KPMG

MARQUETTE UNIVERSITY

Financial Statements

June 30, 2012 and 2011

(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, 2012 and 2011, 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, 2012 and 2011, 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
August 31, 2012

MARQUETTE UNIVERSITY

Statements of Financial Position

June 30, 2012 and 2011

(Dollars in thousands)

Assets		**2012**	**2011**
Cash and cash equivalents	$	36,109	28,620
Collateral held under securities lending agreement		33,978	41,820
Contributions receivable, less allowance for uncollectible pledges of $2,413 and $2,091 in 2012 and 2011, respectively		78,895	83,519
Accounts receivable, less allowance for uncollectible accounts of $2,100 and $2,227 in 2012 and 2011, respectively		12,772	15,363
Prepaid expenses and deferred charges		6,213	6,496
Student loans receivable, less allowance for uncollectible accounts of $92 and $90 in 2012 and 2011, respectively		43,054	44,243
Investments		423,055	435,549
Funds held in trust by others		23,252	21,908
Other assets		1,423	1,588
Net property, buildings, and equipment		496,795	490,142
Total assets	$	1,155,546	1,169,248
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	7,655	12,204
Accrued liabilities		22,880	22,568
Payables under securities lending agreement		33,978	42,068
Student credits and other advance payments		7,640	7,420
Deferred income and deposits		20,349	20,290
Payable to beneficiaries under split-interest agreements		4,424	5,002
Refundable federal loan grants		35,867	37,170
Postretirement benefits payable		4,280	3,836
Notes and bonds payable		206,494	216,138
Total liabilities		343,567	366,696
Net assets:			
Unrestricted		195,514	198,965
Temporarily restricted		301,387	302,734
Permanently restricted		315,078	300,853
Total net assets		811,979	802,552
Total liabilities and net assets	$	1,155,546	1,169,248

See accompanying notes to financial statements.

MARQUETTE UNIVERSITY

Statement of Activities

Year ended June 30, 2012

(Dollars in thousands)

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:					
Student tuition and fees – gross	$	328,244	—	—	328,244
Less tuition discounts		(102,909)	—	—	(102,909)
Net tuition and fees		225,335	—	—	225,335
Government and private grants		25,147	—	—	25,147
Contributions		1,817	27,091	13,797	42,705
Auxiliary enterprises		47,377	—	—	47,377
Sales by educational departments		9,479	—	—	9,479
Investment income (loss)		549	136	(209)	476
Endowment income used in operations		4,671	12,887	244	17,802
Other income		16,762	—	—	16,762
Total operating revenues		331,137	40,114	13,832	385,083
Net assets released from restrictions		31,273	(31,273)	—	—
Total operating revenues and net assets released from restrictions		362,410	8,841	13,832	385,083
Operating expenses:					
Instruction		107,024	—	—	107,024
Academic support		41,103	—	—	41,103
Research and grants		22,352	—	—	22,352
Libraries		19,227	—	—	19,227
Student services		49,578	—	—	49,578
Auxiliary enterprises		42,918	—	—	42,918
Institutional support		72,144	—	—	72,144
Public services		3,919	—	—	3,919
Total operating expenses		358,265	—	—	358,265
Operating income		4,145	8,841	13,832	26,818
Nonoperating (expenses) income:					
Endowment gain in excess of amounts designated for current operations, net		(6,496)	(8,098)	133	(14,461)
Other		(1,100)	(2,090)	260	(2,930)
Total nonoperating (loss) income, net		(7,596)	(10,188)	393	(17,391)
Change in net assets		(3,451)	(1,347)	14,225	9,427
Net assets, beginning of year		198,965	302,734	300,853	802,552
Net assets, end of year	$	195,514	301,387	315,078	811,979

See accompanying notes to financial statements.

MARQUETTE UNIVERSITY

Statement of Activities

Year ended June 30, 2011

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:				
Student tuition and fees – gross	$ 306,018	—	—	306,018
Less tuition discounts	(91,308)	—	—	(91,308)
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	15,711	—	—	15,711
Total operating revenues	319,831	35,708	27,521	383,060
Net assets released from restrictions	28,928	(28,928)	—	—
Total operating revenues and net assets released from restrictions	348,759	6,780	27,521	383,060
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	3,542	—	—	3,542
Total operating expenses	345,601	—	—	345,601
Operating income	3,158	6,780	27,521	37,459
Nonoperating income (expenses):				
Endowment gain in excess of amounts designated for current operations, net	27,746	28,003	443	56,192
Other	(2,985)	(206)	298	(2,893)
Total nonoperating income, net	24,761	27,797	741	53,299
Change in net assets	27,919	34,577	28,262	90,758
Net assets, beginning of year	171,046	268,157	272,591	711,794
Net assets, end of year	$ 198,965	302,734	300,853	802,552

See accompanying notes to financial statements.

MARQUETTE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2012 and 2011

(Dollars in thousands)

		2012	2011
Cash flows from operating activities:			
Change in net assets	$	9,427	90,758
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		30,993	28,665
Discount amortization		86	106
Net realized and unrealized depreciation (appreciation) on investments		1,863	(68,444)
Bad debt expense		504	314
Contributions for major capital projects including gifts in kind		(13,713)	(13,894)
Contributions restricted for long-term endowments		(13,797)	(27,485)
Permanently restricted endowment income used in operations		(244)	(243)
Gain on sale of property, buildings, and equipment		(11)	(6)
Change in assets and liabilities:			
Decrease in accounts receivable		2,173	674
Decrease in contributions receivable		2,885	1,994
(Increase) decrease in funds held in trust by others		(1,344)	2,313
Decrease (increase) in other assets, net		249	(620)
(Decrease) increase in accounts payable		(3,027)	587
Increase in accrued liabilities		252	1,588
Increase in student credits and other advance payments		220	597
Increase in deferred income and deposits		59	1,603
Decrease in payables to beneficiaries under split-interest agreements		(578)	(407)
Increase (decrease) in postretirement benefits payable		444	(202)
Net cash provided by operating activities		16,441	17,898
Cash flows from investing activities:			
Purchases of property, buildings, and equipment		(39,772)	(63,045)
Proceeds from sale of property, buildings, and equipment		11	6
Student loan repayments		6,747	7,932
Student loans issued		(5,645)	(7,518)
Proceeds from sale of investments from bond proceeds		—	11,541
(Decrease) increase in payables under securities lending agreement		(8,090)	2,642
Decrease (increase) in cash collateral held under securities lending agreement		7,842	(3,556)
Purchase of investments		(295,534)	(376,739)
Proceeds from the sale of investments		306,165	383,643
Net cash used in investing activities		(28,276)	(45,094)
Cash flows from financing activities:			
Contributions received for major capital projects		13,310	13,696
Contributions restricted for long-term endowments		15,536	23,470
Permanently restricted endowment income used in operations		244	243
Decrease in refundable federal loan grants		(1,303)	(143)
Proceeds from issuance of long-term debt		1,067	27,669
Repayment of notes and bonds payable		(9,530)	(36,894)
Net cash provided by financing activities		19,324	28,041
Net increase in cash and cash equivalents		7,489	845
Cash and cash equivalents, beginning of year		28,620	27,775
Cash and cash equivalents, end of year	$	36,109	28,620

See accompanying notes to financial statements.

(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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(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) 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.

(e) 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 commingled funds, real estate, multi-strategy hedge funds and private equity partnerships 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.

(f) 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.

(g) Student Loans Receivable

The University makes uncollateralized loans to students based on financial need. Student loans receivable consist of both federal and institutional loans. At June 30, 2012 and 2011, student loans represented 3.7% and 3.8% of total assets, respectively.

(Dollars in thousands)

At June 30, student loans consisted of the following:

		2012	2011
Federal government loan programs	$	41,110	42,128
Institutional loan programs		2,036	2,205
Subtotal		43,146	44,333
Less allowance for doubtful accounts:			
Beginning of year		(90)	(86)
Increases		(91)	(30)
Write-offs		89	26
End of year		(92)	(90)
Student loans receivable	$	43,054	44,243

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 program is dependent on reimbursements to the pool from repayments on outstanding loans. At June 30, 2012 and 2011, 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 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.

At June 30, 2012 and 2011, the following amounts were past due under student loan programs:

June 30		1-240 days	241 days to 2 years	over 2 years	Total
2012	$	1,855	827	960	3,642
2011		1,890	653	747	3,290

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.

(h) 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.

(Dollars in thousands)

Property, buildings, and equipment include the following at June 30, 2012 and 2011:

		2012	2011
Land and improvements	$	39,234	38,738
Buildings and improvements		585,846	530,302
Construction in progress		9,130	43,658
Furniture, fixtures, and equipment		132,319	136,277
Library contents		109,308	104,616
Less accumulated depreciation		(379,042)	(363,449)
Net property, buildings, and equipment	$	496,795	490,142

Construction in progress includes the following as of June 30, 2012 and 2011:

		2012	2011
Engineering Hall	$	—	33,072
MFS Upgrade		4,451	—
McCormick Res Fire Protection		1,236	—
Nursing Simulation Lab		1,067	—
Other renovation and construction projects		2,376	10,586
Total construction in progress	$	9,130	43,658

(i) 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,

(Continued)

(Dollars in thousands)

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:

		2012	2011
Building cost	$	509	509
Accumulated depreciation		(307)	(299)
Net building cost	$	202	210
Asset retirement obligation (included in accrued liabilities)	$	4,404	4,344

(j) 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.

(k) Auxiliary Enterprises

Auxiliary enterprises include revenues and expenses of the University's residence halls, parking services, and gift shops.

(l) Contributions

Contributions, including unconditional promises to give (pledges), are recorded as operating revenue. Gifts, excluding artwork, are recognized in the appropriate category of net assets in the period received. 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.

(m) 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.

(n) 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.

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, 2012 and 2011, the University did not have a liability for unrecognized tax benefits.

(o) 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, 2012 and 2011, the specific policy covering highly valued works provides for insured coverage at $79,000 and $79,000, respectively, aggregate limit for any one loss or any one occurrence and includes some appraised items from library collections. As of June 30, 2012 and 2011, additional fine art values covered for loss in other insurance programs are estimated at approximately $3,800 and $3,800, respectively.

(Dollars in thousands)

(p) 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.

(q) Reclassifications

Certain prior year financial statement amounts have been reclassified to conform to the current year presentation.

(3) Investments

Cost and estimated fair values of investments as of June 30, 2012 and 2011 were as follows:

	2012		2011	
	Cost	Fair value	Cost	Fair value
Money funds and other	$ 5,884	5,884	12,448	12,449
Federal, state and local agencies securities	23,596	25,160	44,614	45,130
Nongovernment bonds and notes	9,687	10,213	8,487	8,749
Asset and mortgage-backed securities	4,769	4,585	5,616	5,354
Foreign bonds and notes	3,241	3,409	3,056	3,195
Common and preferred stocks	28,529	37,350	37,079	51,642
Mutual funds-bonds	767	776	819	806
Mutual funds-equity	60,171	57,568	60,796	65,668
Commingled funds-equity	54,473	56,069	48,314	54,836
Real estate limited partnership and membership interests	18,689	15,566	17,198	13,048
Multi-strategy hedge funds	122,695	157,452	115,276	144,902
Private equity partnerships	46,969	49,023	28,000	29,770
Total investments	$ 379,470	423,055	381,703	435,549

(Dollars in thousands)

The University's investments at fair value are categorized as of June 30, 2012 and 2011 as follows:

		2012	2011
Investments permanently restricted by donors	$	265,825	249,143
Investments functioning as endowment		125,418	135,648
Total investments subject to endowment spending policy		391,243	384,791
Long-term cash management investments		6,309	23,936
Trust and other investments		25,503	26,822
Total investments	$	423,055	435,549

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

Investment returns as of June 30, 2012 and 2011 comprise the following:

		2012			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Interest and dividends	$	1,914	3,903	(137)	5,680
(Loss) gain on investments, net		(3,190)	1,022	305	(1,863)
Return on investments	$	(1,276)	4,925	168	3,817
Return on investments are classified on the statement of activities as follows:					
Investment income (loss)	$	549	136	(209)	476
Endowment income used in operations		4,671	12,887	244	17,802
Endowment (loss) gain in excess of amounts designated for current operations, net		(6,496)	(8,098)	133	(14,461)
(Loss) return on investments	$	(1,276)	4,925	168	3,817

(Dollars in thousands)

Return on investments is net of investment fees of $1,699.

	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	$ 33,091	40,448	479	74,018
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	27,746	28,003	443	56,192
Return on investments	$ 33,091	40,448	479	74,018

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

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, 2012 and 2011, the University had loaned securities with a market value of $33,182 and $40,945, respectively, that were secured by collateral with a market value of approximately $33,978 and $41,820, 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 $0 and $248 related to market value losses of the collateral were recorded as of June 30, 2012 and 2011, respectively.

(4) Fair Value Measurements

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. While the University believes that its valuation methods are appropriate and consistent with those of other market participants, 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 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.

Investments include money funds, federal, state, nongovernment, asset-backed and foreign fixed income securities, stocks, mutual funds, commingled funds, real estate, multi-strategy 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. Real estate, multi-strategy hedge funds and private equity 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.

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.

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.

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:

(Continued)

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 multi-strategy hedge funds and private equity partnerships, real estate limited partnership and membership interests.

(Dollars in thousands)

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, 2012. The categorization of financial instruments within the hierarchy is based on price transparency and does not necessarily correspond to the perceived risk of the instruments.

		Total	Level 1	Level 2	Level 3
June 30, 2012:					
Financial assets:					
Cash and cash equivalents	$	36,109	36,109	—	—
Collateral held under securities lending agreement		33,978	—	33,978	—
Investments:					
Money funds and other		5,884	—	5,884	—
Federal, state, and local agency securities		25,160	—	25,160	—
Nongovernment bonds and notes		10,213	—	10,213	—
Asset and mortgage-backed securities		4,585	—	4,585	—
Foreign bonds and notes		3,409	—	3,409	—
Common and preferred stocks		37,350	37,350	—	—
Mutual funds-bonds		776	776	—	—
Mutual funds-equity		57,568	57,568	—	—
Commingled funds-equity		56,069	—	56,069	—
Real estate limited partnership and membership interests		15,566	—	—	15,566
Multi-strategy hedge funds		157,452	—	34,047	123,405
Private equity partnerships		49,023	—	—	49,023
Total investments		423,055	95,694	139,367	187,994
Funds held in trust by others		23,252	—	23,252	—
Total assets	$	516,394	131,803	196,597	187,994
Financial liabilities:					
Payables under securities lending agreement	$	33,978	—	33,978	—
Total liabilities	$	33,978	—	33,978	—

There were no significant transfers of assets from Level 1 to Level 2 during the fiscal year ended June 30, 2012.

Certain investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is a practical expedient to estimate the fair value of the University's interest therein, its classification in Level 2 or 3 is based on the University's ability to redeem its interest at or near the date of the statement of financial position. If the interest can be redeemed in the near term, the investment is classified in Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

(Dollars in thousands)

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, 2012:

		Level 3
Financial assets:		
Beginning balance, June 30, 2011	$	156,921
Net income including realized gains		3,262
Unrealized gains, net		759
Expenses		(337)
Purchases		30,831
Sales		(3,442)
Ending balance, June 30, 2012	$	187,994

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2012 are as follows:

		Net asset value	Unfunded commitments	Redemption frequency	Redemption notice period
Commingled funds	$	56,069	—	Monthly	5-10 days
Real estate limited partnership and membership interests		15,566	7,316		
Multi-strategy hedge funds		157,452	—	Quarterly, Annually	60 – 180 days
Private equity partnerships		49,023	60,050		
Total	$	278,110	67,366		

(Dollars in thousands)

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.

	Total	Level 1	Level 2	Level 3
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	45,130	—	45,130	—
Nongovernment bonds and notes	8,749	—	8,679	70
Asset and mortgage-backed securities	5,354	—	5,354	—
Foreign bonds and notes	3,195	—	3,195	—
Common and preferred stocks	51,642	51,642	—	—
Mutual funds-bonds	806	806	—	—
Mutual funds-equity	65,667	65,667	—	—
Commingled funds-equity	54,836	—	54,836	—
Real estate limited partnership and membership interests	13,049	—	—	13,049
Multi-strategy hedge funds	144,902	—	30,870	114,032
Private equity partnerships	29,770	—	—	29,770
Total investments	435,549	118,115	160,513	156,921
Funds held in trust by others	21,908	—	21,908	—
Total assets	$ 527,897	146,735	224,241	156,921
Financial liabilities:				
Payables under securities lending agreement	$ 42,068	—	42,068	—
Total liabilities	$ 42,068	—	42,068	—

There were no significant transfers of assets from Level 1 to Level 2 during the fiscal year ended June 30, 2011.

Certain investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is a practical expedient to estimate the fair value of the University's interest therein, its classification in Level 2 or 3 is based on the University's ability to redeem its interest at or near the date of the statement of financial position. If the interest can be redeemed in the near term, the investment is classified in Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

(Dollars in thousands)

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:

		Level 3
Financial assets:		
Beginning balance, June 30, 2011	$	117,938
Net income including realized gains		1,671
Unrealized gains, net		11,373
Expenses		(116)
Purchases		30,778
Sales		(4,723)
Ending balance, June 30, 2012	$	156,921

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:

		Net asset value	Unfunded commitments	Redemption frequency	Redemption notice period
Commingled funds	$	54,836	—	Monthly	10 days
Real estate limited partnership and membership interests		13,049	3,380		
Multi-strategy hedge funds		144,902	—	Quarterly, Annually	60 – 180 days
Private equity partnerships		29,770	35,769		
Total	$	242,557	39,149		

Commingled funds consist of assets from several accounts that are blended together. Investors in commingled fund investments benefit from economies of scale, which allow for lower trading costs per dollar of investment, diversification and professional money management. The net asset value of investments in this category has been estimated based on the net asset value per share of the investment.

Real estate limited partnerships and membership interests include 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. 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.

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.

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 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.

(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.

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 \$6,789 and \$3,186 as of June 30, 2012 and 2011, 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.

(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, 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.

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.

(Dollars in thousands)

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, 2012:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(6,789)	44,909	315,078	353,198
Quasi-/board-designated endowment funds		89,688	—	—	89,688
Total funds	$	82,899	44,909	315,078	442,886

The following represents the changes in endowment net assets for the year ended June 30, 2012:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$	87,840	53,266	300,853	441,959
Investment return:					
Investment loss		—	—	(209)	(209)
Endowment income used for spending policy		4,671	12,887	244	17,802
Net realized and unrealized gains		(6,492)	(8,357)	393	(14,456)
Total investment return		(1,821)	4,530	428	3,137
Appropriation of endowment assets for expenditure		(4,671)	(12,887)	—	(17,558)
Contributions		1,551	—	13,797	15,348
Endowment net assets, end of year	$	82,899	44,909	315,078	442,886

(Dollars in thousands)

The following represents endowment net assets composition by type of fund as of June 30, 2011:

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

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
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	27,358	25,756	741	53,855
Total investment return	31,947	37,818	777	70,542
Appropriation of endowment assets for expenditure	(4,589)	(12,062)	—	(16,651)
Contributions	2,396	—	27,485	29,881
Endowment net assets, end of year	$ 87,840	53,266	300,853	441,959

(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 1.2% to 5.0%. 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 $8,997 and $9,726 at June 30, 2012 and 2011, respectively.

(Dollars in thousands)

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 $1,340 and $1,384 as of June 30, 2012 and 2011, 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 $14,342 and $14,923 as of June 30, 2012 and 2011, 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 $23,252 and $21,908 at June 30, 2012 and 2011, 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 0.12% to 1.56% on the date the promise to give is received. Amortization of the discount is included in contribution revenues.

As of June 30, 2012 and 2011, the contributions receivable are due as follows:

		2012	2011
Less than one year	$	5,929	18,610
One to five years		48,055	43,950
Over five years		50,566	49,296
		104,550	111,856
Less:			
Unamortized discount		(23,242)	(26,246)
Allowance for uncollectible accounts		(2,413)	(2,091)
Total contributions receivable	$	78,895	83,519

(Dollars in thousands)

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, 2012 and 2011, the fair value of these conditional promises is approximately $19,429 and $23,998, respectively.

(8) Notes and Bonds Payable

As of June 30, 2012 and 2011, notes and bonds payable consisted of the following:

		2012	2011
4.67% note payable with annual payments through September 15, 2011	$	—	95
Revenue Bonds, Series 1998, payable with fixed interest rates ranging from 4.75% to 5.25%, maturing through 2028		25,486	25,486
Revenue Bonds, Series 2002A, payable with fixed interest rates ranging from 3.75% to 4.85%, maturing through 2032		17,070	17,550
RACM, Series 2002, payable with fixed interest rates ranging from 3.60% to 4.35%, maturing through 2014		9,970	11,200
Revenue Bonds, Series 2007A, payable with fixed interest rates ranging from 4.00% to 5.00%, maturing through 2023		22,608	24,016
Revenue Bonds, Series 2007B, payable with fixed interest rates ranging from 4.50% to 5.00%, maturing through 2032		27,608	27,614
Revenue Bonds, Series 2008B1, payable with fixed interest rates ranging from 2.00% to 5.00%, maturing through 2033		30,557	31,412
Revenue Bonds, Series 2008B2, payable with fixed interest rates ranging from 2.25% to 5.00%, maturing through 2033		17,684	18,216
Revenue Bonds, Series 2008B3, payable with fixed interest rates ranging from 2.00% to 5.00%, maturing through 2033		31,811	32,702
Revenue Bonds, Series 2011A, payable with fixed interest rates ranging from 2.00% to 5.00%, maturing through 2020		22,751	27,652
Capitalized lease, payable with variable interest rate, maturing through 2012		949	195
Total notes and bonds payable	$	206,494	216,138

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, 2012 and 2011.

(Dollars in thousands)

Maturities of notes and bonds payable based on scheduled repayments at June 30, 2012 are as follows:

2013	$	7,987
2014		8,300
2015		8,192
2016		8,115
2017		8,429
Thereafter		165,471
Total notes and bonds payable	$	206,494

As of June 30, 2012, the University has two secured letters of credit with banks under which it may borrow up to $2,748. There were no borrowings outstanding under these letters of credit as of June 30, 2012 and 2011.

Cash utilized for the payment of interest on notes and bonds payable was $9,483 and $9,655 during fiscal years 2012 and 2011, 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 $9,483 and $9,655 in fiscal years 2012 and 2011, 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 2012 and 2011 totaled $21,481 and $20,158, 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, 2012 and 2011.

(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.

(Dollars in thousands)

Summary information regarding the accounting for both plans for the years ended June 30, 2012 and 2011 is presented in the following:

		2012	2011
Change in benefit obligation:			
Benefit obligation, beginning of year	$	3,836	4,038
Service cost		2	4
Interest cost		205	206
Actuarial loss (gain)		307	(203)
Benefits paid		(70)	(209)
Benefit obligation, end of year	$	4,280	3,836
Change in plan assets:			
Fair value of plan assets, beginning of year	$	—	—
Plan participant contributions		70	209
Actual benefits paid		(70)	(209)
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		(36)	(109)
Net gain (loss)		55	(249)
Change in postretirement benefits	$	19	(358)

(Continued)

(Dollars in thousands)

		2012	2011
Measurement date		June 30	June 30
Weighted average assumptions for liability:			
Discount rate		5.00%	6.00%
Salary increase		4.00	4.00
Assumed healthcare cost trend rates:			
Current year rate		8.00%	8.00%
Ultimate rate		6.00	6.00
Year rate reaches ultimate rate		2016	2016
Components of net periodic benefit cost:			
Service cost	$	2	4
Interest cost		205	206
Amortization of:			
Unrecognized prior service cost		(73)	(73)
Unrecognized actuarial loss		(3)	(1)
Net periodic cost	$	131	136

The projected postretirement benefit payments for the fiscal years subsequent to June 30, 2012 are as follows:

2013	$	229
2014		237
2015		242
2016		248
2017		252
2018 to 2021		1,315

(12) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following as of June 30, 2012 and 2011:

		2012	2011
Physical assets	$	141,941	133,799
General operations and education		76,342	79,783
Pledge receivable, net		46,493	47,781
Scholarships		24,297	28,927
Life income and annuity funds		12,314	12,444
Total temporarily restricted net assets	$	301,387	302,734

(Dollars in thousands)

(13) Permanently Restricted Net Assets

Permanently restricted net assets consist of the following as of June 30, 2012 and 2011, the income from which is expendable to support:

		2012	2011
Scholarships	$	148,241	137,558
General operations and education		118,923	112,969
Pledge receivable, net		32,402	35,738
Life income and annuity funds		15,512	14,588
Total permanently restricted net assets	$	315,078	300,853

(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 2012 and 2011, the University had related party transactions approximating $21,726 and $38,981, 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, 2012, the University has outstanding commitments for the following construction projects:

Discovery Learning Complex	$	1,418
Nursing Simulation Lab		1,348
Various renovation projects		1,434
Total commitments	$	4,200

(Dollars in thousands)

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, 2012 are as follows:

2013	$	355
2014		182
2015		155
2016		142
2017		99
Thereafter		97
Total future commitments	$	1,030

Total rent expense for the University was $1,192 and $1,249 during the fiscal years ended June 30, 2012 and 2011, respectively.

The University has noncancelable lease agreements for copiers and vehicles. These leases are accounted for as capital leases and are included in the statements of financial position under property, buildings, and equipment. The terms of the leases require the University to make annual payments of $503. During fiscal years 2012 and 2011, the total cost of the copiers and vehicles capitalized under these lease contracts is $1,067 and $1,490 and the accumulated depreciation totaled $210 and $1,300, respectively.

The future minimum lease payment commitments under lease as of June 30, 2012 are as follows:

2013	$	503
2014		503
2015		503
2016		42
Total future commitments		1,551
Less amount representing interest		(602)
Present value of future minimum lease payments	$	949

(Dollars in thousands)

(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 2012 and 2011 from the following revenue sources:

		2012	2011
Institutional revenue sources	$	85,034	75,243
Gifts, grants, and endowment earnings		17,875	16,065
Total tuition discount	$	102,909	91,308

(17) Natural Expenses

The University's classification of unrestricted expenses in the statements of activities is classified by natural expenses as of June 30, 2012 and 2011 as follows:

		2012	2011
Salaries and fringe benefits	$	227,098	219,163
Supplies		18,075	19,164
Telephone		795	868
Professional fees		8,525	8,805
Administrative expenses		11,833	11,484
Meal plans and promotional items		12,117	11,681
Repairs and maintenance		12,756	12,244
Travel		11,006	10,396
Advertising and public relations		1,792	1,883
Utilities		9,531	9,337
Insurance (property, liability, etc.)		3,119	2,929
Interest		9,673	8,245
Depreciation		30,993	28,665
Miscellaneous expense		952	737
Total operating expenses	$	358,265	345,601

(Continued)

(Dollars in thousands)

(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 2012 and 2011 comprise of the following:

		2012	2011
Sponsored research	$	12,828	13,590
Teaching and training		6,626	7,591
Development and others		2,898	3,683
Total research and grants	$	22,352	24,864

(19) Subsequent Events

The University evaluated events after the statement of financial position date of June 30, 2012 through August 31, 2012, which was the date the financial statements were issued. During this period, the University made commitments of $2,126 related to the initial construction of a $16,000 Marquette University School of Dentistry expansion.