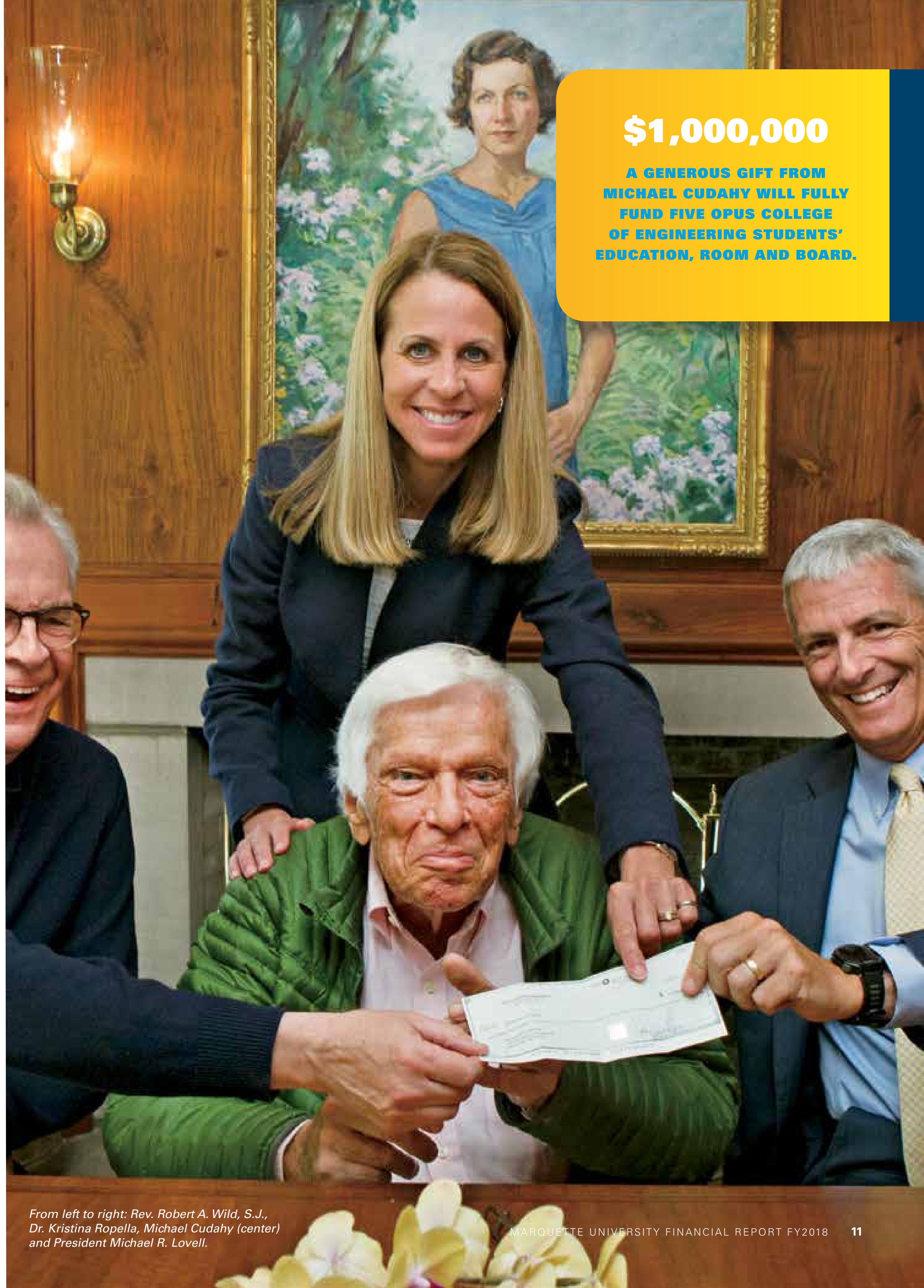
First-generation college students made up 23 percent of Marquette's fall 2017 freshman class.

Noted Milwaukee entrepreneur and philanthropist Michael Cudahy shares Marquette's commitment to provide an accessible education for and to attract, retain and graduate a diverse and inclusive community of students.

For five Opus College of Engineering students who started at Marquette in fall 2017, Cudahy's $1 million gift is fully funding their education, room and board. The scholarship recipients have demonstrated financial need and are from diverse backgrounds — four of them are the first in their families to attend college.

Opus Dean Kristina Ropella first met Cudahy in her undergraduate days at Marquette while working as an intern for his company, Marquette Electronics Inc. As dean, Ropella seeks to "change the face of engineering to look more like the world we serve, by changing the face of our people, our graduates and our college," she says. "Gifts like Michael Cudahy's are such an important contribution to this goal, starting at the most basic level — with the students who come through our doors."

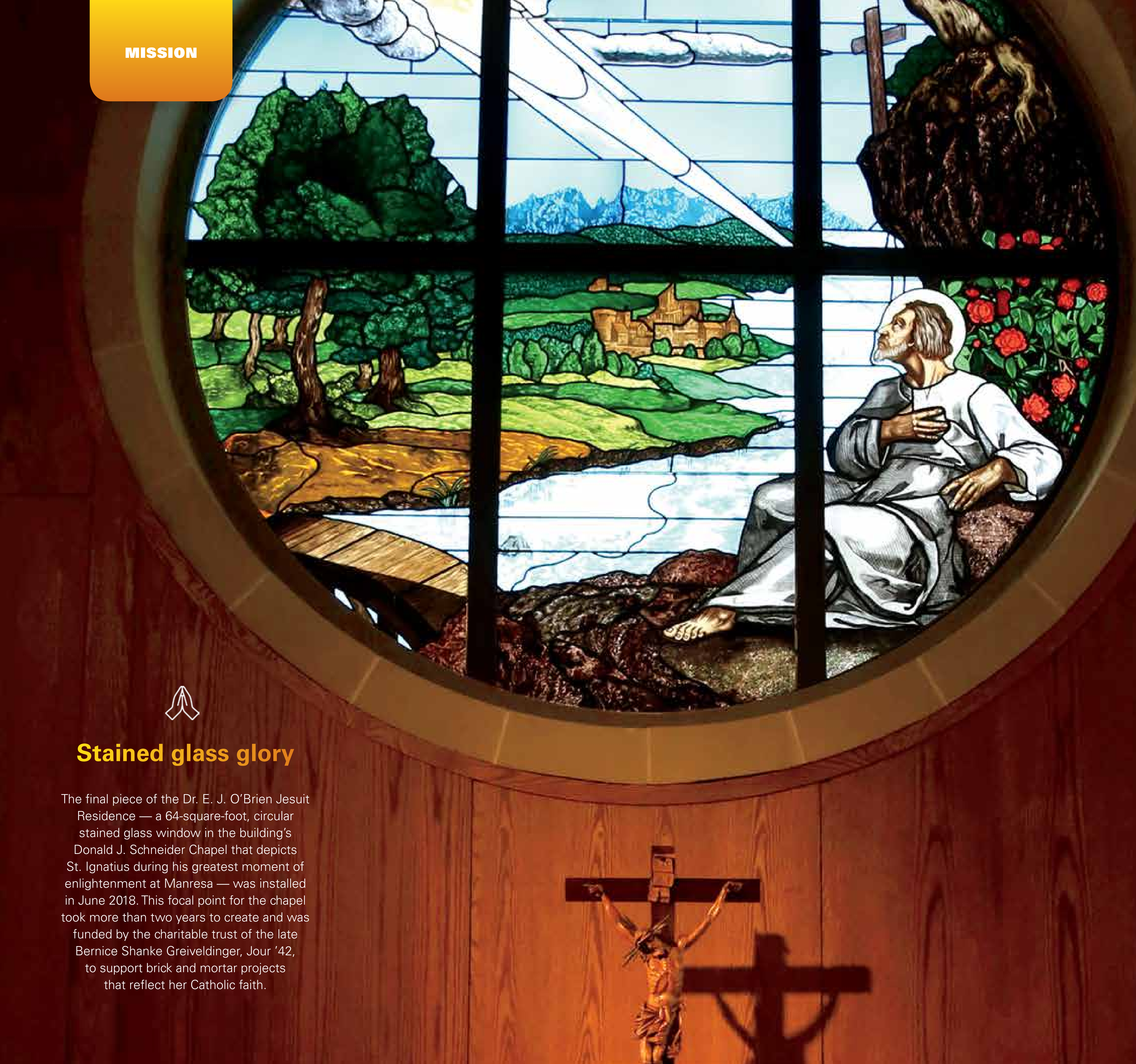
Francisco Arenal, a sophomore from Milwaukee studying mechanical engineering, is one of those first-generation college students. As he looked at universities, he worried about what he and his family could afford. "That was the biggest barrier," he says. "The Cudahy Scholarship made it possible for me to be in college and pursue my degree. I feel like now that I am in this position, nothing is stopping me from graduating, and that is all thanks to the generosity of Mr. Cudahy."



$1,000,000

A GENEROUS GIFT FROM MICHAEL CUDAHY WILL FULLY FUND FIVE OPUS COLLEGE OF ENGINEERING STUDENTS' EDUCATION, ROOM AND BOARD.

From left to right: Rev. Robert A. Wild, S.J., Dr. Kristina Ropella, Michael Cudahy (center) and President Michael R. Lovell.



Stained glass glory

The final piece of the Dr. E. J. O'Brien Jesuit Residence — a 64-square-foot, circular stained glass window in the building's Donald J. Schneider Chapel that depicts St. Ignatius during his greatest moment of enlightenment at Manresa — was installed in June 2018. This focal point for the chapel took more than two years to create and was funded by the charitable trust of the late Bernice Shanke Greiveldinger, Jour '42, to support brick and mortar projects that reflect her Catholic faith.

Service in times of struggle

In September 2017, Hurricane Maria ripped through central Puerto Rico, devastating the U.S. island territory. Immediately after, a group of Marquette undergraduates came together to Be The Difference for the victims in their native home. They quickly organized a relief drive, filling two U-Haul trucks with 7,000 pounds of canned goods, bottled water, batteries and medicine. Two students drove the supplies to Chicago for shipping and delivery to the island. The students also raised more than $9,000 in a single weekend for the Unidos Por Puerto Rico relief fund. In January, President Michael R. Lovell recognized the five student leaders with his annual Difference Makers Award.

From left to right: Cristofer Borghese, Danielle McCloskey Suarez, Dr. Michael R. Lovell, Paola Canting-Reyes, Irene Rojo Arisso and Alex Martinez Pellot

STUDENTS

EXPANDING OPPORTUNITIES

Shaping each incoming Marquette class begins 18 months in advance to identify the right candidates and then provide them the smoothest possible admissions experience. This year, Marquette advanced in both areas.

The admissions team bolstered recruitment staff, events and initiatives in key markets like metropolitan Chicago and California, and expanded Marquette's presence internationally with a new office in Beijing. Focused recruitment in China, the world's No. 1 exporter of students, as well as in other countries, will help Marquette reach its goal of increasing its total international student population from just under 3 percent to 5 percent.

The university also implemented rolling admissions, a move that dramatically enhanced its competitive position among peer institutions in the wake of new federal financial aid policies.

THE PURSUIT OF EXCELLENCE IN ALL THINGS

A defining part of Marquette's mission

ROLLING ADMISSIONS

Rolling admissions enables Marquette to admit students and provide them with financial aid package information sooner than was possible with a fixed admissions deadline, maintaining its yield rate of 17 percent while reducing the acceptance rate to 81.7 percent.

42%

of incoming freshmen are from metropolitan Chicago

No. 1

Marquette is the No. 1 importer of Illinois students who choose private, out-of-state colleges

Business students compete — and win

COMPETITIVE SUCCESS

This year, Marquette students came out at or near the top in these competitions:

FINANCE
Regional Final, CFA Institute Research Challenge:
1st out of 5 teams

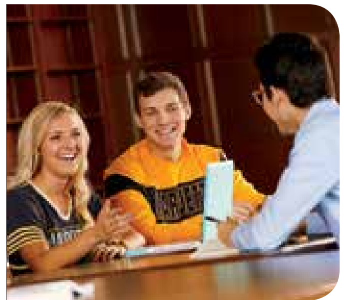
SUPPLY CHAIN MANAGEMENT
National Case Competition, Arizona State University:
1st out of 11 teams

REAL ESTATE
Harold E. Eisenberg Foundation Case Competition, Chicago:
1st out of 7 teams

NAIOP Minnesota Real Estate Challenge: 2nd out of 6 teams

MANAGEMENT
National Project Management Competition, Chatham University:
2nd and 3rd places among teams from 9 universities

ECONOMICS
Regional Fed Challenge:
4th of 17 schools
1st out of 5 teams



Undergraduates in the College of Business Administration are holding the Marquette banner high in local, regional and national competitions, demonstrating the college's excellence in preparing students to apply knowledge and conceptual thinking to real-world problems.

The experiential learning that is a strategic pillar for the college provides the students a key competitive advantage, and the competitions themselves provide additional hands-on experience. Students say they go into competitions well-prepared to be judged, comfortable working in teams and experienced in communicating and presenting.

In real estate competitions, Marquette's teams have seen their solutions come to life, like the WaHu Tower near the University of Minnesota Twin Cities, a $90 million mixed-use project, or a suburban St. Paul senior housing facility or a hotel near the Mall of America. All were suggested by Marquette teams competing in the regional NAIOP Real Estate Challenge.

Exposure to industry professionals and networking opportunities also abound in this and other real estate competitions, as students reach out to professionals in all facets of real estate as part of their research. Says Andy Hunt, director of Marquette's Center for Real Estate, "The real value of these competitions is the experience and exposure the students get to industry conditions and professionals."

★

Hollywood or bust

Last year, six students from the Diederich College of Communication traveled west for the second annual LA Experience, a program commissioned by Dean Kimo Ah Yun. For motivated students hoping to work in digital media and other communication fields in Los Angeles, the trip provided a close-up of working in the industry, with successful Marquette alumni as guides. This year, the college launched similar programs to send six theatre students to New York, 10 advertising students to Chicago and another seven journalism students to Chicago. The students shadow alumni professionals and have unique opportunities to network, so that by the time they're ready to move — as five of the LA Experience students did upon graduation — they have contacts in and familiarity with the market.

Healthy growth

The College of Nursing experienced a 47 percent increase in enrollment over last year, enrolling 199 students for fall 2018 — about 33 percent more than was expected based on year-to-year averages. Marquette's strong reputation of preparing students to work in a field with growing opportunity, as well as the college faculty's skill in making personal connections with admitted students, helped achieve the higher yield rate.

Photo: Each year, sophomore and direct-entry nursing students participate in a Commitment to the Profession Ceremony, which includes a "blessing of the hands," celebrated at Church of the Gesu.

Vice Provost for Graduate and Professional Studies and Dean of the Graduate School Douglas Woods has been leading the growth of graduate education at Marquette.

GRADUATE EDUCATION IN DEMAND

Funding from Marquette's new Program Incubator continues to fuel academic innovation at the graduate level, with a host of new programs that respond directly to market demand. Several new programs began enrolling for fall 2018 in sought-after disciplines such as data analytics, supply chain management and applied behavior analysis, as well as an online MBA program. Also approved this year for launch in fall 2019: a new master's-level specialization in rehabilitation counseling in the College of Education.

Outside the incubator, a new interdisciplinary doctoral program — a differentiator for Marquette — brings together the university's multiple strengths in neuroscience to offer students a robust, pre-specialization core curriculum, and a new nurse anesthetist program responds to high market demand for this specialty.

GO FORTH AND SET THE WORLD ON FIRE.

St. Ignatius of Loyola

INVESTING IN DOCTORATES

To increase the number of doctoral program students over the next five years — critical for sustaining strong research rankings — the Graduate School is shifting funds from master's-level programs to reinvest in doctoral programs.

Loans from the Provost's Fund finance new incubator-approved programs and initiatives to reinvigorate existing programs until tuition revenue covers expenses.

Educating more PAs to address a critical need in primary care

"Our country has an aging population and a projected physician shortage of more than 100,000 primary care doctors by 2025."

Paul Coogan, M.D.

Medical Director, Physician Assistant Studies

Data from the Wisconsin Department of Health Services shows that 10 of the state's counties need an additional three to 10 primary care providers.

With Marquette's renowned Physician Assistant Studies program reaching critical mass both enrollment- and space-wise, the university began construction in spring 2018 on a new building that will facilitate the program's growth and position it to be among the largest in the region.

The new 44,000-square-foot, $18.5 million building, which is rising on a prominent southwest corner of campus, will enable Marquette to accept more applicants and ultimately train more PAs to help address a shortage in primary health care providers in the region, state and nation.

Paul Coogan, M.D., the program's medical director and president of the Emergency Medicine Division at Advocate Aurora Health, says the state-of-the-art facility will serve as an educational hub for clinical partners, which the program currently works with at more than 400 sites.

"Our country has an aging population and a projected physician shortage of more than 100,000 primary care doctors by 2025," Coogan says. "Those two factors alone are a clear call to top PA programs like ours at Marquette to be nimble and quickly address this important growing health care need."

U.S. News & World Report currently ranks Marquette's program at No. 40 in the nation. It boasts a 100 percent pass rate on national board exams for the past nine consecutive years and a 100 percent job placement rate for graduates within six months of completion.

Last year, 1,400 applicants applied for 55 spots in the program, and enrollment demand continues to grow approximately 10 percent each year.

The new building (shown in renderings here) will help redefine campus' southwest corridor on Clybourn Street and position the program to be among the largest in the region.

A UNIQUE EDUCATIONAL ASSET

Haggerty Museum of Art

Named for a founding gift from Patrick and Beatrice Haggerty, Marquette's Haggerty Museum of Art opened in 1984 and has since proven a strong educational asset for the university and the surrounding community. Donors committed to the importance of visual arts within a Jesuit education have supported the collection's growth, contributing important artwork and supporting the museum's endowment. A comprehensive physical inventory of the museum's 6,000 art objects began this year to help facilitate database searches and inform collections planning. The museum also began fundraising to support a building renovation and expansion, including a new auditorium, a collection study room, a hands-on interpretive space, increased gallery space and increased collection storage. Close to year end, $919,161 had been raised.

6,000
objects in the collection

19,291
visitors in FY2018 (including exhibitions, collections, classes, programs and special events), a 7 percent increase over FY2017, and a 26 percent increase since FY2016

FINANCIALS

$9,744,436
Endowment value including reinvestment

100%
of funds for the museum's art purchases, exhibitions and programs contributed by donors

$208,664
Money raised by the Friends of the Haggerty in FY2018, a 3 percent increase over FY2017


Charlie Maleki, 2017–18 Marquette Men's Golf Team

WIN EVERY DAY

Marquette University's 16 Division I athletics programs grow the university's brand awareness, foster alumni engagement and contribute to a richer collegiate experience for all students. With conference revenue of more than $3.2 million, the program is one of the most efficient in its peer group, continuing to rank in the 96th percentile for revenue self-sufficiency among all Division I non-football schools.

Marquette student-athletes perform well academically, with a mean grade point average this academic year of 3.27, up from last year's 3.17. Living the Jesuit commitment to be women and men for and with others, Marquette's 320 student-athletes also completed 5,222 hours of service.

IF WINNING WEREN'T IMPORTANT, NOBODY WOULD KEEP SCORE.

Al McGuire
Legendary Marquette men's basketball coach

CHAMPIONSHIP COURSE

As the fiscal year ended, Marquette and the University Club of Milwaukee finalized a 25-year agreement to make the club the official home course for the Marquette men's golf team. The team, which has won two Big East Championships in the past three years, has begun practicing at the 18-hole championship-caliber course and world-class practice facility.

Women's soccer star masters challenges

BLUE & GOLD FUND

A top priority of the Marquette Athletics program is athletics scholarships, administered through the Blue & Gold Fund.

Since the fund's inception in the mid-1990s, it has grown steadily and provided more than $58 million in scholarship support to student-athletes. In FY2018, more than 5,200 donors provided $5.7 million in Blue & Gold Fund scholarship support (a nearly 12 percent increase over support amounts for FY2017). Blue & Gold Fund support continues to cover 85 percent of Marquette's athletics scholarship funding.

During a soccer game her sophomore year in high school, Caroline Fink broke her leg. Scouting from the stands, Marquette Women's Soccer Coach Markus Roeders saw it happen.

Although the injury sidelined Fink for a year from the Whitefish Bay High School varsity team, it didn't deter Roeders one bit. "Some of the programs I'd been looking at shied away," Fink says. "But Marquette, Markus and the coaching staff actually became even more aggressive in recruiting me. That showed me how special the program here was — they weren't afraid I wasn't going to come back from it. The soccer program has this idea of 'family,' and they showed they were willing to help me through it."

Fink did recover and excelled during her final two high school seasons, finishing as a three-year letter winner, two-time first team all-conference honoree, first team all-state as a senior and winner of the National Soccer Coaches Association of America Senior Excellence Award.

She continued to shine on the Marquette women's team with notable contributions all four years, ultimately helping her team clinch the Big East Conference title in 2017. That year, she started in all 21 matches and was named to the All-Marquette Invitational Team.

Although she acknowledges that being a student-athlete is a "tricky balance," Fink's 4.0 grade point average upon graduation in May shows how well she mastered the challenge. The education and communication studies double major says Marquette's support was critical: "The academic staff is so oriented toward helping student-athletes succeed, and the professors are so willing to help you. I was always at the Eagles Nest study room and constantly going to my professors' office hours."

Somehow, Fink added service to the mix. "Our coach is a strong proponent of giving back to the community," she says. "He had us participate in soccer events for children with special needs. And one of my favorite service activities was to serve food a couple of times a month at St. Vincent's Church."

At the Athletics Department's year-end banquet, Fink's hard work was recognized with the President's Award and the Ralph H. Metcalfe Senior Academic Award, two of the highest honors given to a Marquette student-athlete.

Caroline Fink

A new home for lacrosse

For the first time since their NCAA inception six years ago, the 90-plus student-athletes on the Marquette men's and women's lacrosse teams will have dedicated locker room and support space. Construction is underway inside the new Athletic and Human Performance Research Center (renderings above); the first phase will also include strength and conditioning spaces for the Athletics Department, along with faculty research space and core laboratories for human performance research.

Marquette employees celebrate good news at the annual president's address.

OUR PEOPLE

PROFESSIONAL DEVELOPMENT

To successfully execute the strategic plan, *Beyond Boundaries*, the university must invest in those who make it happen: our employees. Giving them the tools, training and big-picture understanding of how their decisions, achievements and leadership relate to institutional goals leads to professional growth and fosters commitment to Marquette's mission. To that end, this year Marquette launched a customized, internally developed Leadership Development Program. Piloted with four cohorts of 25 supervisors in early 2018, the program addressed more than 20 different competencies in leadership of self, others, groups and teams, and the organization. In line with our Catholic, Jesuit values, program participants engage in significant self-reflection and goal setting as it pertains to servant leadership and commitment to the greater good. We then translate their comprehensive feedback into data that drives the program's structure and focus moving forward.

CURA PERSONALIS

Latin for "care for the whole person," a tenet of Jesuit spirituality

ABOVE AND BEYOND

Marquette University faculty and staff are committed employees, as evidenced by their average tenures. The median years-of-service for full-time faculty is 10.91 (12.46 average), and the median years-of-service for full-time staff is 8.50 (10.13 average).

By comparison, the median number of years that wage and salary workers had been with their current employer was 4.2 years in January 2016, according to the most recent figures available from the U.S. Bureau of Labor Statistics.

New hiring initiative helps diversify faculty

CLUSTER HIRE TO SUPPORT RACE AND ETHNIC STUDIES INCLUDES

Dr. Stephanie Rivera Berruz
Philosophy

Social and political philosophy with an emphasis on philosophy of race, feminist philosophy, Latin American philosophy

Dr. Kimberly Harris
Philosophy

History of philosophy focusing on German idealism, Africana philosophy

Dr. Desiree Valentine
Philosophy

Feminist philosophy, critical philosophy of race, ethics, queer theory

Dr. Sergio González
History and Languages, Literatures and Cultures

U.S. immigration, labor, working-class history

Dr. Kevin Thomas
Communication: Advertising and Public Relations

Race and advertising

To deliver robust curricula in areas that best serve our students, Marquette hired a cohort of faculty this fiscal year to develop a comprehensive new Race and Ethnic Studies program. Announced in September 2017, this cluster hire was a collaboration among the Office of the Provost, the Klingler College of Arts and Sciences, the Diederich College of Communication and the College of Business Administration.

Building a critical mass of scholars across disciplines who study and teach about race, ethnicity and intersectionality — the ways in which systems of power and institutions impact marginalized populations — serves to help the Marquette community of students and scholars grapple with societal challenges.

"The point of having these scholars come in as a cluster is that it infuses the curriculum quickly and creates a better environment for them as new people to our campus," explains Dr. Heather Hathaway, associate dean of academic affairs for the Klingler College of Arts and Sciences and an associate professor of English and Africana studies. "They aren't lone soldiers; they share research interests."

All five scholars in the cluster of new hires (see sidebar) bring expertise in fields that contribute to the RAES curriculum; they are also adding new courses in each of their respective home departments. "Moreover, as we continue to diversify our campus, the addition of three African American and two Latinx faculty members dramatically and positively affects the experience of students of color on campus," Hathaway says.

An upcoming colloquia series will enable those teaching courses in RAES to highlight and learn from one another's work and research. "Our goal is to highlight and harness the vibrancy that exists in Race and Ethnic Studies research on campus, and to celebrate that for our students and everyone else," Hathaway says.

From left to right: Dr. Stephanie Rivera Berruz, assistant professor of philosophy; Dr. Kevin Thomas, assistant professor of multicultural branding; and Dr. Desiree Valentine, assistant professor of philosophy.

Investing in employee wellness

To promote the health and well-being of faculty and staff, Marquette opened in FY2018 a new on-campus space for workouts, meditation and wellness-related events. Free and open 24/7, the Marquette Employee Wellness Center offers an online reservation system, an immersive fitness system with classes ranging from yoga to cardio kickboxing, portable fitness props and TRX systems, as well as showers and changing facilities.

$165,000

Marquette's investment in the Wellness Center

$25,000

Additional investment from the university's health insurance provider, United Healthcare – UMR

58

Average monthly reservations

19

Average monthly immersive fitness system classes

INVESTING IN DATA SCIENCE

In June 2018, Northwestern Mutual formed a new partnership with Marquette University and the University of Wisconsin–Milwaukee to create the Northwestern Mutual Data Science Institute. The partnership is the latest step by the financial security company in its commitment to advance Milwaukee as a national hub for technology, research, business and talent development.

Over the next five years, Northwestern Mutual and its foundation will contribute $15 million to support an endowed professorship at each university, research projects, new data science faculty, development of expanded curriculum, K–12 STEM learning opportunities, and pre-college programming. Marquette University and UWM will each invest more than $12 million in data science education and research by existing data science faculty, bringing the total commitment in this effort to nearly $40 million.

Pictured above left to right: Dr. Mark Mone, chancellor, University of Wisconsin–Milwaukee; Dr. Michael R. Lovell, president, Marquette University; and John E. Schlifske, chairman, president and CEO, Northwestern Mutual

FORGING NEW RELATIONSHIPS

In January, Marquette announced it was moving ahead on plans to open an Office of Corporate Engagement. The announcement followed a unanimous recommendation from a president's task force that was formed in 2017 to examine the future of corporate engagement at the university. President Michael R. Lovell unveiled the vision for a new office in his annual campus address; he has stated that the initiative is critical to realizing Marquette's vision to be among the world's most innovative and accomplished Catholic, Jesuit universities.

A corporate engagement steering committee progressed in formalizing, enhancing and streamlining the ways in which Marquette works with corporate partners, and the search began for a vice president for corporate engagement. President Lovell states that Marquette aims to partner with "forward-looking organizations with shared values and strategic priorities" that align with those of the university.

WE ALL HAVE THE DUTY TO DO GOOD.

Pope Francis

THE SEVEN DIMENSIONS OF CORPORATE ENGAGEMENT

- Academic programs and executive education
- Talent development
- Corporate-sponsored research
- Technology transfer
- Consortia and alliances
- Corporate philanthropy and sponsorship
- Contracts and service partnerships

CORPORATE ENGAGEMENT

A win-win banking partnership

TOWN BANK MOVES IN

Wintrust's Town Bank has a significant physical presence at Marquette, with a branch in the Alumni Memorial Union and another in the Catholic Financial Life building on the eastern edge of campus. There are also four ATMs located throughout campus.

In a partnership that both parties agree is uniquely mission-oriented in its aim to serve students and the broader community, Marquette University formalized an agreement with Chicago-based Wintrust Financial Corporation this past spring.

The arrangement makes Wisconsin-based Town Bank, which is wholly owned by Wintrust, the exclusive commercial and retail banking partner for Marquette and Marquette Athletics. But the relationship transcends banking, with Wintrust committing a $12 million investment over 10 years to fund student scholarships, athletics and educational programming, as well as other campus-oriented events.

The agreement transpired after a rigorous RFP process involving several financial service organizations. University leaders ultimately chose Wintrust for its commitment to providing Marquette with services beyond banking and lauded the organization for its community-oriented mission.

President Michael R. Lovell expressed gratitude for Wintrust's significant investment in scholarship aid, noting that it will profoundly impact Marquette students as they become men and women for and with others, as well as agents for positive community change. Scholarship aid will concentrate on first-generation college students as well as students from low-income families in the Milwaukee and Chicago metropolitan areas.

Other Wintrust investments will support the College of Business Administration's Commercial Banking program and make available seed funding for a small business revolving loan fund, engaging banking students in administering low-cost small business loans to local community enterprises.

$12 million

WINTRUST'S INVESTMENT OVER 10 YEARS TO FUND SCHOLARSHIPS, ATHLETICS AND EDUCATIONAL PROGRAMMING, AND OTHER CAMPUS-ORIENTED EVENTS

Strategic acquisition will make a MARQ

In a move that nearly doubles its capacity to house upper-division students, Marquette University took ownership last fall of The Marq, a near-campus housing facility with 231 units and 612 beds. The acquisition is part of a strategic initiative to increase the availability of secure, quality campus housing for juniors, seniors and graduate-level and professional students as the university seeks to expand Graduate School and international admissions, as well as undergraduate admissions, over the next decade.

Marquette's partners in the deal are investment manager Harrison Street Real Estate Capital LLC and Capstone On-Campus Management. Harrison Street invested $1.5 million in renovations that were completed before the start of the 2018–19 academic year.

As official university housing, The Marq receives enhanced, university-level security coverage from Marquette's Police Department and is managed by Marquette's Office of Residence Life.

The Marquette Visualization Laboratory is a 1,700-square-foot space where advanced technology produces three-dimensional, immersive virtual reality environments.

ADVANCING INNOVATION

At his campuswide address in January, President Michael R. Lovell announced a revamping of the Office of Research and Innovation's approach to funding proposals to improve the university, the broader community and the world.

The Strategic Innovation Fund was renamed The Marquette Impact Challenge and comprises two separate funding opportunities for members of the Marquette community: The Explorer Challenge, offering seed grants of $25,000 or less for innovative proposals designed to advance the university's strategic plan, *Beyond Boundaries*; and The President's Challenge, with a focus on addressing inequities in Milwaukee's most challenged neighborhoods.

WE PLANT THE SEEDS THAT ONE DAY WILL GROW.

St. Óscar Romero

THE PRESIDENT'S CHALLENGE

The President's Challenge was developed in partnership with the Johnson Controls Foundation, which is providing a two-year, $250,000 grant for one successful interdisciplinary, collaborative proposal that addresses one or more critical areas of neighborhood inequity, including health, education, safety, housing, transportation and economic prosperity.

New academic center highlights the humanities

LAW CLINIC HELPS ENTREPRENEURS CHASE DREAMS

Through Marquette's Law and Entrepreneurship Clinic, Marquette law students gain real-world experience as they help Milwaukee entrepreneurs launch their businesses. Students work through the full gamut of legal issues related to starting a business as they work with clients over the course of many months, under the direction of clinical associate professor Nathan Hammons, a former small business lawyer in private practice. As the first local program to offer free legal services to startups and entrepreneurs, the clinic focuses on clients who cannot afford qualified legal counsel, about a third of whom have a connection to Marquette.

This past academic year, clinic volunteers provided 1,700 hours of pro bono service to assist 58 clients.

- 16 full-service clients
- 46 clients needing brief counseling sessions
- 18 (31%) were woman-owned
- 19 (33%) were minority-owned
- 21 (36%) were Marquette student, staff or faculty

This year, Marquette established a new Center for the Advancement of the Humanities and named Dr. James South, professor of philosophy and associate dean for faculty in the Klingler College of Arts and Sciences, as director.

The center's vision is to develop, enhance and disseminate new approaches to the humanities, going beyond traditional boundaries through collaboration across disciplines at Marquette and with the broader community.

"It's more outward looking than inward looking," South says. "The interdisciplinary focus and significant community outreach component are rather unique among humanities institutes."

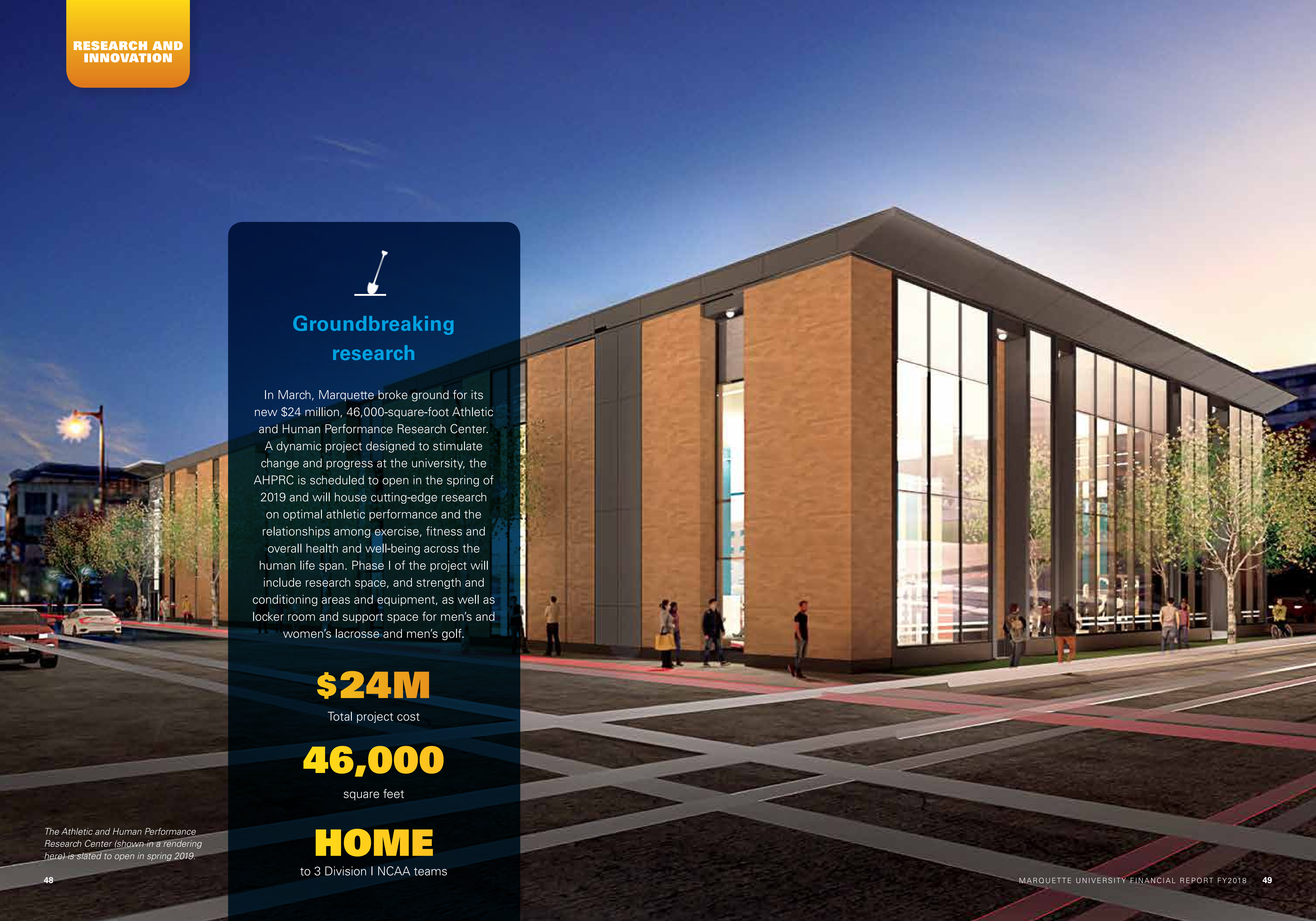
While developing the vision, mission and advisory board last fall, South also led planning for a host of spring events including guest speakers, co-sponsored events with other campus organizations, and formed a committee to plan a significant spring 2019 conference to highlight the ways in which the humanities interface with other disciplines.

Faculty and student research are key priorities, particularly facilitating cross-disciplinary engagement that South hopes will lead to new and exciting collaborations. One initiative already underway is a collaboration with the Department of Math, Statistics and Computer Science to create a training program in digital humanities, which South says is still fairly cutting-edge. This includes creating a designation for those who complete the training so they can market this desirable skill set. Several other digital-focused collaborations are also in the works.

The center also houses the Association of Marquette University Women in Humanistic Studies, whose chair brings distinguished scholars to Marquette to teach, lecture and interact with students, and Marquette University Press, which in 2018 began its second century of publishing scholarly works in philosophy, theology, history and other selected humanities.

The center has even helped revitalize and raise the profile of Marquette's Phi Beta Kappa chapter. "It doesn't fall under the center, but we sponsor and encourage it," South says, "because wherever liberal arts are, we want to be there."

Faculty and others engage in the Humanities Without Walls Career Diversity Symposium held on campus. The Humanities Without Walls consortium links the humanities centers at 15 research universities throughout the Midwest and beyond. From left to right: Dr. Antoinette Burton, principal investigator for the Humanities Without Walls consortium and director of the Illinois Program for Research in the Humanities at the University of Illinois; Dr. Doug Woods, Marquette vice provost for graduate and professional studies and dean of the Graduate School; Dr. Rebecca Nowacek, associate professor of English and director of Marquette's Norman H. Ott Memorial Writing Center; and Dr. Xavier Cole, Marquette vice president for student affairs.



Groundbreaking research

In March, Marquette broke ground for its new $24 million, 46,000-square-foot Athletic and Human Performance Research Center. A dynamic project designed to stimulate change and progress at the university, the AHPRC is scheduled to open in the spring of 2019 and will house cutting-edge research on optimal athletic performance and the relationships among exercise, fitness and overall health and well-being across the human life span. Phase I of the project will include research space, and strength and conditioning areas and equipment, as well as locker room and support space for men's and women's lacrosse and men's golf.

$24M
Total project cost

46,000
square feet

HOME
to 3 Division I NCAA teams

The Athletic and Human Performance Research Center (shown in a rendering here) is slated to open in spring 2019.





From top left to right: The Commons; a Sodexo employee; members of the MUPD; the construction crew on the Athletic and Human Performance Research Center; an office associate in the College of Health and Sciences and the Fiserv Forum, the new home to men's basketball.

STRONG FOUNDATIONS

Considerable progress continued this year on the Campus Master Plan to transform the university's physical spaces and infrastructure and advance Marquette as a leader in Catholic, Jesuit education, research and innovation. Built into the plan is a flexible framework for capitalizing on opportunities to efficiently advance the university's technological infrastructure. This enabled crews to complete approximately $5 million worth of underground utility work while the ground was open during construction of the plan's first major construction project, The Commons, a 890-bed residence hall. The underground electrical and fiber optic cables installed along Wells Street will allow Marquette to install and leverage state-of-the-art technology in The Commons and beyond.

FIND GOD IN ALL THINGS.

St. Ignatius of Loyola

PHYSICAL TRANSFORMATION

- Off campus, the Planning and Facilities Management Department invested $1.9 million for a full renovation of a key university asset: the O'Brien House in Washington, D.C. The apartment building, which dates to 1880, was donated to house students completing internships through Marquette's Les Aspin Center for Government.

Real estate transaction helps launch new graduate program

"It's a targeted concept to have the building house related clinical work and research, as opposed to making it a clearinghouse of miscellaneous functions."

Chris Gluesing
Director of Planning and Project Delivery,
Planning and Facilities Management

An innovative plan to activate a vacant university-owned building on the far eastern edge of campus is dovetailing with a new graduate psychology specialization in applied behavior analysis, offering students a convenient way to gain the clinical experience they need before applying for professional licensure.

Marquette acquired the building in 2015 in a series of strategic real estate acquisitions designed to expand the campus footprint east toward downtown Milwaukee, which is enjoying a booming building renaissance.

The $1.5 million interior renovation includes three specialty psychology clinics and research labs on the main floor, student offices and classrooms in the basement, and a top floor with three faculty offices, as well as ample room to accommodate program growth.

All three clinics focus on developmental disabilities, including the Tourette's and OCD-spectrum Disorders Clinic run by Dr. Douglas Woods, psychology professor and Graduate School dean. The other clinics are each led by two new faculty members moving to Marquette from the University of Wisconsin–Milwaukee — one who treats patients with severe mental disabilities and resulting behaviors, and one who specializes in interventions that help young children with autism.

"Rather than letting this building sit there, we pivoted," says Chris Gluesing, director of planning and project delivery. "It's a targeted concept to have the building house related clinical work and research, as opposed to making it a clearinghouse of miscellaneous functions."

Adds Woods, "This offers something a little different. Clinical experiences are not required as part of the students' program here, but they are required for licensure. Usually, that gets farmed out to the community. Our students are going to be able to get their applied experience right on campus in these clinics."

Marquette Police promote safety and security

Marquette's urban setting is an integral part of the Jesuit college experience, but city life can sometimes include increased security and safety issues. To that end, the university invests significant resources to promote safety and security on campus.

The Marquette University Police Department has 43 sworn officers (29 police officers, 12 command staff and two detectives).

43
sworn police officers

12
command staff

2
detectives

1
community outreach dog

700
cameras within the MUPD patrol zone

1
state-of-the-art, nationally recognized command information center

450
blue light phones on and around campus

Trustee Emerita Mary Henke (far left) poses with Dr. Jeanne Hossenlopp, vice president for research and innovation, and students Ina Li, Jack Eddinger and Kyla Mae Corbe during the dedication of the new Henke Terrace located outside the 707 Hub. The new additions were made possible by Henke, a longtime Marquette benefactor.

A CULTURE OF PHILANTHROPY

Philanthropy stands as the boldest representation of Marquette's mission and vision. This fiscal year, the passion of our many alumni, friends and supporters was alive and active through $86.9 million raised.

Over the past two years, University Advancement generated support and solutions for Marquette's most urgent needs in a way that championed mission alignment, enhanced the Marquette brand and told the Marquette story in our backyard and around the world. In preparing for the future, the university continues to foster a culture of philanthropy and inspire more gifts with life-changing impact on our students and community.

YOU HAVE GIVEN ALL TO ME. TO YOU, LORD, I RETURN IT.

St. Ignatius of Loyola

Generous benefactors help advance mental health research

Jeanne and Michael Schmitz

Kelly and Jim McShane

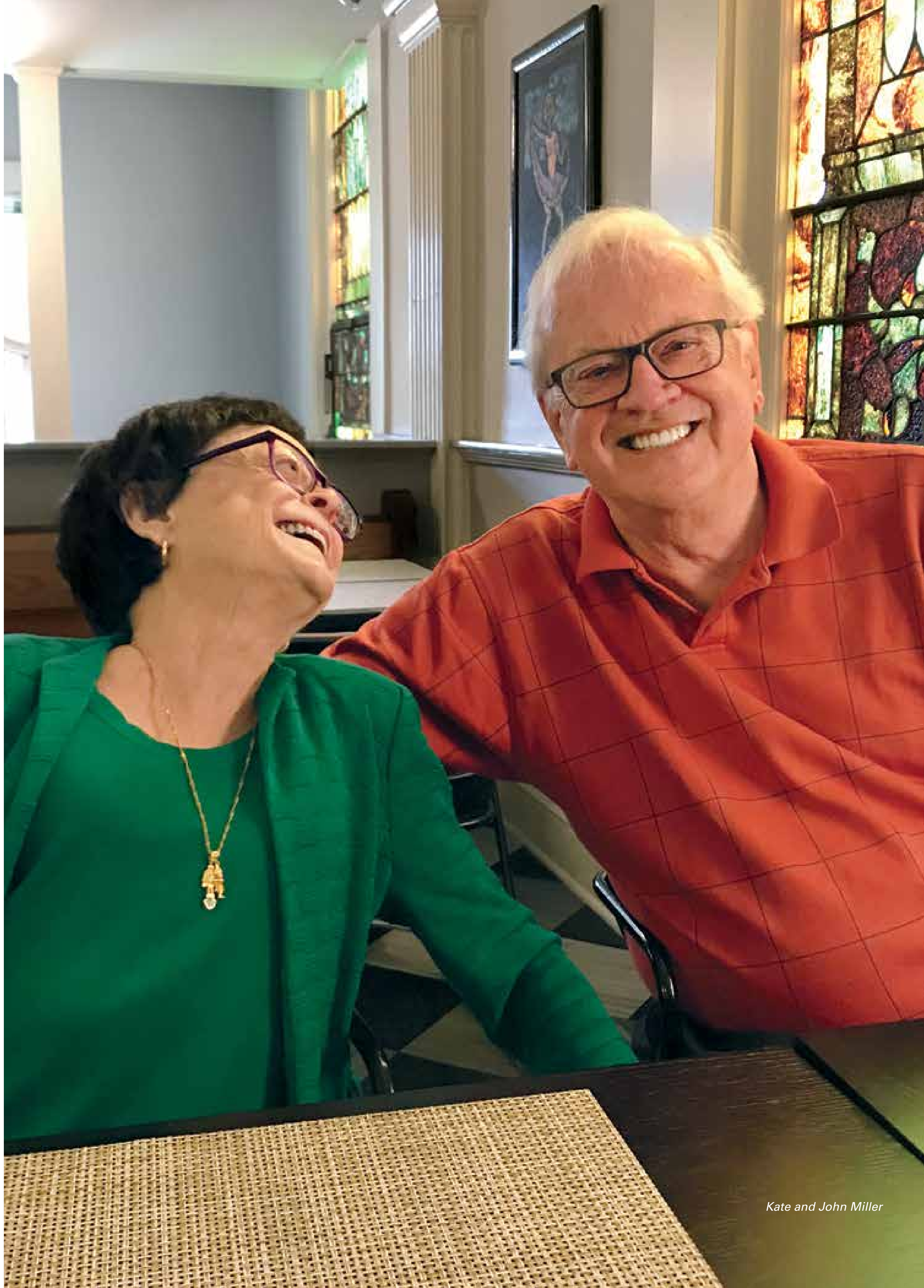
A number of philanthropic gifts this fiscal year are supporting the Marquette community's commitment to the Jesuit education tenet of *cura personalis*, or care for the whole person, by addressing challenges in mental health.

Marquette faculty scholars have, during the past decade, significantly advanced research on the underlying biological factors — as well as biological treatments — for mental health conditions. In 2015, the College of Health Sciences established the Charles E. Kubly Mental Health Research Center to specifically investigate the underlying causes of depression. This past fall, the college received a planned estate gift of $1 million from Michael and Jeanne Schmitz to establish a named depression research fund inside the Kubly Center.

In a statement accompanying their pledge, the couple say they have learned that research to find a cure for depression is relatively underfunded and that they wish to support understanding of brain biology and brain chemistry's contributions to the disease. In their quest to establish a major fund for this research, the couple determined that the work of Dr. William E. Cullinan, dean of the College of Health Sciences, and his team has "the best potential for a breakthrough achievement."

Further supporting the college's research in mental health neuroscience is a $1 million gift from Jim, Eng '68, and Kelly, Arts '68, McShane. The gift will establish the college's first Dean's Endowed Research Fund with special consideration given to mental health research. Says Cullinan, "This gift is so significant because it will allow us to perpetually invest in research and continue our important work to shatter the stigma of mental illness."

As soon as fall 2019, a cohort of Marquette students with autism spectrum disorders will benefit from a generous gift from John Miller, Arts '64, and his wife, Kate. Their $450,000 gift will launch a new program, On Your Marq, that helps these students address the specific challenges of a college environment, assisting them with independent living, organization and social skills. The Millers' gift augments the university's commitment to providing accessible education for all.



Kate and John Miller

Paul Andrews, D.D.S., Dent '74, meets with Marquette School of Dentistry students.

Landmark gift for School of Dentistry

Paul Andrews, D.D.S., Dent '74, and his wife, Patricia, pledged an estate gift of $5 million to create an endowed scholarship fund in the Marquette University School of Dentistry. After serving as a dental technician in the U.S. Navy, Andrews earned his D.D.S. from Marquette in 1974 and then built a thriving practice in the Orlando, Fla., area. Andrews' gift was inspired by the connections he felt to his dental school instructors and fellow students with military experience, as well as his godson who dreamed of attending dental school but was killed serving his country in Afghanistan in 2015. The scholarship will support veterans, and active-duty military personnel's and veterans' sons and daughters, with any remaining funds going to students with great financial need. This is the largest pledge in the School of Dentistry's history.

Management's Discussion and Analysis

The objective of management's discussion and analysis ("MD&A") is to give readers an overview of the financial position and operating activities of Marquette University for the year ended June 30, 2018, with selected comparative information for the year ended June 30, 2017. This discussion should be read in conjunction with the audited financial statements and the notes to the financial statements.

The statements are prepared in accordance with United States generally accepted accounting principles (GAAP). The three primary statements included in this report are the statement of financial position, the statement of activities and the statement of cash flows. Financial statement footnotes provide additional explanations for various portions of the financial statements.

Statement of financial position

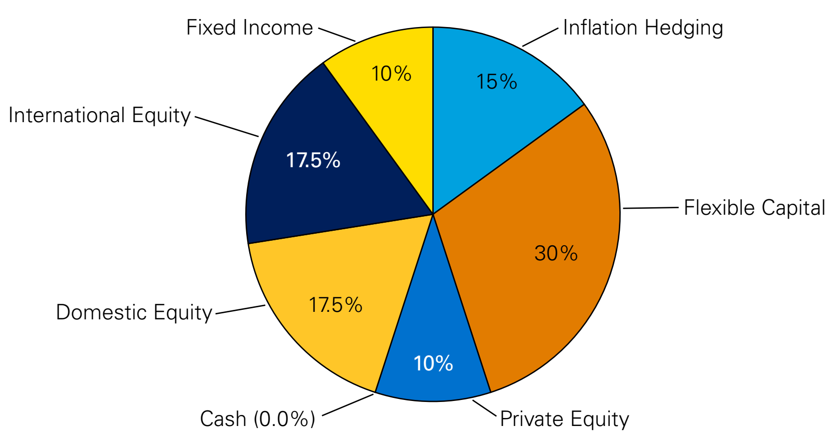
The statement of financial position provides information about an organization's assets, liabilities and net assets at a specific moment in time. The statement reports total assets, liabilities, net assets and separate totals for the three classifications of net assets: unrestricted, temporarily restricted and permanently restricted.

The statement of financial position, along with related footnote disclosures, has a twofold purpose. First, the statement is meant to help assess the university's ability to continue to provide services. Second, the statement is meant to provide information about liquidity, financial flexibility, ability to meet obligations and potential need for external financing.

Contributions receivable grew due to the Wintrust Ignatian Promise Scholarship, Athletic and Human Performance Research Center, and other scholarship pledges.

Investments represent the largest university asset. Investments consist of long-term cash equivalents, endowment, trust and other investments. The endowment fund's investment objective is to preserve purchasing power, while providing a continuing and stable funding source to support the overall mission of Marquette University. To accomplish this objective, the fund seeks to generate a total return that will exceed its annual spendable amount, all expenses associated with managing the fund and eroding effects of inflation. The fund is managed on a total return basis.

To achieve this investment objective, the fund is allocated among several asset classes with a bias toward equity and equity-like investments. The fund is diversified both by and within asset classes. Diversification provides reasonable assurance that no single security or class of securities will have a disproportionate impact on the performance of the total fund. As a result, the risk level associated with the portfolio investment is reduced. The following chart displays the endowment targeted asset allocation:



The 5-year Marquette endowment performance is summarized in the table below:

ENDOWMENT PERFORMANCE SUMMARY

		FISCAL YEAR ENDING				
	5-YEAR ANNUALIZED	2018	2017	2016	2015	2014
Market Value (in millions)		$668.80	$626.20	$550.10	$551.60	$531.70
Endowment	7.30%	7.90%	11.80%	–0.90%	3.70%	15.10%
Policy Index	6.20%	7.30%	10.60%	–1.60%	1.00%	14.80%
S&P 500 Index	13.40%	14.40%	17.90%	4.00%	7.40%	24.60%
MSCI AC World ex USA (Net)	9.90%	11.10%	20.50%	–10.20%	–5.30%	21.80%
Barclays Capital Agg. Bond Index	2.30%	–0.40%	–0.30%	6.00%	1.90%	4.40%

Additional information on endowments and endowment income can be found in Note 5 of the consolidated financial statements.

Net property, building and equipment grew due to construction related to The Commons residence hall and the AHPRC. Additional information about property, buildings and equipment can be found in Note 2(i) of the consolidated financial statements.

The $10.3 million decrease in notes and bonds payable is due to regularly scheduled debt payments. Additional details regarding notes and bonds payable can be found in Note 8 of the consolidated financial statements.

Statement of activities

The statement of activities is the university's operating statement. It reflects financial transactions from the beginning to the end of the fiscal year that result in increases or decreases in net assets. The statement of activities reflects changes for each of the three types of net assets: unrestricted, temporarily restricted and permanently restricted.

The statement of activities, along with the related footnote disclosures, are intended to provide the reader with information that will evaluate the not-for-profit organization's performance during the fiscal year; assess the university's service efforts and its ability to continue to provide services; and assess how university's management has discharged their stewardship responsibilities and other aspects of their performance.

For fiscal year 2018, Marquette University's operating income was $52.5 million. This represents a $22.1-million or 73% increase over the prior year. Operating results in the consolidated statement of activities reflect all transactions that change net assets, except for activity associated with endowment investments and certain other nonrecurring transactions.

The fiscal 2018 operating revenue increase is primarily driven by tuition and contribution revenue. Net tuition and fees of $247.7 million represents a $3.9-million increase over the prior year. This increase is primarily attributable to enrollment growth. Contribution revenue is up $19.5 million compared to the prior year. The most significant increase was in temporarily restricted contributions supporting capital projects and scholarships. Major gifts include Wintrust Ignatian Promise Scholarship, Northwestern Mutual Data Science Center, AHPRC and MU Experience Pathway Scholarship. The "Philanthropy" section details some of the large contributions received during the fiscal year.

Contribution revenue of $71.7 million reported within the statements of activities is calculated based on GAAP. As is widespread practice, University Advancement reports fundraising according to the guidelines established by the Council for Advancement and Support of Education (CASE). CASE guidelines represent the philanthropy reporting standard for colleges and universities. Under CASE guidelines, philanthropic giving totaled $86.9 million in fiscal 2017.

A normal bridging from GAAP to CASE totals displaying customary adjustments is provided below:

(dollars in thousands)	
Per GAAP	$71.7
Accrual basis adjustments	1.0
Grants	12.4
Revocable planned gifts	13.4
Conditional Gifts/Other	(11.6)
Per CASE	$86.9

University philanthropic efforts will continue to pursue support for our students, programs, research and capital priorities.

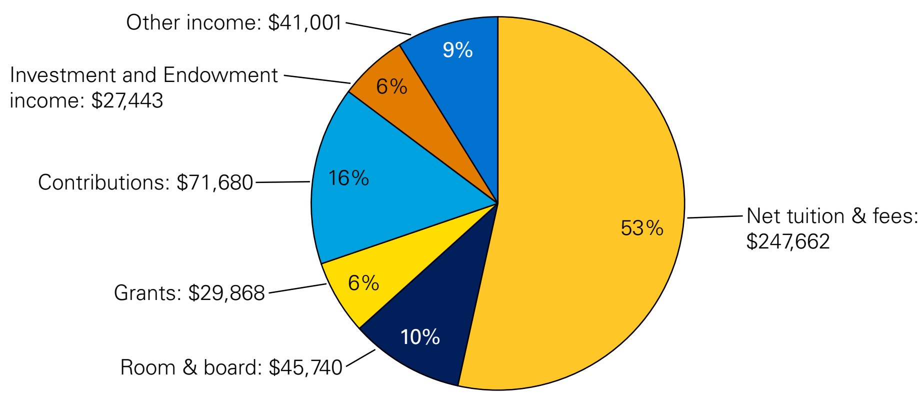
Additional information on GAAP reporting of contributions revenue and contributions receivable is provided in Notes 2 and 7 of the consolidated financial statements, respectively.

Growth in sponsored research resulted in grant revenue increased $1.7 million or 6% over the prior year, while auxiliary enterprise revenue increased $3.6 million due to room and board revenue.

Endowment income used to support operations increased $2.0 million to $27.4 million.

The following chart shows total operating revenues by source:

Total Operating Revenues



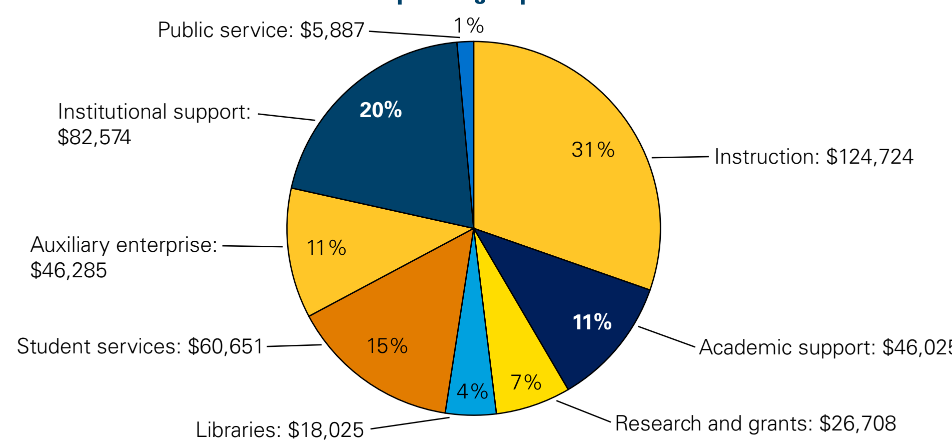
Total: $463,394

Management's ongoing investment in furthering the Marquette mission is demonstrated through the activities where resources are deployed. The following table shows year over year change by activity:

	FY18	FY17	INCREASE/ DECREASE
Instruction	124.7	119.1	5.6
Academic support	46.0	47.3	(1.3)
Research and grants	26.7	26.0	0.7
Libraries	18.0	17.7	0.3
Student services	60.7	58.5	2.2
Auxiliary enterprises	46.3	44.5	1.8
Institutional support	82.6	85.9	(3.3)
Public service	5.9	5.0	0.9
Total	410.9	404.0	6.9

The following chart shows total operating expense by service:

Total Operating Expenditures



Total: $410,879

Statement of cash flows

The statement of cash flows provides information about cash receipts and cash payments of the university during the fiscal year. This statement also provides insight into university investing and financing activities.

The statement of cash flows shows how changes in balance sheet accounts and income affect cash and cash equivalents. It breaks down the analysis into operating, investing and financing activities. The cash flow statement is concerned with the flow of cash in and out of the university. The statement is intended to provide information on the university's liquidity and solvency. The statement also provides information for evaluating changes in assets, liabilities and equity, while indicating the amount, timing and probability of future cash flows.

Cash and cash equivalents at fiscal yearend total $63.3 million. This represents an increase in operating cash. Net cash provided from operations continues to be positive.

The university continues to invest in the campus and student success through major construction projects.

Financing activities continues to be positive due to the generous support of university donors. Contributions for major capital projects generated $13.4 million, while contributions for endowments generated $14.5 million.

Closing thoughts

As we close the 2017–18 fiscal year, the university is poised to build upon recent success. Marquette expects to enroll another outstanding class of freshmen for the 2018–19 academic year. The Commons will house new students for the start of the fall semester. The AHPRC will open during the upcoming year and construction continues on the new home for the Physician Assistant Studies program.

We remain forever grateful to all those whose belief and support in the university allows us to fulfill our mission.

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017 | With Independant Auditor's Report Thereon

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

September 10, 2018

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Marquette University, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

KPMG LLP

Consolidated Statements of Financial Position

JUNE 30, 2018 AND 2017

(Dollars in thousands)

	2018	2017
ASSETS		
Cash and cash equivalents	$ 63,264	69,183
Collateral held under securities lending agreement	15,951	22,632
Unexpended bond proceeds	3,145	45,961
Contributions receivable, net	45,075	35,752
Accounts receivable, net	13,848	13,427
Prepaid expenses and deferred charges	4,395	5,616
Student loans receivable, net	39,879	41,076
Investments	677,830	669,012
Funds held in trust by others	6,995	13,426
Other assets	4,084	1,320
Net property, buildings, and equipment	612,838	536,565
TOTAL ASSETS	**$1,487,304**	**$1,453,970**
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued liabilities	$53,298	51,986
Payables under securities lending agreement	15,951	22,632
Student credits and other advance payments	9,172	8,141
Deferred revenue and deposits	32,604	41,685
Payable to beneficiaries under split-interest agreements	2,000	2,502
Refundable federal loan grants	40,982	40,730
Postretirement benefits payable	4,173	4,474
Notes and bonds payable, net	230,538	240,834
TOTAL LIABILITIES	**388,718**	**412,984**
NET ASSETS:		
Unrestricted	239,084	234,405
Temporarily restricted	416,349	376,525
Permanently restricted	443,153	430,056
TOTAL NET ASSETS	**1,098,586**	**1,040,986**
TOTAL LIABILITIES AND NET ASSETS	**$1,487,304**	**1,453,970**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Activities

YEAR ENDED JUNE 30, 2018

(Dollars in thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
OPERATING REVENUES:				
Student tuition and fees—gross	$402,171	—	—	402,171
Less tuition discounts	(154,509)	—	—	(154,509)
NET TUITION AND FEES	**247,662**	**—**	**—**	**247,662**
Government and private grants	29,868	—	—	29,868
Contributions	5,044	45,236	21,400	71,680
Auxiliary enterprises	53,866	—	—	53,866
Sales by educational departments	10,164	—	—	10,164
Investment income (loss)	1,007	987	(42)	1,952
Endowment income used in operations	5,887	21,142	414	27,443
Other income	20,759	—	—	20,759
TOTAL OPERATING REVENUES	**374,257**	**67,365**	**21,772**	**463,394**
Net assets released from restrictions	38,437	(38,437)	—	—
TOTAL OPERATING REVENUES AND NET ASSETS RELEASED FROM RESTRICTIONS	**412,694**	**28,928**	**21,772**	**463,394**
OPERATING EXPENSES:				
Instruction	124,724	—	—	124,724
Academic support	46,025	—	—	46,025
Research and grants	26,708	—	—	26,708
Libraries	18,025	—	—	18,025
Student services	60,651	—	—	60,651
Auxiliary enterprises	46,285	—	—	46,285
Institutional support	82,574	—	—	82,574
Public services	5,887	—	—	5,887
TOTAL OPERATING EXPENSES	**410,879**	**—**	**—**	**410,879**
OPERATING INCOME	**1,815**	**28,928**	**21,772**	**52,515**
NONOPERATING ACTIVITIES:				
Endowment gain in excess of amounts designated for current operations, net	5,249	12,860	567	18,676
Other, net	(2,385)	(1,964)	(9,242)	(13,591)
TOTAL NONOPERATING ACTIVITIES, NET	**2,864**	**10,896**	**(8,675)**	**5,085**
CHANGE IN NET ASSETS	**4,679**	**39,824**	**13,097**	**57,600**
Net assets, beginning of year	234,405	376,525	430,056	1,040,986
Net assets, end of year	$239,084	416,349	443,153	1,098,586

See accompanying notes to consolidated financial statements.

Consolidated Statement of Activities

YEAR ENDED JUNE 30, 2017

(Dollars in thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
OPERATING REVENUES:				
Student tuition and fees—gross	$383,039	—	—	383,039
Less tuition discounts	(139,242)	—	—	(139,242)
NET TUITION AND FEES	**243,797**	**—**	**—**	**243,797**
Government and private grants	28,162	—	—	28,162
Contributions	3,393	26,047	22,754	52,194
Auxiliary enterprises	50,292	—	—	50,292
Sales by educational departments	10,175	—	—	10,175
Investment income (loss)	921	928	(90)	1,759
Endowment income used in operations	5,714	19,447	309	25,470
Other income	22,549	—	—	22,549
TOTAL OPERATING REVENUES	**365,003**	**46,422**	**22,973**	**434,398**
Net assets released from restrictions	40,546	(40,546)	—	—
TOTAL OPERATING REVENUES AND NET ASSETS RELEASED FROM RESTRICTIONS	**405,549**	**5,876**	**22,973**	**434,398**
OPERATING EXPENSES:				
Instruction	119,136	—	—	119,136
Academic support	47,311	—	—	47,311
Research and grants	25,983	—	—	25,983
Libraries	17,685	—	—	17,685
Student services	58,495	—	—	58,495
Auxiliary enterprises	44,470	—	—	44,470
Institutional support	85,874	—	—	85,874
Public services	5,003	—	—	5,003
TOTAL OPERATING EXPENSES	**403,957**	**—**	**—**	**403,957**
OPERATING INCOME	**1,592**	**5,876**	**22,973**	**30,441**
NONOPERATING ACTIVITIES:				
Endowment gain in excess of amounts designated for current operations, net	11,172	30,397	430	41,999
Other, net	(3,846)	(2,101)	533	(5,414)
TOTAL NONOPERATING ACTIVITIES, NET	**7,326**	**28,296**	**963**	**36,585**
CHANGE IN NET ASSETS	**8,918**	**34,172**	**23,936**	**67,026**
Net assets, beginning of year	225,487	342,353	406,120	973,960
Net assets, end of year	$234,405	376,525	430,056	1,040,986

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

YEARS ENDED JUNE 30, 2018 AND 2017

(Dollars in thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$57,600	67,026
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	37,292	37,222
Discount amortization	(983)	(859)
Net realized and unrealized appreciation on investments	(40,719)	(62,421)
Bad debt expense	7,839	2,746
Contributions for major capital projects including gifts in kind	(14,238)	(8,517)
Contributions restricted for long-term endowments	(21,400)	(22,754)
Permanently restricted endowment income used in operations	(414)	(309)
Gain on sale of property, buildings, and equipment	112	107
Changes in assets and liabilities:		
Accounts receivable	(805)	(1,281)
Contributions receivable	(4,975)	(1,142)
Funds held in trust by others	1,539	1,400
Other assets, net	(1,543)	(878)
Payables and other liabilities	(2,478)	12,693
Deferred revenue and deposits	(9,081)	78
NET CASH PROVIDED BY OPERATING ACTIVITIES	**7,746**	**23,111**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, buildings, and equipment	(109,086)	(44,200)
Proceeds from sale of property, buildings, and equipment	20	34
Student loan repayments	7,476	7,256
Student loans issued	(6,284)	(7,873)
(Decrease) increase in payables under securities lending agreement	(6,681)	(4,200)
Decrease (increase) in cash collateral held under securities lending agreement	6,681	4,185
Purchase of investments	(634,219)	(600,254)
Proceeds from the sale of investments	708,935	530,370
NET CASH USED IN INVESTING ACTIVITIES	**(33,158)**	**(114,682)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions received for major capital projects	13,646	16,927
Proceeds from contributions restricted for long term endowments	14,494	19,089
Permanently restricted endowment income used in operations	414	309
Increase in refundable federal loan grants	252	928
Issuance of notes and bonds payable	—	96,989
Repayment of notes and bonds payable	(9,313)	(49,346)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**19,493**	**84,896**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(5,919)**	**(6,675)**
Cash and cash equivalents, beginning of year	69,183	75,858
Cash and cash equivalents, end of year	$63,264	69,183

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

JUNE 30, 2018 AND 2017 | (DOLLARS IN THOUSANDS)

(1) 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. Through its eleven separate colleges and schools, the University offers bachelor's degree programs, master's degree programs, doctoral degree programs, and post-baccalaureate first professional degree programs.

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.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PRESENTATION

The consolidated financial statements of the University have been prepared, in all material respects, on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles (GAAP).

Net assets of the University, and changes therein, are classified and reported as follows:

UNRESTRICTED NET ASSETS are not subject to donor-imposed restrictions. All revenues, gains, and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenses are reported in the unrestricted class of net assets since the use of restricted contributions in accordance with donors' stipulations results in the net assets being released from restriction.

TEMPORARILY RESTRICTED NET ASSETS are subject to donor-imposed restrictions that will be met either by actions of the University, the passage of time, or both. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions of property and equipment are recorded at fair value at the date of donation. In the absence of donor stipulations detailing how long the contributed assets must be used, the University has adopted a policy of implying a time restriction on contributions of such assets that expire over the assets' useful lives. As a result, all contributions of property and equipment, and assets contributed to acquire property and equipment, are recorded as temporarily restricted net assets.

PERMANENTLY RESTRICTED NET ASSETS are subject to donor-imposed restrictions to be maintained permanently by the University. Items that are included are gifts and contributions for which donors stipulate that the corpus be held in perpetuity and the income from those assets be made available for scholarships or program operations and annuity or life income gifts for which the ultimate purpose is permanently restricted.

(B) USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses during the reporting period as wellas the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

(C) CASH AND CASH EQUIVALENTS

Cash on deposit for operations and all highly liquid financial instruments with original maturities of three months or less are classified as 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.

(D) UNEXPENDED BOND PROCEEDS
Unexpended bond proceeds represent the amount of unspent revenue bond proceeds that remain available for their specified purpose and are reported at fair value based upon market quotes. These amounts are maintained in a trust and invested by the trustee primarily in short-term U.S. government securities. Under the terms of the trust, proceeds are not released to the University until expenditures related to the specific purpose of the bond indenture are incurred.

(E) PREPAID EXPENSES AND DEFERRED CHARGES
Prepaid expenses and deferred charges consist of prepaid insurance, maintenance and other costs associated with future periods.

(F) INVESTMENTS
Investments are reported at fair value based on market quotes with unrealized gains and losses thereon included in the consolidated statements of activities. When a ready market for the investments does not exist, 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.

(G) FUNDS HELD IN TRUST BY OTHERS
Funds held in trust by others represent amounts held by third-party trustees for the benefit of the University under trust agreements created by donors. Amounts held in trust are stated at fair value. These agreements stipulate the length of the trust and the intended purpose of the funds.

(H) STUDENT LOANS RECEIVABLE, NET
The University makes uncollateralized loans to students based on financial need. Student loans receivable consist of both federal and institutional loans.

At June 30, student loans consisted of the following:

(dollars in thousands)

	2018	2017
Federal government loan programs	$38,607	39,867
Institutional loan programs	1,362	1,296
SUBTOTAL	**39,969**	**41,163**
LESS ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Beginning of year	(87)	(102)
Increases	(26)	(47)
Write-offs	23	62
END OF YEAR	**(90)**	**(87)**
STUDENT LOANS RECEIVABLE, NET	**$39,879**	**41,076**

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 availability of funds for loans under the programs is dependent on reimbursements to the pool from repayments on outstanding loans. At June 30, 2018 and 2017, the U.S. government had provided 88% of the funds for the federal student loan programs, and the University provided the remaining 12%. The initial receipt of U.S. government funds is recorded as refundable federal loan grants on the consolidated statements of financial position. A portion of the student loan may be canceled if the student meets certain criteria. The University will either be reimbursed by the U.S. government for its portion of the canceled loan or will reduce the refundable federal loan liability.

At June 30, 2018 and 2017, the following amounts were past due under student loan programs:

(dollars in thousands)

JUNE 30	1–240 DAYS	241 DAYS TO 2 YEARS	OVER 2 YEARS	TOTAL
2018	$790	558	1,717	3,065
2017	1,162	742	1,578	3,482

The University records an allowance for uncollectible accounts for its portion of the student loans when, in management's judgment, it is probable a portion of the loan will not be collected. Allowances for doubtful accounts are established based on prior collections. Institutional loan balances are written off only when they are deemed to be permanently uncollectible.

(I) PROPERTY, BUILDINGS, AND EQUIPMENT
Property, buildings, and equipment are recorded at cost at date of acquisition or fair value at 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, and library contents over the estimated useful lives of the assets (25 to 50, 10 to 20, 10 to 20, 5 to 7, 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. Major renewals and improvements that extend the useful life of an asset are capitalized, while repairs and maintenance costs are expensed as incurred. Depreciation is not calculated on land, art collections, rare books and construction in progress. The University reviews each grouping of assets with separately identifiable cash flows for possible impairment whenever circumstances indicate that the carrying amount may not be recoverable. Measurement of an impairment loss for long-lived assets that the University expects to hold and use is based on the fair value of the asset. Properties that are expected to be disposed are reported at the lower of the carrying amount or estimated fair value less cost to sell. For properties intended for disposal, the useful life is adjusted to reflect the expected remaining period of service.

Property, buildings, and equipment include the following at June 30, 2018 and 2017:

(dollars in thousands)

	2018	2017
Land and improvements	$57,483	57,235
Buildings and improvements	685,613	677,369
Construction in progress	109,700	27,292
Furniture, fixtures, and equipment	146,729	138,278
Library contents	120,798	120,399
eBooks and other	13,613	8,864
Less accumulated depreciation	(521,098)	(492,872)
NET PROPERTY, BUILDINGS, AND EQUIPMENT	**$612,838**	**536,565**

Construction in progress includes the following as of June 30, 2018 and 2017:

(dollars in thousands)

	2018	2017
Freshman/Sophomore housing	$99,518	19,471
Athletic Human Performance Research Center (AHPRC)	5,517	—
Al McGuire Center upgrades	1,224	—
Physician Assistant Building	1,056	—
Other renovation and construction projects	2,385	7,821
TOTAL CONSTRUCTION IN PROGRESS	**$109,700**	**27,292**

(J) ASSET RETIREMENT OBLIGATIONS

The University records all known asset retirement obligations for which the liability's fair value can be reasonably estimated, primarily asbestos removal. The determination of the asset retirement obligation is based upon a number of assumptions that incorporate the University's knowledge of facilities, the asset lives, the estimated timeframes for periodic renovations, the current cost for remediation of asbestos, and the current technology at hand to accomplish the remediation work. These assumptions used to determine the asset retirement obligation may be imprecise or be subject to changes in the future. Any change in the assumptions can impact the value of the determined liability and impact future net activities of the University.

(K) STUDENT TUITION AND FEES

Student tuition and fees are recorded as revenues during the year the related academic services are rendered. Student deposits and advance payments for tuition related to the next semester have been deferred and will be reported as unrestricted revenue in the year in which the academic services are rendered. Student tuition and fees are reported net of tuition discounts.

(L) AUXILIARY ENTERPRISES

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

(M) 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. Temporarily restricted contributions and restricted investment income whose restrictions are met in the same reporting period are reported as temporarily restricted revenues and as net assets released from restrictions in the consolidated statements of activities. 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 temporarily restricted net assets 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.

(N) OPERATING INCOME

Operating results (change in unrestricted net assets from operating activity) in the consolidated statement of activities reflect all transactions that change unrestricted net assets, except for activity associated with endowment investments and certain other nonrecurring transactions, including adjustments to allowance for uncollectible contributions, the loss on debt defeasance, and other gains and losses. In accordance with the University's endowment distribution policy as described in note 5, 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 nonendowed investments.

The University's primary programs are instruction, research, and public service. Academic support, library, student services, and auxiliary enterprises are considered integral to the delivery of these programs. Fundraising costs are not material to the University's total program costs. 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 periodic facility usage surveys. Interest expense on external debt is allocated to the activities that have most directly benefited from the debt proceeds.

(O) 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 form a trade or business regularly carried on, and not in furtherance of the purposes for which it was granted exemption.

The University has adopted FASB ASC Subtopic 740, Income Taxes, related to accounting for uncertainty in income taxes, which prescribes a recognition threshold and measurement of a tax position taken or expected to be taken in a tax return. The interpretation requires that the entity account for and disclose in the financial statements the impact of a tax position if that position will more likely than not be sustained upon examination based on the technical merits of the position. The University has evaluated the financial statement impact of tax positions taken or expected to be taken and determined it has no uncertain tax position that would require tax assets or liabilities to be recorded in accordance with accounting guidance at June 30, 2018 or 2017.

As of June 30, 2018, the University has a federal tax credit carryforward of $1,777, which expires between fiscal years 2034 and 2037.

(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 has been excluded from the 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, 2018, the specific policy covering highly valued works provides for insured coverage of $82,000 aggregate limit (subject to policy sublimits-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.

(Q) RECLASSIFICATION

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

(3) INVESTMENTS

Estimated fair values of investments as of June 30, 2018 and 2017 were as follows:

(dollars in thousands)

	2018	2017
Money funds and other	$41,560	58,649
Federal, state, and local agencies securities	6,263	34,157
Nongovernment bonds and notes	4,293	17,291
Asset and mortgage-backed securities	376	1,974
Foreign bonds and notes	532	3,203
Common and preferred stocks	45,294	37,443
Mutual funds – bonds	33,067	3,843
Mutual funds – equity	100,012	103,978
Investments measured at net asset value	446,433	408,474
TOTAL INVESTMENTS	$677,830	669,012

The University's investments at fair value are categorized as of June 30, 2018 and 2017 as follows:

(dollars in thousands)

	2018	2017
Investments permanently restricted by donors	$407,101	382,514
Investments functioning as endowment	237,937	223,495
TOTAL INVESTMENTS SUBJECT TO ENDOWMENT SPENDING POLICY	645,038	606,009
Long-term cash management investments	4,665	30,615
Trust and other investments	28,127	32,388
TOTAL INVESTMENTS	$677,830	669,012

"Investments functioning as endowment" are investments not permanently restricted by donors, but are designated by the University for endowment purposes.

Investment returns for the years ended June 30, 2018 and 2017 comprise the following:

(dollars in thousands)

	2018			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Interest and dividends	$2,165	5,148	39	7,352
Gain on investments, net	9,978	29,841	900	40,719
RETURN ON INVESTMENTS	$12,143	34,989	939	48,071
Return on investments are classified on the consolidated statement of activities as follows:				
Investment income (loss)	$1,007	987	(42)	1,952
Endowment income used in operations	5,887	21,142	414	27,443
Endowment gain in excess of amounts designated for current operations, net	5,249	12,860	567	18,676
RETURN ON INVESTMENTS	$12,143	34,989	939	48,071

Return on investments is net of investment fees of $2,166.

(dollars in thousands)

	2017			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Interest and dividends	$2,054	4,782	(29)	6,807
Gain on investments, net	15,753	45,990	678	62,421
RETURN ON INVESTMENTS	$17,807	50,772	649	69,228
Return on investments are classified on the consolidated statement of activities as follows:				
Investment income (loss)	$921	928	(90)	1,759
Endowment income used in operations	5,714	19,447	309	25,470
Endowment gain in excess of amounts designated for current operations, net	11,172	30,397	430	41,999
RETURN ON INVESTMENTS	$17,807	50,772	649	69,228

Return on investments is net of investment fees of $2,086.

The University participates in a securities lending arrangement with BMO Harris Bank Securities Lending (BMO) whereby certain marketable securities owned by the University and included in the pooled endowment are loaned to designated counterparties (borrowers) in exchange for acceptable collateral, which is typically cash or short maturity U.S. Treasury securities. The University may recall securities loaned on short notice. The borrower must post collateral that has a market value of at least 102% of the value of the securities loaned. The collateral is held in custody by BMO and pooled with collateral maintained for other participants in this program. BMO indemnifies the University against loss on the securities loaned as a result of the borrower's default. The University receives lending fees and continues to earn interest and dividends on the loaned securities.

As of June 30, 2018 and 2017, the University had loaned securities with a market value of $15,574 and $22,138, respectively, that were secured by collateral with a market value of approximately $15,951 and$22,632, respectively. The collateral received in connection with the security lending program and the obligation to return such collateral are reported as an asset and liability, respectively, in the consolidated financial statements.

(4) FAIR VALUE MEASUREMENTS

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.

Funds held in collateral under the securities lending agreement are recorded at fair market value based on quoted market prices provided by the custodian bank. The custodian banks use a variety of pricing sources to determine market valuations. Observable market quoted prices and specific pricing services or indexes are used to value investments. The securities portfolio is highly liquid, generally allowing the portfolio to be priced through pricing services.

Unexpended bond proceeds are invested in various securities based on expected risk, returns and maturities that mirror the anticipated timing of construction project payment needs. Fair values of unexpended bond proceeds securities are based on prices provided by the trustee bank. Unexpended bond proceeds include cash equivalents and fixed income securities where their fair values are based on observable market quotation prices. The trustee bank uses a variety of pricing sources to determine market valuations of fixed maturity securities. The specific pricing services or indexes for each sector of the market are based upon the provider's expertise. The fixed maturity securities are highly liquid, allowing the portfolio to be priced through pricing services.

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, multistrategy hedge funds and private equity partnerships. 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. ASC Topic 820, Fair Value Measurement, allows the University to estimate the fair value of an investment using the net asset value per share of the investment as a practical expedient, if that net asset value per share is determined in accordance with ASC Topic 946, Financial Services-Investment Companies. 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.

Funds held in trust by others are based on quoted market prices provided by its investment managers and custodian bank. Both the investment managers and the custodian banks use a variety of pricing sources to determine market valuations. Each designate specific pricing services or indexes for each sector of the market based upon the provider's expertise. The securities portfolio is highly liquid, generally allowing the portfolio to be priced through pricing services.

Payables under the securities lending agreement are based on quoted market prices provided by the custodian bank. The custodian banks use a variety of pricing sources to determine market valuations. Observable market quoted prices and specific pricing services or indexes are used to value investments. The securities portfolio is highly liquid, generally allowing the portfolio to be priced through pricing services.

ASC Topic 820, Fair Value Measurement, establishes 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 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, 2018. 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.

(dollars in thousands)

	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3
June 30, 2018:				
ASSETS:				
Recurring:				
Cash and cash equivalents	$63,264	63,264	—	—
Collateral held under securities lending agreement	15,951	—	15,951	—
Investments:				
Money funds and other	41,560	—	41,560	—
Federal, state, and local agency securities	6,263	—	6,263	—
Nongovernment bonds and notes	4,293	—	4,293	—
Asset and mortgage-backed securities	376	—	376	—
Foreign bonds and notes	532	—	532	—
Common and preferred stocks	45,294	45,294	—	—
Mutual funds—bonds	33,067	33,067	—	—
Mutual funds—equity	100,012	100,012	—	—
Investments measured at net asset value	446,433	—	—	—
TOTAL INVESTMENTS	**677,830**	**178,373**	**53,024**	**—**
Funds held in trust by others	6,995	—	—	6,995
TOTAL ASSETS MEASURED AT FAIR VALUE ON RECURRING BASIS	**$764,040**	**241,637**	**68,975**	**6,995**
LIABILITIES:				
Recurring:				
Payables under securities lending agreement	$15,951	—	15,951	—
TOTAL LIABILITIES MEASURED AT FAIR VALUE ON RECURRING BASIS	**$15,951**	**—**	**15,951**	**—**

The following table represents additional information for all Level 3 assets measured at fair value on a recurring basis for the fiscal year ended June 30, 2018:

	FUNDS HELD IN TRUST BY OTHERS
Financial assets:	
Beginning balance	$13,426
Irrevocable trusts that matured	(139)
Adjustment to net realizable value	(4,891)
Unrealized losses, net	(1,401)
ENDING BALANCE	**$6,995**

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2018 are as follows:

(dollars in thousands)

FISCAL YEAR ENDED JUNE 30, 2018	NET ASSETS VALUE	UNFUNDED COMMITMENTS	REDEMPTION FREQUENCY	REDEMPTION NOTICE PERIOD
Commingled funds	$76,869	—	Weekly, Monthly	1–10 days
Multi-strategy hedge funds	260,836	—	Quarterly, Annually, 2 years, 3 years, 5 years	30–180 days
Private equity partnerships	90,409	54,798	Illiquid	
Real estate limited partnership and membership interests	18,319	27,706	Illiquid	
	$446,433	**82,504**		

The following table presents the University's financial instruments at fair value as of June 30, 2017. 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.

(dollars in thousands)

	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3
June 30, 2017:				
ASSETS:				
Recurring:				
Cash and cash equivalents	$69,183	69,183	—	—
Collateral held under securities lending agreement	22,632	—	22,632	—
Investments:				
Money funds and other	58,649	—	58,649	—
Federal, state, and local agency securities	34,157	—	34,157	—
Nongovernment bonds and notes	17,291	—	17,291	—
Asset and mortgage-backed securities	1,974	—	1,974	—
Foreign bonds and notes	3,203	—	3,203	—
Common and preferred stocks	37,443	37,443	—	—
Mutual funds—bonds	3,843	3,843	—	—
Mutual funds—equity	103,978	103,978	—	—
Investments measured at net asset value	408,474	—	—	—
TOTAL INVESTMENTS	**669,012**	**145,264**	**115,274**	**–**
Funds held in trust by others	13,426	—	—	13,426
TOTAL ASSETS MEASURED AT FAIR VALUE ON RECURRING BASIS	**$774,253**	**214,447**	**137,906**	**13,426**
LIABILITIES:				
Recurring:				
Payables under securities lending agreement	$22,632	—	22,632	—
TOTAL LIABILITIES MEASURED AT FAIR VALUE ON RECURRING BASIS	**$22,632**	**—**	**22,632**	**—**

The following table represents additional information for all Level 3 assets measured at fair value on a recurring basis for the fiscal year ended June 30, 2017:

(dollars in thousands)

	FUNDS HELD IN TRUST BY OTHERS
Financial assets:	
Beginning balance	$14,826
Irrevocable trusts that matured	198
Unrealized losses, net	(1,598)
ENDING BALANCE	**$13,426**

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2017 are as follows:

(dollars in thousands)

FISCAL YEAR ENDED JUNE 30, 2017	NET ASSETS VALUE	UNFUNDED COMMITMENTS	REDEMPTION FREQUENCY	REDEMPTION NOTICE PERIOD
Commingled funds	$72,678	—	Weekly, Monthly	1–10 days
Multi-strategy hedge funds	234,655	—	Quarterly, Annually, 2 years, 5 years	30–180 days
Private equity partnerships	76,071	29,728	Illiquid	
Real estate limited partnership and membership interests	9,573	—	Quarterly	90 days
	15,497	22,798	Illiquid	
	$408,474	**52,526**		

(5) ENDOWMENTS AND ENDOWMENT INCOME

(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 Board of Trustees (the Board) of the University has interpreted UPMIFA as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift agreement. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted or temporarily restricted in accordance with UPMIFA and donor stipulations. Absent donor stipulations, the Board may appropriate for expenditure, for the uses and purposes of the endowment fund, the net appreciation, realized and unrealized, in the fair value of the assets of the endowment established by UPMIFA.

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 the unrestricted net assets and totaled $911 and $1,023 as of June 30, 2018 and 2017, respectively. These deficiencies resulted from unfavorable market conditions that occurred after the investment of permanently restricted contributions and from appropriations to certain programs. Subsequent gains that restore the market value of such funds to the historical cost will be classified as unrestricted net assets.

UPMIFA also impacts the adoption of FASB guidance, which provides direction on the net asset classification of donor-restricted endowment funds for not-for-profit organizations. The portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those funds are appropriated for expenditure. The amounts appropriated for expenditure are based on the University's endowment spending policy. The spending is approved by the Board through the University's annual budget approval process.

(B) 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.

The cash required for spending, as determined above, may be drawn from both ordinary income earned (i.e., dividends and interest) and capital appreciation, both realized and unrealized of both current and prior years. 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).

(C) 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.

To achieve its investment objective, the endowment fund will allocate among several asset classes with a bias toward equity and equity-like investments. An equity bias is desirable as it provides a viable long-term hedge against inflation and has historically outperformed fixed income over longer periods of time. Other asset classes may be added in an attempt to enhance returns, reduce volatility through diversification, and/or offer a broader investment opportunity set. Benchmarks are used for assessing the risk and return characteristics of the fund over longer periods, generally three to five years.

The following represents the endowment net assets composition by type of fund as of June 30, 2018:

(dollars in thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Donor-restricted endowment funds	$(911)	112,528	443,153	554,770
Quasi-/board-designated endowment funds	123,638	—	—	123,638
TOTAL FUNDS	**$122,727**	**112,528**	**443,153**	**678,408**

The following represents the changes in endowment net assets for the year ended June 30, 2018:

(dollars in thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, beginning of year	$117,628	99,543	430,056	647,227
Investment return:				
Investment loss	—	—	(42)	(42)
Endowment income used for spending policy	5,887	21,142	414	27,443
Net realized and unrealized gains (losses)	5,029	12,985	(8,675)	9,339
TOTAL INVESTMENT RETURN	**10,916**	**34,127**	**(8,303)**	**36,740**
Appropriation of endowment assets for expenditure	(5,887)	(21,142)	—	(27,029)
Contributions	70	—	21,400	21,470
ENDOWMENT NET ASSETS, END OF YEAR	**$122,727**	**112,528**	**443,153**	**678,408**

The following represents the endowment net assets composition by type of fund as of June 30, 2017:

(dollars in thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Donor-restricted endowment funds	$(1,023)	99,543	430,056	528,576
Quasi-/board-designated endowment funds	118,651	—	—	118,651
TOTAL FUNDS	**$117,628**	**99,543**	**430,056**	**647,227**

The following represents the changes in endowment net assets for the year ended June 30, 2017:

(dollars in thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, beginning of year	$106,086	70,282	406,120	582,488
Investment return:				
Investment loss	—	—	(90)	(90)
Endowment income used for spending policy	5,714	19,447	309	25,470
Net realized and unrealized gains	11,794	29,261	963	42,018
TOTAL INVESTMENT RETURN	**17,508**	**48,708**	**1,182**	**67,398**
Appropriation of endowment assets for expenditure	(5,714)	(19,447)	—	(25,161)
Contributions	(252)	—	22,754	22,502
ENDOWMENT NET ASSETS, END OF YEAR	**$117,628**	**99,543**	**430,056**	**647,227**

(6) IRREVOCABLE SPLIT-INTEREST AGREEMENTS

The University's split-interest agreements with donors consist of charitable gift annuities, pooled income funds, and charitable remainder trusts for which the University may or may not serve as trustee. Assets are invested and payments are made to beneficiaries in accordance with the respective agreements.

For those agreements where the University is the trustee, contribution revenue is recognized at the date the agreement is established, net of the liability that is recorded for the present value of the estimated future payments to be made to the beneficiaries. The present value of payments to beneficiaries is calculated using discount rates that range from 3.4% to 5.5%. Gains or losses resulting from changes in actuarial assumptions are recorded as changes in the respective net asset class in the consolidated statements of activities as incurred. Investments and other assets maintained in trusteeship by the University totaled $5,320 and $5,942 at June 30, 2018 and 2017, respectively.

The University is the beneficiary of seven 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 $22,063 and $25,951 at June 30, 2018 and 2017, respectively.

For those agreements where the University does not serve as trustee, but is designated as an irrevocable beneficiary of the trust, temporarily or permanently 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 contribution revenue discount rate and, if applicable, the estimated life expectancy of the trust originator.

Irrevocable trusts for which the University is not the trustee totaled $6,995 and $13,426 at June 30, 2018 and 2017, respectively.

(7) CONTRIBUTIONS RECEIVABLE

Contributions receivable expected to be collected within one year are recorded at net realizable value. Contributions 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 ranging from 0.65% to 2.20% on the date the promise to give is received. Amortization of the discount is included in contribution revenues.

As of June 30, 2018, and 2017, the contributions receivable is due as follows:

(dollars in thousands)

	2018	2017
Less than one year	$13,099	9,231
Two to five years	35,479	25,939
Over five years	6,380	7,997
	54,958	43,167
Less unamortized discount	(5,562)	(5,127)
Allowance for uncollectible accounts	(4,321)	(2,288)
TOTAL CONTRIBUTIONS RECEIVABLE, NET	**$45,075**	**35,752**

The University has received certain conditional promises to give that are in the form of revocable trusts and bequests, which are not included in the consolidated financial statements. As of June 30, 2018, and 2017, the fair value of these conditional promises is approximately $108,792 and $106,124, respectively.

(8) NOTES AND BONDS PAYABLE

As of June 30, 2018, and 2017, notes and bonds payable net of unamortized deferred financing costs and premium or discount consisted of the following:

(dollars in thousands)

	2018	2017
Revenue Bonds, Series 2007A, payable with fixed interest rates ranging from 4.00% to 5.00%, maturing through 2018	$—	1,800
Revenue Bonds, Series 2008B1, payable with fixed interest rates ranging from 2.00% to 5.00%, maturing through 2030	15,428	16,474
Revenue Bonds, Series 2008B2, payable with fixed interest rates ranging from 2.25% to 5.00%, maturing through 2030	9,569	10,175
Revenue Bonds, Series 2008B3, payable with fixed interest rates ranging from 2.00% to 5.00%, maturing through 2030	17,262	18,348
Revenue Bonds, Series 2011A, payable with fixed interest rates ranging from 2.00% to 5.00%, maturing through 2020	8,360	10,927
Revenue Bonds, Series 2012, payable with fixed interest rates ranging from 2.00% to 5.00%, maturing through 2032	84,108	86,548
Revenue Bonds, Series 2016, payable with fixed interest rates ranging from 4.00% to 5.00%, maturing through 2047	95,402	95,880
Other long-term payables with variable interest rate, maturing through 2019	409	682
TOTAL NOTES AND BONDS PAYABLE, NET	**$230,538**	**240,834**

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, 2018 and 2017.

Maturities of notes and bonds payable based on scheduled repayments at June 30, 2018 are as follows:

(dollars in thousands)

2019	$9,125
2020	8,810
2021	9,175
2022	9,565
2023	10,065
Thereafter	162,755
TOTAL NOTES AND BONDS PAYABLE	**$209,495**

As of June 30, 2018, 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, 2018 and 2017.

Cash utilized for the payment of interest on notes and bonds payable was $10,072 and $9,498 during fiscal years 2018 and 2017, respectively.

(9) RETIREMENT PLAN

All eligible full-time personnel may elect to participate in a defined contribution individual annuity plan. Under the provisions of the plan, 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 $11,675 and $10,599 in fiscal years 2018 and 2017, respectively.

(10) SELF-FUNDED HEALTH AND DENTAL BENEFIT PLANS

The University has self-funded benefit plans covering all active and certain retired employees' health and dental costs. Under the plans, the University's losses are limited, through the use of excess loss insurance, to $300 per claim. Claims paid under the plans for fiscal years 2018 and 2017 totaled $28,728 and $25,153, respectively. The University has also contracted with a third party administrator 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, 2018 and 2017.

(11) POSTRETIREMENT BENEFITS

The University provides retired employees access to certain healthcare and life insurance benefits. All University employees become eligible to access these benefits when their years of service plus age equal 70. 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.

Summary information regarding the accounting for both plans for the years ended June 30, 2018 and 2017 is presented in the following:

(dollars in thousands)

	2018	2017
Change in benefit obligation:		
Benefit obligation, beginning of year	$4,474	4,396
Service cost	—	—
Interest cost	163	161
Actuarial (gain) loss	(311)	(18)
Benefits paid	(153)	(65)
BENEFIT OBLIGATION, END OF YEAR	**$4,173**	**4,474**
Change in plan assets:		
Fair value of plan assets, beginning of year	$—	—
Employer contributions	153	65
Actual benefits paid	(153)	(65)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	**$—**	**—**
Change in postretirement benefits:		
Change in postretirement benefits other than net periodic benefit cost	$—	—
Prior service credits	—	—
Net loss	(452)	(142)
CHANGE IN POSTRETIREMENT BENEFITS	**$(452)**	**(142)**

	2018	2017
Measurement date	June 30	June 30
Weighted average assumptions for liability:		
Discount rate	4.25 %	3.75 %
Salary increase	3.50	3.50
Components of net periodic benefit cost:		
Service cost	$—	—
Interest cost	163	161
Amortization of:		
Unrecognized prior service cost	—	—
Unrecognized actuarial gain	(1)	—
NET PERIODIC COST	**$162**	**161**

The projected postretirement benefit payments for the fiscal years subsequent to June 30, 2018 are as follows:

(dollars in thousands)

2019	$265
2020	267
2021	268
2022	270
2023	271
2024–2028	1,359

(12) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following as of June 30, 2018 and 2017:

(dollars in thousands)

	2018	2017
Physical assets	$184,704	178,871
Academic support, instruction and student services	138,402	123,987
Contributions receivable, net	19,420	10,122
Scholarships	68,619	58,267
Life income and annuity funds	5,204	5,278
TOTAL TEMPORARILY RESTRICTED NET ASSETS	**$416,349**	**376,525**

(13) PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following as of June 30, 2018 and 2017, the income from which is expendable to support:

(dollars in thousands)

	2018	2017
Scholarships	$248,216	235,606
Academic support, instruction and student services	164,152	156,210
Contributions receivable, net	25,655	26,635
Life income and annuity funds	5,130	11,605
TOTAL PERMANENTLY RESTRICTED NET ASSETS	**$443,153**	**430,056**

(14) RELATED PARTIES

Members of the University's Board of Trustees and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the University. A conflict of interest is considered to exist when material financial interests or affiliations are in conflict with one's duty to the University. Members of the Board of Trustees and senior management are required to disclose financial interests and affiliations that may conflict with their duty to the University and to refrain from making decisions on behalf of the University when the employee's obligations to the University are in conflict with the employee's material financial interests. The University's transactions with related parties are considered to be in the normal course of business.

(15) 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, 2018, the University has outstanding commitments for the following construction projects:

(dollars in thousands)

Athletic and Human Performance Research Center	$10,743
The Commons	5,838
TOTAL CONSTRUCTION COMMITMENTS	**$16,581**

The University leases athletic and other facilities and equipment under noncancelable arrangements that are accounted for as operating leases. Total future commitments under these leases as of June 30, 2018 are as follows:

(dollars in thousands)

2019	$1,316
2020	1,284
2021	1,309
2022	1,202
Thereafter	15,857
TOTAL FUTURE COMMITMENTS	**$20,968**

(16) TUITION DISCOUNTS

Tuition discounts, as reported in the consolidated statements of activities as a reduction of student tuition and fees, were funded in fiscal years 2018 and 2017 from the following revenue sources:

(dollars in thousands)

	2018	2017
Institutional revenue sources	$130,352	115,666
Gifts, grants, and endowment earnings	24,157	23,576
TOTAL TUITION DISCOUNT	**$154,509**	**139,242**

(17) NATURAL EXPENSES

The University's classification of unrestricted expenses in the consolidated statements of activities is classified by natural expenses as of June 30, 2018 and 2017 as follows:

(dollars in thousands)

	2018	2017
Salaries and fringe benefits	$261,277	253,955
Supplies	18,629	18,162
Telephone	613	632
Professional fees	11,194	11,044
Administrative expenses	11,586	12,503
Meal plans and promotional items	14,276	12,813
Repairs and maintenance	15,920	17,140
Travel	14,752	13,710
Advertising and public relations	2,584	2,488
Utilities	10,921	10,430
Insurance (property, liability, etc.)	3,422	4,337
Interest	5,989	7,789
Depreciation	37,292	37,222
Miscellaneous expense	2,424	1,732
TOTAL OPERATING EXPENSES	**$410,879**	**403,957**

(18) 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 2018 and 2017 comprise of the following:

(dollars in thousands)

	2018	2017
Sponsored research	$16,404	15,641
Teaching and training	6,369	6,454
Development and others	3,934	3,888
TOTAL RESEARCH AND GRANTS	**$26,707**	**25,983**

(19) SUBSEQUENT EVENTS

The University evaluated events after the consolidated statement of financial position date of June 30, 2018 through September 10, 2018, which was the date the consolidated financial statements were issued. Subsequent to June 30, 2018, the University contractually committed to the construction of a $13,000 new Physician Assistant building.

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