

MARQUETTE UNIVERSITY

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

MARQUETTE UNIVERSITY

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KPMG LLP
Suite 1500
777 East Wisconsin Avenue
Milwaukee, WI 53202-5337

Independent Auditors' Report

The Board of Trustees
Marquette University:

We have audited the accompanying statements of financial position of Marquette University (the University) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Marquette University as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Milwaukee, Wisconsin
September 8, 2011

MARQUETTE UNIVERSITY

Statements of Financial Position

June 30, 2011 and 2010

(Dollars in thousands)

Assets	2011	2010
Cash and cash equivalents	\$ 28,620	27,775
Collateral held under securities lending agreement	41,820	38,264
Unexpended bond proceeds	—	11,541
Contributions receivable, less allowance for uncollectible pledges of \$2,091 and \$2,399 in 2011 and 2010, respectively	83,519	81,498
Accounts receivable, less allowance for uncollectible accounts of \$2,227 and \$2,239 in 2011 and 2010, respectively	15,363	16,348
Prepaid expenses and deferred charges	6,496	6,338
Student loans receivable, less allowance for uncollectible accounts of \$90 and \$86 in 2011 and 2010, respectively	44,243	44,660
Investments	435,549	374,009
Funds held in trust by others	21,908	24,221
Other assets	1,588	1,321
Net property, buildings, and equipment	490,142	454,483
Total assets	\$ <u>1,169,248</u>	<u>1,080,458</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 12,204	10,865
Accrued liabilities	22,568	20,651
Payables under securities lending agreement	42,068	39,426
Student credits and other advance payments	7,420	6,823
Deferred income and deposits	20,290	18,687
Payable to beneficiaries under split-interest agreements	5,002	5,409
Refundable federal loan grants	37,170	37,313
Postretirement benefits payable	3,836	4,038
Notes and bonds payable	216,138	225,452
Total liabilities	<u>366,696</u>	<u>368,664</u>
Net assets:		
Unrestricted	198,965	171,046
Temporarily restricted	302,734	268,157
Permanently restricted	300,853	272,591
Total net assets	<u>802,552</u>	<u>711,794</u>
Total liabilities and net assets	\$ <u>1,169,248</u>	<u>1,080,458</u>

See accompanying notes to financial statements.

MARQUETTE UNIVERSITY

Statement of Activities

Year ended June 30, 2011

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Student tuition and fees – gross	\$ 306,018	—	—	306,018
Less tuition discounts	<u>(91,308)</u>	<u>—</u>	<u>—</u>	<u>(91,308)</u>
Net tuition and fees	214,710	—	—	214,710
Government and private grants	27,391	—	—	27,391
Contributions	3,291	23,263	27,485	54,039
Auxiliary enterprises	44,933	—	—	44,933
Sales by educational departments	8,450	—	—	8,450
Investment income (loss)	756	383	(207)	932
Endowment income used in operations	4,589	12,062	243	16,894
Other income	<u>15,711</u>	<u>—</u>	<u>—</u>	<u>15,711</u>
Total operating revenues	<u>319,831</u>	<u>35,708</u>	<u>27,521</u>	<u>383,060</u>
Net assets released from restrictions	<u>28,928</u>	<u>(28,928)</u>	<u>—</u>	<u>—</u>
Total operating revenues and net assets released from restrictions	<u>348,759</u>	<u>6,780</u>	<u>27,521</u>	<u>383,060</u>
Operating expenses:				
Instruction	102,399	—	—	102,399
Academic support	40,706	—	—	40,706
Research and grants	24,864	—	—	24,864
Libraries	18,735	—	—	18,735
Student services	47,693	—	—	47,693
Auxiliary enterprises	40,929	—	—	40,929
Institutional support	66,733	—	—	66,733
Public services	<u>3,542</u>	<u>—</u>	<u>—</u>	<u>3,542</u>
Total operating expenses	<u>345,601</u>	<u>—</u>	<u>—</u>	<u>345,601</u>
Operating income	<u>3,158</u>	<u>6,780</u>	<u>27,521</u>	<u>37,459</u>
Nonoperating income (expenses):				
Endowment gain in excess of amounts designated for current operations, net	27,746	28,003	443	56,192
Other	<u>(2,985)</u>	<u>(206)</u>	<u>298</u>	<u>(2,893)</u>
Total nonoperating income, net	<u>24,761</u>	<u>27,797</u>	<u>741</u>	<u>53,299</u>
Change in net assets	27,919	34,577	28,262	90,758
Net assets, beginning of year	<u>171,046</u>	<u>268,157</u>	<u>272,591</u>	<u>711,794</u>
Net assets, end of year	<u>\$ 198,965</u>	<u>302,734</u>	<u>300,853</u>	<u>802,552</u>

See accompanying notes to financial statements.

MARQUETTE UNIVERSITY

Statement of Activities

Year ended June 30, 2010

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Student tuition and fees – gross	\$ 289,183	—	—	289,183
Less tuition discounts	<u>(83,855)</u>	<u>—</u>	<u>—</u>	<u>(83,855)</u>
Net tuition and fees	205,328	—	—	205,328
Government and private grants	24,944	—	—	24,944
Contributions	2,102	40,503	14,958	57,563
Auxiliary enterprises	41,914	—	—	41,914
Sales by educational departments	8,731	—	—	8,731
Investment income (loss)	1,001	276	(170)	1,107
Endowment income used in operations	4,208	10,268	161	14,637
Other income	<u>15,726</u>	<u>—</u>	<u>—</u>	<u>15,726</u>
Total operating revenues	<u>303,954</u>	<u>51,047</u>	<u>14,949</u>	<u>369,950</u>
Net assets released from restrictions	<u>28,026</u>	<u>(28,026)</u>	<u>—</u>	<u>—</u>
Total operating revenues and net assets released from restrictions	<u>331,980</u>	<u>23,021</u>	<u>14,949</u>	<u>369,950</u>
Operating expenses:				
Instruction	99,873	—	—	99,873
Academic support	39,152	—	—	39,152
Research and grants	21,962	—	—	21,962
Libraries	18,466	—	—	18,466
Student services	45,189	—	—	45,189
Auxiliary enterprises	38,271	—	—	38,271
Institutional support	64,558	—	—	64,558
Public services	<u>3,409</u>	<u>—</u>	<u>—</u>	<u>3,409</u>
Total operating expenses	<u>330,880</u>	<u>—</u>	<u>—</u>	<u>330,880</u>
Operating income	<u>1,100</u>	<u>23,021</u>	<u>14,949</u>	<u>39,070</u>
Nonoperating income (expenses):				
Endowment gain in excess of amounts designated for current operations, net	18,483	7,432	354	26,269
Other	<u>(1,499)</u>	<u>(148)</u>	<u>879</u>	<u>(768)</u>
Total nonoperating income, net	<u>16,984</u>	<u>7,284</u>	<u>1,233</u>	<u>25,501</u>
Endowment net asset reclassification based on change in law	<u>(21,832)</u>	<u>21,832</u>	<u>—</u>	<u>—</u>
Change in net assets	<u>(3,748)</u>	<u>52,137</u>	<u>16,182</u>	<u>64,571</u>
Net assets, beginning of year	<u>174,794</u>	<u>216,020</u>	<u>256,409</u>	<u>647,223</u>
Net assets, end of year	<u>\$ 171,046</u>	<u>268,157</u>	<u>272,591</u>	<u>711,794</u>

See accompanying notes to financial statements.

MARQUETTE UNIVERSITY
 Statements of Cash Flows
 Years ended June 30, 2011 and 2010
 (Dollars in thousands)

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ 90,758	64,571
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	28,665	26,295
Discount amortization	106	295
Net realized and unrealized appreciation on investments	(68,444)	(36,739)
Bad debt expense	314	550
Contributions for major capital projects including gifts in kind	(13,894)	(29,494)
Contributions restricted for long-term endowments	(27,485)	(14,958)
Permanently restricted endowment income used in operations	(243)	(161)
(Gain) loss on sale of property, buildings, and equipment	(6)	4
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	674	(775)
Decrease in contributions receivable	1,994	5,083
Decrease (increase) in funds held in trust by others	2,313	(109)
Increase in other assets, net	(620)	(934)
Increase (decrease) in accounts payable	587	(2,877)
Increase (decrease) in accrued liabilities	1,588	(810)
Increase in student credits and other advance payments	597	415
Increase in deferred income and deposits	1,603	792
Decrease in payables to beneficiaries under split-interest agreements	(407)	(251)
(Decrease) increase in postretirement benefits payable	(202)	631
Net cash provided by operating activities	17,898	11,528
Cash flows from investing activities:		
Purchases of property, buildings, and equipment	(63,045)	(96,704)
Proceeds from sale of property, buildings, and equipment	6	117
Student loan repayments	7,932	6,271
Student loans issued	(7,518)	(5,919)
Proceeds from sale of investments from bond proceeds	11,541	65,062
Increase (decrease) in payables under securities lending agreement	2,642	(8,325)
(Increase) decrease in cash collateral held under securities lending agreement	(3,556)	6,162
Purchase of investments	(376,739)	(341,325)
Proceeds from the sale of investments	383,643	329,689
Net cash used in investing activities	(45,094)	(44,972)
Cash flows from financing activities:		
Contributions received for major capital projects	13,696	14,310
Contributions restricted for long-term endowments	23,470	11,964
Permanently restricted endowment income used in operations	243	161
Net federal loan activity	(143)	396
Proceeds from issuance of long-term debt	27,669	84,595
Repayment of notes and bonds payable	(36,894)	(91,207)
Net cash provided by financing activities	28,041	20,219
Net increase (decrease) in cash and cash equivalents	845	(13,225)
Cash and cash equivalents, beginning of year	27,775	41,000
Cash and cash equivalents, end of year	\$ 28,620	27,775

See accompanying notes to financial statements.

MARQUETTE UNIVERSITY

Notes to Financial Statements

June 30, 2011 and 2010

(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 12 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.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The 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 expenditures 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 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 statement 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 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 well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

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Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(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 assigned to 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 deferred financing costs and prepaid insurance, maintenance and other costs associated with future periods. Deferred financing costs are being amortized using the straight-line method, which approximates the interest method, over the lives of the respective debt issues.

(f) *Investments*

Investments are reported at fair value based on market quotes with unrealized gains and losses thereon included in the statements of activities. When a ready market for the investments does not exist, management's valuations for certain alternative investments and commingled funds (primarily investments in limited partnerships, hedge funds, and real estate) are recorded using net asset value 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.

(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. These agreements stipulate the length of the trust and the intended purpose of the funds.

(h) *Student Loans Receivable*

Student loans receivable consist of both federal and institutional loans. At June 30, 2011 and 2010, the U.S. government had provided 12% of the funds for the federal student loan programs and the University provided the remaining 88%. The initial receipt of U.S. government funds is recorded as a liability on the 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.

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. Principal

MARQUETTE UNIVERSITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

and interest payments received under the federal student loan programs are either disbursed as new student loans or returned to the U.S. government as required.

(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 individual property or 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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Land and improvements	\$ 38,738	37,860
Buildings and improvements	530,302	444,392
Construction in progress	43,658	89,629
Furniture, fixtures, and equipment	136,277	128,002
Library contents	104,616	99,969
Less accumulated depreciation	<u>(363,449)</u>	<u>(345,369)</u>
Net property, buildings, and equipment	<u>\$ 490,142</u>	<u>454,483</u>

Construction in progress includes the following as of June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
New law school building	\$ —	72,746
Engineering Hall	33,072	—
Other renovation and construction projects	<u>10,586</u>	<u>16,883</u>
Total construction in progress	<u>\$ 43,658</u>	<u>89,629</u>

MARQUETTE UNIVERSITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(j) Asset Retirement Obligations

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 410, *Asset Retirement and Environmental 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 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 operating results of the University.

In accordance with ASC Topic 410, the University has the following recorded as of June 30:

	<u>2011</u>	<u>2010</u>
Building cost	\$ 509	509
Accumulated depreciation	(299)	(291)
Net building cost	<u>\$ 210</u>	<u>218</u>
Asset retirement obligation (included in accrued liabilities)	\$ 4,344	4,507

(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's residence halls, parking services, and gift shops.

MARQUETTE UNIVERSITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(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 statements of activities. Contributions are recorded at their estimated fair value at the date the gift is received. Pledges 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. Contributions with donor-imposed conditions are not recognized unless it is reasonably expected that the conditions can be met.

(n) Operating Results

Operating results (change in unrestricted net assets from operating activity) in the statements of activities reflect all transactions that change unrestricted net assets, except for activity associated with endowment investments and certain other nonrecurring items. 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, 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 generally exempt from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code (the Code) and is a tax-exempt organization described in Sections 501(c)(3), 509(a)(1), and 170(b)(1)(A)(ii) of the Code.

MARQUETTE UNIVERSITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

The FASB issued guidance prescribing how an organization should recognize, measure, present, and disclose in its financial statements uncertain tax positions. The University adopted this guidance, which is included in ASC Topic 740, *Income Taxes*. This guidance addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. The University must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. As of June 30, 2011 and 2010, the University did not have a liability for unrecognized tax benefits.

(p) Art Collection

The University has various collections of fine arts 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 value of all fine arts may vary with appraisals and/or auction prices. Accordingly, the value of fine art and other collections has been excluded from the statements of financial position. Proceeds, if any, from 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 collections. Fine arts are included in insurance coverage for 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, 2011 and 2010, the specific policy covering highly valued works provides for insured coverage at \$79,000 and \$75,000, respectively, aggregate limit for any one loss or any one occurrence and includes some appraised items from library collections. As of June 30, 2011 and 2010, additional fine art values covered for loss in other insurance programs are estimated at approximately \$3,800 and \$3,775, respectively.

(q) Change in Donor Designation

When donors amend or clarify intent for applicable gifts and contributions reported in a previous fiscal year, revisions are reflected within the statement of activities as a nonoperating item.

MARQUETTE UNIVERSITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(3) Investments

Cost and estimated fair values of investments as of June 30, 2011 and 2010 were as follows:

	2011		2010	
	Cost	Fair value	Cost	Fair value
Money funds and other	\$ 12,448	12,449	12,564	12,563
Federal, state and local agencies securities	44,573	45,089	54,195	55,329
Nongovernment bonds and notes	15,899	15,969	15,547	15,302
Foreign bonds and notes	2,442	2,548	2,105	2,175
Common and preferred stocks	37,572	52,060	47,929	51,262
Mutual funds and commingled funds	108,805	120,151	106,847	96,249
Real estate limited partnership and membership interests	17,198	13,048	12,575	7,395
Alternative investments	142,766	174,235	120,128	133,734
Total investments	\$ 381,703	435,549	371,890	374,009

The University's investments at fair value are categorized as of June 30, 2011 and 2010 as follows:

	2011	2010
Investments permanently restricted by donors	\$ 249,143	227,590
Investments functioning as endowment	135,648	84,765
Total investments subject to endowment spending policy	384,791	312,355
Long-term cash management investments	23,936	36,226
Trust and other investments	26,822	25,428
Total investments	\$ 435,549	374,009

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

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Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

Investment returns as of June 30, 2011 and 2010 comprise the following:

	2011			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Interest and dividends	\$ 2,016	3,698	(140)	5,574
Gain on investments, net	31,075	36,750	619	68,444
Return on investments	<u>\$ 33,091</u>	<u>40,448</u>	<u>479</u>	<u>74,018</u>
Return on investments are classified on the statement of activities as follows:				
Investment income (loss)	\$ 756	383	(207)	932
Endowment income used in operations	4,589	12,062	243	16,894
Endowment gain in excess of amounts designated for current operations, net	<u>27,746</u>	<u>28,003</u>	<u>443</u>	<u>56,192</u>
Return on investments	<u>\$ 33,091</u>	<u>40,448</u>	<u>479</u>	<u>74,018</u>

Return on investments is net of investment fees of \$1,453.

	2010			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Interest and dividends	\$ 2,199	3,199	(124)	5,274
Gain on investments, net	21,493	14,777	469	36,739
Return on investments	<u>\$ 23,692</u>	<u>17,976</u>	<u>345</u>	<u>42,013</u>
Return on investments are classified on the statement of activities as follows:				
Investment income (loss)	\$ 1,001	276	(170)	1,107
Endowment income used in operations	4,208	10,268	161	14,637
Endowment gain in excess of amounts designated for current operations, net	<u>18,483</u>	<u>7,432</u>	<u>354</u>	<u>26,269</u>
Return on investments	<u>\$ 23,692</u>	<u>17,976</u>	<u>345</u>	<u>42,013</u>

Return on investments is net of investment fees of \$1,217.

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The University participates in a securities lending arrangement with M&I Global Securities Lending (M&I) 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 M&I and pooled with collateral maintained for other participants in this program. M&I 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, 2011 and 2010, the University had loaned securities with a market value of \$40,945 and \$38,271, respectively, that were secured by collateral with a market value of approximately \$41,820 and \$38,264, 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 for financial statement purposes. Unrealized losses of \$248 and \$1,162 related to market value losses of the collateral were recorded as of June 30, 2011 and 2010, respectively.

(4) Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820, *Fair Value Measurements*, 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 generally includes alternative investments, real estate limited partnership and membership interests, and commingled funds.

The following discussion describes the valuation methodologies used for financial assets and liabilities measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used. Care should be exercised in deriving conclusions about the University's value or financial position based on the fair value information of financial assets presented below.

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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 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 equity 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.

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.

Investments include money funds, federal, state, nongovernment and foreign fixed income securities, stocks, mutual funds, real estate and alternative investments. 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. Alternative investments and real estate limited partnerships are valued using net asset value as a practical expedient in estimating fair 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.

Payable under the securities lending agreement is 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.

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The following table presents the University's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2011. 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.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
June 30, 2011:				
Financial assets:				
Cash and cash equivalents	\$ 28,620	28,620	—	—
Collateral held under securities lending agreement	41,820	—	41,820	—
Investments:				
Money funds and other	12,449	—	12,449	—
Federal, state, and local agency securities	45,089	39	45,050	—
Nongovernment bonds and notes	15,969	732	15,167	70
Foreign bonds and notes	2,548	—	2,548	—
Common and preferred stocks	52,060	52,060	—	—
Mutual funds and commingled funds	120,151	64,878	54,836	437
Real estate limited partnership and membership interests	13,048	—	—	13,048
Alternative investments	<u>174,235</u>	<u>—</u>	<u>—</u>	<u>174,235</u>
Total investments	435,549	117,709	130,050	187,790
Funds held in trust by others	<u>21,908</u>	<u>—</u>	<u>21,908</u>	<u>—</u>
Total assets	<u>\$ 527,897</u>	<u>146,329</u>	<u>193,778</u>	<u>187,790</u>
Financial liabilities:				
Payables under securities				
lending agreement	<u>\$ 42,068</u>	<u>—</u>	<u>42,068</u>	<u>—</u>
Total liabilities	<u>\$ 42,068</u>	<u>—</u>	<u>42,068</u>	<u>—</u>

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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, 2011:

	<u>Level 3</u>
Financial assets:	
Beginning balance, June 30, 2010	\$ 141,281
Net income including realized gains	1,872
Unrealized gains, net	18,847
Purchases and sales, net	<u>25,790</u>
Ending balance, June 30, 2011	<u><u>\$ 187,790</u></u>

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The following table presents the University's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2010. 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.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
June 30, 2010:				
Financial assets:				
Cash and cash equivalents	\$ 27,775	27,775	—	—
Collateral held under securities lending agreement	38,264	—	38,264	—
Unexpended bond proceeds	11,541	11,541	—	—
Investments:				
Money funds and other	12,563	—	12,563	—
Federal, state, and local agency securities	55,329	83	55,246	—
Nongovernment bonds and notes	15,302	577	14,626	99
Foreign bonds and notes	2,175	—	2,122	53
Common and preferred stocks	51,262	51,262	—	—
Mutual funds and commingled funds	96,249	48,025	48,224	—
Real estate limited partnership and membership interests	7,395	—	—	7,395
Alternative investments	<u>133,734</u>	<u>—</u>	<u>—</u>	<u>133,734</u>
Total investments	374,009	99,947	132,781	141,281
Funds held in trust by others	<u>24,221</u>	<u>—</u>	<u>24,221</u>	<u>—</u>
Total assets	\$ <u><u>475,810</u></u>	<u><u>139,263</u></u>	<u><u>195,266</u></u>	<u><u>141,281</u></u>
Financial liabilities:				
Payables under securities				
lending agreement	\$ <u>39,426</u>	<u>—</u>	<u>39,426</u>	<u>—</u>
Total liabilities	\$ <u><u>39,426</u></u>	<u><u>—</u></u>	<u><u>39,426</u></u>	<u><u>—</u></u>

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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, 2010:

	<u>Level 3</u>	
Financial assets:		
Beginning balance, June 30, 2009	\$	103,804
Net income including realized gains		175
Unrealized gains, net		12,115
Purchases and sales, net		<u>25,187</u>
Ending balance, June 30, 2010	\$	<u><u>141,281</u></u>

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2011 are as follows:

	<u>Net asset value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Commodity funds	\$ 15,851	—	Monthly	10 days
Equity long/short hedge funds	86,520	—	Quarterly, Annually	60 – 100 days
Multi-strategy hedge funds	36,931	—	Annually	180 days
Fixed income arbitrage funds	21,458	—	Quarterly, Annually	60 days
Private equity partnerships	<u>42,981</u>	<u>39,149</u>		
Total	\$ <u><u>203,741</u></u>	<u><u>39,149</u></u>		

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Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2010 are as follows:

	<u>Net asset value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Commodity funds	\$ 11,935	—	Monthly	10 days
Equity long/short hedge funds	61,604	—	Quarterly, Annually	60 – 100 days
Multi-strategy hedge funds	35,721	—	Annually	180 days
Fixed income arbitrage funds	18,478	—	Annually	60 days
Private equity partnerships	<u>25,326</u>	<u>42,362</u>		
Total	\$ <u><u>153,064</u></u>	<u><u>42,362</u></u>		

Commodity funds include investments in partnerships that invest in long-only equities and commodity derivatives that are traded on public exchanges. The net asset value of investments in this category has been estimated based on the net asset value per share of the investment. The funds provide full disclosure of the underlying holding and ownership interest, which allows the University to verify its account balance.

Equity long/short hedge funds include investments in hedge funds that invest in both long and short in U.S. and global common stocks. The net asset value of the hedge fund of funds in this category has been estimated using the net asset value per share of the investments.

Multi-strategy hedge funds include investments in hedge funds that pursue multiple strategies to diversify risk and reduce volatility. The value of the investments in this category has been estimated using the net asset value of the ownership interest in the partnership.

Fixed-income arbitrage is an investment strategy that consists of the discovery and exploitation of inefficiencies primarily in fixed income related instruments. Most arbitrageurs who employ this strategy trade globally. The value of the investments in this category has been estimated using the net asset value of the ownership interest in the partnership.

Private equity partnerships consist of equity securities in operating companies that are not publicly traded on a stock exchange. This category includes various investments as part of a strategy to diversify risk and reduce volatility. Investments in private equity most often involve either an investment of capital into an operating company or the acquisition of an operating company. The category also includes a direct investment in partnerships that invest in global real estate. The net asset value of this investment has been estimated by the ownership interest in the partnership. The direct investment fund provides full disclosure of the underlying holdings and ownership interest, which allows the University to verify the account balances. Investments in this category are intended to be illiquid for the duration of the respective partnership. Partnership duration periods range from 7 to 13 years.

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(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. The University adopted the related guidance included in ASC Topic 958, *Not-for-Profit Entities*, as of July 1, 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 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 investment. 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. The enactment of this law resulted in the University reclassifying investment returns in excess of spending authority requirements of \$21,832 from unrestricted net assets to temporarily restricted net assets in fiscal year 2010, based on the investment reporting for the period closest to the August 4, 2009 effective date. This adjustment is recorded as an endowment net asset reclassification based on change in law on the statement of activities.

From time to time, the value of assets associated with a permanently restricted fund may fall below the required level. Deficiencies of this nature are reported in the unrestricted net assets and totaled \$3,186 and \$19,142 as of June 30, 2011 and 2010, 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 required will be classified as unrestricted net assets.

UPMIFA also impacts the adoption of FASB guidance, which is included in ASC Topic 958, 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.

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(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 percent. Spending allotments will be increased by new gift additions to the individual endowment funds receiving spending authority equal to 5 percent of the new gift amount.

The cash required for spending, as determined above, may be drawn from both ordinary income earned (i.e., dividends, 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 percent of market value in order for the asset allocation policy to work with a minimum target rate of return of 8 percent (5 percent average spending and 3 percent 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.

Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for donor-specified periods, as well as quasi-endowment funds. Under this policy, as approved by the Board of Trustees, 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

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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, 2011:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (3,186)	53,266	300,853	350,933
Quasi-/board-designated endowment funds	<u>91,026</u>	<u>—</u>	<u>—</u>	<u>91,026</u>
Total funds	<u>\$ 87,840</u>	<u>53,266</u>	<u>300,853</u>	<u>441,959</u>

The following represents the changes in endowment net assets for the year ended June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 58,086	27,510	272,591	358,187
Investment return:				
Investment loss	—	—	(207)	(207)
Endowment income used for spending policy	4,589	12,062	243	16,894
Net realized and unrealized gains	<u>27,358</u>	<u>25,756</u>	<u>741</u>	<u>53,855</u>
Total investment return	<u>31,947</u>	<u>37,818</u>	<u>777</u>	<u>70,542</u>
Appropriation of endowment assets for expenditure	(4,589)	(12,062)	—	(16,651)
Contributions	<u>2,396</u>	<u>—</u>	<u>27,485</u>	<u>29,881</u>
Endowment net assets, end of year	<u>\$ 87,840</u>	<u>53,266</u>	<u>300,853</u>	<u>441,959</u>

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The following represents endowment net assets composition by type of fund as of June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (19,142)	27,510	272,591	280,959
Quasi-/board-designated endowment funds	<u>77,228</u>	<u>—</u>	<u>—</u>	<u>77,228</u>
Total funds	\$ <u><u>58,086</u></u>	<u><u>27,510</u></u>	<u><u>272,591</u></u>	<u><u>358,187</u></u>

The following represents the changes in endowment net assets for the year ended June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 62,207	—	256,409	318,616
Investment return:				
Investment loss	—	—	(170)	(170)
Endowment income used for spending policy	4,208	10,268	161	14,637
Net realized and unrealized gains	<u>16,620</u>	<u>5,678</u>	<u>1,233</u>	<u>23,531</u>
Total investment return	<u>20,828</u>	<u>15,946</u>	<u>1,224</u>	<u>37,998</u>
Appropriation of endowment assets for expenditure	(4,208)	(10,268)	—	(14,476)
Net asset reclassification based on change in law	(21,832)	21,832	—	—
Contributions	<u>1,091</u>	<u>—</u>	<u>14,958</u>	<u>16,049</u>
Endowment net assets, end of year	\$ <u><u>58,086</u></u>	<u><u>27,510</u></u>	<u><u>272,591</u></u>	<u><u>358,187</u></u>

(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.

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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 2.8% to 6.0%. Gains or losses resulting from changes in actuarial assumptions are recorded as changes in the respective net asset class in the statements of activities as incurred. Investments and other assets maintained in trusteeship by the University totaled \$9,726 and \$10,403 at June 30, 2011 and 2010, respectively.

The University is the sole beneficiary of two trusts that, in accordance with the decedent's instructions, are managed and maintained by separate trustees not affiliated with the University. In both instances, the University is to receive distributions from the trusts. One of the trusts provides for the distribution of only its annual income and is accounted for as a permanently restricted asset. The fair value of this trust was \$1,384 and \$1,201 as of June 30, 2011 and 2010, respectively. The other trust permits the trustee to determine the amount of distribution and allows for the payout of both income and principal. This trust, valued at fair value, is being accounted for as a temporarily restricted asset and totaled \$14,923 and \$13,076 as of June 30, 2011 and 2010, 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 \$21,908 and \$24,221 at June 30, 2011 and 2010, 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 0.26% to 3.05% on the date the promise to give is received. Amortization of the discount is included in contribution revenues.

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As of June 30, 2011 and 2010, the contributions receivable are due as follows:

	<u>2011</u>	<u>2010</u>
Less than one year	\$ 18,610	8,744
One to five years	43,950	61,259
Over five years	<u>49,296</u>	<u>43,467</u>
	111,856	113,470
Less:		
Unamortized discount	(26,246)	(29,573)
Allowance for uncollectible accounts	<u>(2,091)</u>	<u>(2,399)</u>
Total contributions receivable	<u>\$ 83,519</u>	<u>81,498</u>

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 financial statements. As of June 30, 2011 and 2010, the fair value of these conditional promises is approximately \$23,998 and \$27,650, respectively.

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(8) Notes and Bonds Payable

As of June 30, 2011 and 2010, notes and bonds payable consisted of the following:

	2011	2010
4.67% note payable with annual payments through September 15, 2011	\$ 95	186
Revenue Bonds, Series 1998, payable with fixed interest rates ranging from 4.75% to 5.25%, maturing through 2028	25,486	56,686
Revenue Bonds, Series 2002A, payable with fixed interest rates ranging from 3.75% to 4.85%, maturing through 2032	17,550	18,010
RACM, Series 2002, payable with fixed interest rates ranging from 2.90% to 4.35%, maturing through 2014	11,200	12,390
Revenue Bonds, Series 2007A, payable with fixed interest rates ranging from 4.00% to 5.00%, maturing through 2023	24,016	25,369
Revenue Bonds, Series 2007B, payable with fixed interest rates ranging from 4.50% to 5.00%, maturing through 2032	27,614	27,619
Revenue Bonds, Series 2008B1, payable with fixed interest rates ranging from 2.00% to 5.00%, maturing through 2033	31,412	32,278
Revenue Bonds, Series 2008B2, payable with fixed interest rates ranging from 2.00% to 5.00%, maturing through 2033	18,216	18,714
Revenue Bonds, Series 2008B3, payable with fixed interest rates ranging from 2.00% to 5.00%, maturing through 2033	32,702	33,603
Revenue Bonds, Series 2011A, Payable with fixed interest rates ranging from 2.00% to 4.73%, maturing through 2020	27,652	—
Capitalized lease, payable with variable interest rate, maturing through 2012	195	597
Total notes and bonds payable	\$ 216,138	225,452

In November 1998, the Wisconsin Health and Educational Facilities Authority (WHEFA) issued \$93,055 of its Revenue Bonds, Series 1998. The proceeds from the sale of these bonds were loaned to the University and used to partially defease the Series 1992 Revenue Bonds, fully defease the Series 1994 Revenue Bonds, and to fund various construction and renovation projects.

In October 2002, WHEFA issued \$20,795 of its Revenue Bonds, Series 2002A. The proceeds from the sale of these bonds were loaned to the University to support construction costs associated with Campus Town Phase V Apartments and a multilevel parking structure.

In November 2002, the Redevelopment Authority of the City of Milwaukee (RACM) issued \$19,920 Development Refunding Revenue Bonds, Series 2002. The proceeds from the sale of these bonds were loaned to the University and used to advance refund the outstanding Redevelopment Authority of the City of Milwaukee, Wisconsin Development Revenue Bonds, Series 1993A (Campus Town Project).

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In October 2007, WHEFA issued \$27,500 of its Revenue Bonds, Series 2007A and \$27,500 of its Revenue Bonds, Series 2007B. The proceeds from the sale of these bonds were loaned to the University to support property acquisitions, residence hall sprinklers systems, construction of the student services building and other building renovations.

In October 2008, WHEFA issued \$31,795 of its Revenue Bonds, Series 2008 B1. The proceeds from the sale of these bonds were loaned to the University and used to refund the Series 2002 B1 Revenue Bonds and to fund the Law School construction and Residence Hall Renovations.

In October 2008, WHEFA issued \$18,765 of its Revenue Bonds, Series 2008 B2. The proceeds from the sale of these bonds were loaned to the University and used to fund the Law School construction and Residence Hall Renovations.

In November 2008, WHEFA issued \$33,100 of its Revenue Bonds, Series 2008 B3. The proceeds from the sale of these bonds were loaned to the University and used to fund the Law School construction and Residence Hall Renovations.

In February 2011, WHEFA issued \$27,265 of its Revenue Bonds, Series 2011A. The proceeds from the sale of these bonds were loaned to the University and used to refund a portion of the Series 1998 Revenue Bonds.

All of the revenue bonds are unsecured. The principal and interest on the revenue bonds are insured pursuant to a municipal bond insurance policy.

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, 2011 and 2010.

In connection with defeasing the various revenue bonds described above, the University was legally released as the obligor on the bonds. Accordingly, the transactions were accounted for as an extinguishment of debt.

Maturities of notes and bonds payable based on scheduled repayments at June 30, 2011 are as follows:

2012	\$	10,594
2013		7,779
2014		8,009
2015		7,784
2016		8,074
Thereafter		<u>173,898</u>
Total notes and bonds payable	\$	<u><u>216,138</u></u>

As of June 30, 2011, the University has two secured letters of credit with banks under which it may borrow up to \$2,658. There were no borrowings outstanding under these letters of credit as of June 30, 2011 and 2010.

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Cash utilized for the payment of interest on notes and bonds payable was \$9,655 and \$8,421 during fiscal years 2011 and 2010, 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 \$9,231 and \$8,842 in fiscal years 2011 and 2010, 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 \$150 per claim. Claims paid under the plans for fiscal years 2011 and 2010 totaled \$20,158 and \$24,785, 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, 2011 and 2010.

(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. Except for a small number of special cases, 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.

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Summary information regarding the accounting for both plans for the years ended June 30, 2011 and 2010 is presented in the following:

	<u>2011</u>	<u>2010</u>
Change in benefit obligation:		
Benefit obligation, beginning of year	\$ 4,038	3,407
Service cost	4	3
Interest cost	206	223
Actuarial (gain) loss	(203)	551
Benefits paid	(209)	(146)
Benefit obligation, end of year	\$ <u>3,836</u>	<u>4,038</u>
Change in plan assets:		
Fair value of plan assets, beginning of year	\$ —	—
Plan participant contributions	209	146
Actual benefits paid	(209)	(146)
Fair value of plan assets, end of year	\$ <u>—</u>	<u>—</u>
Change in postretirement benefits:		
Change in postretirement benefits other than net periodic benefit cost	\$ —	—
Prior service credits	(109)	(182)
Net gain	(249)	(46)
Change in postretirement benefits	\$ <u>(358)</u>	<u>(228)</u>

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	<u>2011</u>	<u>2010</u>
	June 30	June 30
Measurement date		
Weighted average assumptions for liability:		
Discount rate	5.50%	5.25%
Salary increase	3.50	3.50
Assumed healthcare cost trend rates:		
Current year rate	8.00%	8.50%
Ultimate rate	5.50	5.50
Year rate reaches ultimate rate	2016	2016
Components of net periodic benefit cost:		
Service cost	\$ 4	3
Interest cost	206	223
Amortization of:		
Unrecognized prior service cost	(73)	(73)
Unrecognized actuarial loss	(1)	(55)
Net periodic cost	<u>\$ 136</u>	<u>98</u>

The projected postretirement benefit payments for the fiscal years subsequent to June 30, 2011 are as follows:

2012	\$ 219
2013	229
2014	237
2015	242
2016	248
2017 to 2021	1,299

(12) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following as of June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Physical assets	\$ 133,799	123,133
General operations and education	79,783	62,008
Pledge receivable, net	47,781	53,324
Scholarships	28,927	15,464
Life income and annuity funds	12,444	14,228
Total temporarily restricted net assets	<u>\$ 302,734</u>	<u>268,157</u>

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(13) Permanently Restricted Net Assets

Permanently restricted net assets consist of the following as of June 30, 2011 and 2010, the income from which is expendable to support:

	<u>2011</u>	<u>2010</u>
Scholarships	\$ 137,558	123,950
General operations and education	112,969	104,842
Pledge receivable, net	35,738	28,519
Life income and annuity funds	14,588	15,280
Total permanently restricted net assets	<u>\$ 300,853</u>	<u>272,591</u>

(14) Related Parties

The University contracts with certain related parties for the purchase of goods, performance of construction activities, and provisions of other services. Construction activities represent the majority of related party transactions. Generally, members of the University's Board serve in a management role for a related party or an affiliate of the related party. During fiscal years 2011 and 2010, the University had related party transactions approximating \$38,981 and \$54,429, respectively.

(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, 2011, the University has outstanding commitments for the following construction projects:

Engineering Hall	\$ 9,344
New law school building	642
Various renovation projects	<u>1,385</u>
Total commitments	<u>\$ 11,371</u>

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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, 2011 are as follows:

2012	\$	287
2013		282
2014		138
2015		140
2016		142
Thereafter		196
Total future commitments	\$	<u>1,185</u>

Total rent expense for the University was \$1,249 and \$1,233 during the fiscal years ended June 30, 2011 and 2010, respectively.

(16) Tuition Discounts

Tuition discounts, as reported in the statements of activities as a reduction of student tuition and fees, were funded in fiscal years 2011 and 2010 from the following revenue sources:

	<u>2011</u>	<u>2010</u>
Institutional revenue sources	\$ 75,243	66,325
Gifts, grants, and endowment earnings	16,065	17,530
Total tuition discount	\$ <u>91,308</u>	<u>83,855</u>

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(17) Natural Expenses

The University's classification of unrestricted expenses in the statements of activities is classified by natural expenses as of June 30, 2011 and 2010 as follows:

	<u>2011</u>	<u>2010</u>
Salaries and fringe benefits	\$ 219,163	217,966
Supplies	19,164	16,431
Telephone	868	865
Professional fees	8,805	7,691
Administrative expenses	11,484	10,667
Meal plans and promotional items	11,681	11,002
Repairs and maintenance	12,244	10,143
Travel	10,396	9,021
Advertising and public relations	1,883	1,951
Utilities	9,337	8,481
Insurance (property, liability, etc.)	2,929	3,038
Interest	8,245	6,364
Depreciation	28,665	26,295
Miscellaneous expense	737	965
Total operating expenses	<u>\$ 345,601</u>	<u>330,880</u>

(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 2011 and 2010 are comprised of the following:

	<u>2011</u>	<u>2010</u>
Sponsored research	\$ 13,590	12,144
Teaching and training	7,591	7,334
Development and others	3,683	2,484
Total research and grants	<u>\$ 24,864</u>	<u>21,962</u>

(19) Subsequent Events

The University evaluated events after the statement of financial position date of June 30, 2011 through September 8, 2011 which was the date the financial statements were issued. No significant subsequent events were noted.