MARQUETTE UNIVERSITY

Consolidated Financial Statements

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

MARQUETTE UNIVERSITY

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

Independent Auditors' Report

The Board of Trustees
Marquette University:

Report on the Financial Statements

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

KPMG LLP

Milwaukee, Wisconsin
September 10, 2018

MARQUETTE UNIVERSITY

Consolidated Statements of Financial Position

June 30, 2018 and 2017

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

MARQUETTE UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2018

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

MARQUETTE UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2017

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

MARQUETTE UNIVERSITY

Consolidated Statements of Cash Flows

Years ended June 30, 2018 and 2017

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

(1) Organization

Marquette University (the University) is an independent, coeducational, not-for-profit institution of higher learning and research located in Milwaukee, Wisconsin, formally opened in 1881 and conducted under the auspices of the Society of Jesus. Through its eleven separate colleges and schools, the University offers bachelor's degree programs, master's degree programs, doctoral degree programs, and post-baccalaureate first professional degree programs.

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

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

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

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

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

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

(b) Use of Estimates

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

(c) Cash and Cash Equivalents

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

(d) Unexpended Bond Proceeds

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

(e) Prepaid Expenses and Deferred Charges

Prepaid expenses and deferred charges consist of prepaid insurance, maintenance and other costs associated with future periods.

(f) Investments

Investments are reported at fair value based on market quotes with unrealized gains and losses thereon included in the consolidated statements of activities. When a ready market for the investments does not exist, the net asset value is used as a practical expedient in estimating fair value, based on information provided by fund managers or general partners. The estimated values are reviewed and evaluated by the University. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed.

(g) Funds Held in Trust by Others

Funds held in trust by others represent amounts held by third-party trustees for the benefit of the University under trust agreements created by donors. Amounts held in trust are stated at fair value. These agreements stipulate the length of the trust and the intended purpose of the funds.

(h) Student Loans Receivable, Net

The University makes uncollateralized loans to students based on financial need. Student loans receivable consist of both federal and institutional loans.

(Dollars in thousands)

At June 30, student loans consisted of the following:

		2018	2017
Federal government loan programs	$	38,607	39,867
Institutional loan programs		1,362	1,296
Subtotal		39,969	41,163
Less allowance for doubtful accounts:			
Beginning of year		(87)	(102)
Increases		(26)	(47)
Write-offs		23	62
End of year		(90)	(87)
Student loans receivable, net	$	39,879	41,076

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

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

June 30		1–240 days	241 days to 2 years	over 2 years	Total
2018	$	790	558	1,717	3,065
2017		1,162	742	1,578	3,482

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

(i) Property, Buildings, and Equipment

Property, buildings, and equipment are recorded at cost at date of acquisition or fair value at date of donation including, where appropriate, capitalized interest. Property and equipment under capital leases are initially valued and recorded on the present value of minimum lease payments. The

(Dollars in thousands)

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

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

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

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

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

(j) Asset Retirement Obligations

The University records all known asset retirement obligations for which the liability’s fair value can be reasonably estimated, primarily asbestos removal. The determination of the asset retirement obligation is based upon a number of assumptions that incorporate the University’s knowledge of facilities, the asset lives, the estimated timeframes for periodic renovations, the current cost for remediation of

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asbestos, and the current technology at hand to accomplish the remediation work. These assumptions used to determine the asset retirement obligation may be imprecise or be subject to changes in the future. Any change in the assumptions can impact the value of the determined liability and impact future net activities of the University.

(k) Student Tuition and Fees

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

(l) Auxiliary Enterprises

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

(m) Contributions

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

(n) Operating Income

Operating results (change in unrestricted net assets from operating activity) in the consolidated statement of activities reflect all transactions that change unrestricted net assets, except for activity associated with endowment investments and certain other nonrecurring transactions, including adjustments to allowance for uncollectible contributions, the loss on debt defeasance, and other gains and losses. In accordance with the University's endowment distribution policy as described in note 5, only the portion of total investment return distributed under this policy to meet operating needs is included in operating revenue. Operating investment income consists of dividends, interest, and realized gains and losses on unrestricted nonendowed investments.

The University's primary programs are instruction, research, and public service. Academic support, library, student services, and auxiliary enterprises are considered integral to the delivery of these programs. Fundraising costs are not material to the University's total program costs. Costs related to the operation and maintenance of physical plant, including depreciation of plant assets, are allocated to operating programs and supporting activities based upon periodic facility usage surveys. Interest

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expense on external debt is allocated to the activities that have most directly benefited from the debt proceeds.

(o) Income Taxes

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

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

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

(p) Art Collection

The University has various collections of fine arts and rare books in museums, libraries, and on loan. The University does not assign or record a value to art works and other collections received as gifts or purchased with contributions restricted for that purpose. Valuations for some collections are updated periodically, and as such, the total of all fine arts may vary with appraisals and / or auction prices. Accordingly, the values of fine art and other collections has been excluded from the statements of financial position. Proceeds, if any, deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes. The art and other collections are subject to a requirement that proceeds from their sales be used to acquire other items for the collections. Fine arts are included in insurance coverage for the University property and a separate policy is also secured for fine art of high value and where appraised values are listed. As of June 30, 2018, the specific policy covering highly valued works provides for insured coverage of $82,000 aggregate limit (subject to policy sublimits-including $3,000 for the Joan of ARC Chapel) for any one loss or any one occurrence and includes some appraised items from the library collections.

(q) Reclassification

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

(Dollars in thousands)

(3) Investments

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

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

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

		2018	2017
Investments permanently restricted by donors	$	407,101	382,514
Investments functioning as endowment		237,937	223,495
Total investments subject to endowment spending policy		645,038	606,009
Long-term cash management investments		4,665	30,615
Trust and other investments		28,127	32,388
Total investments	$	677,830	669,012

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

(Dollars in thousands)

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

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

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

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

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

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

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

(4) Fair Value Measurements

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

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

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

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

Investments include money funds, federal, state, local agency, nongovernment, asset and mortgage-backed and foreign fixed income securities, stocks, mutual funds, commingled funds, real estate, multistrategy hedge funds and private equity partnerships. Investments are based on valuations provided by external investment managers and the custodian banks. Valuations provided by external investment managers and the custodian bank include observable market quotation prices, observable inputs other than quoted prices such as price services or indexes, estimates, appraisals, assumptions and other methods that are reviewed by management. ASC Topic 820, *Fair Value Measurement*, allows the University to estimate the fair value of an investment using the net asset value per share of the investment as a practical expedient, if that net asset value per share is determined in accordance with ASC Topic 946, *Financial Services-Investment Companies*. Real estate, multi-strategy hedge funds, commingled funds and private equity partnerships are valued using net asset value; however, it is possible that the redemption rights of certain investments may be restricted by the funds in the future in accordance with the underlying fund agreements. Changes in market conditions and the economic environment may impact the net asset value of the funds and consequently the fair value of the University's interests in the funds.

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

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

ASC Topic 820, *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

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

(Continued)

(Dollars in thousands)

The following table presents the University's financial instruments at fair value as of June 30, 2018. The categorization of financial instruments within the hierarchy is based on price transparency and does not necessarily correspond to the perceived risk of the instruments.

	Total	Level 1	Level 2	Level 3
June 30, 2018:				
Assets:				
Recurring:				
Cash and cash equivalents	$ 63,264	63,264	—	—
Collateral held under securities lending agreement	15,951	—	15,951	—
Investments:				
Money funds and other	41,560	—	41,560	—
Federal, state, and local agency securities	6,263	—	6,263	—
Nongovernment bonds and notes	4,293	—	4,293	—
Asset and mortgage-backed securities	376	—	376	—
Foreign bonds and notes	532	—	532	—
Common and preferred stocks	45,294	45,294	—	—
Mutual funds – bonds	33,067	33,067	—	—
Mutual funds – equity	100,012	100,012	—	—
Investments measured at net asset value	446,433	—	—	—
Total investments	677,830	178,373	53,024	—
Funds held in trust by others	6,995	—	—	6,995
Total assets measured at fair value on recurring basis	$ 764,040	241,637	68,975	6,995
Liabilities:				
Recurring:				
Payables under securities lending agreement	$ 15,951	—	15,951	—
Total liabilities measured at fair value on recurring basis	$ 15,951	—	15,951	—

(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, 2018:

	Funds held in trust by others
Financial assets:	
Beginning balance	$ 13,426
Irrevocable trusts that matured	(139)
Adjustment to net realizable value	(4,891)
Unrealized losses, net	(1,401)
Ending balance	$ 6,995

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

Fiscal year ended June 30, 2018	Net assets value	Unfunded commitments	Redemption frequency	Redemption notice period
Commingled funds	$ 76,869	—	Weekly, Monthly	1–10 days
Multi-strategy hedge funds	260,836	—	Quarterly, Annually, 2 years, 3 years, 5 years	30–180 days
Private equity partnerships	90,409	54,798	Illiquid	
Real estate limited partnership and membership interests	18,319	27,706	Illiquid	
	$ 446,433	82,504		

(Dollars in thousands)

The following table presents the University's financial instruments at fair value as of June 30, 2017. The categorization of financial instruments within the hierarchy is based on price transparency and does not necessarily correspond to the perceived risk of the instruments.

	Total	Level 1	Level 2	Level 3
June 30, 2017:				
Assets:				
Recurring:				
Cash and cash equivalents	$ 69,183	69,183	—	—
Collateral held under securities lending agreement	22,632	—	22,632	—
Investments:				
Money funds and other	58,649	—	58,649	—
Federal, state, and local agency securities	34,157	—	34,157	—
Nongovernment bonds and notes	17,291	—	17,291	—
Asset and mortgage-backed securities	1,974	—	1,974	—
Foreign bonds and notes	3,203	—	3,203	—
Common and preferred stocks	37,443	37,443	—	—
Mutual funds – bonds	3,843	3,843	—	—
Mutual funds – equity	103,978	103,978	—	—
Investments measured at net asset value	408,474	—	—	—
Total investments	669,012	145,264	115,274	—
Funds held in trust by others	13,426	—	—	13,426
Total assets measured at fair value on recurring basis	$ 774,253	214,447	137,906	13,426
Liabilities:				
Recurring:				
Payables under securities lending agreement	$ 22,632	—	22,632	—
Total liabilities measured at fair value on recurring basis	$ 22,632	—	22,632	—

(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, 2017:

		Funds held in trust by others
Financial assets:		
Beginning balance	$	14,826
Irrevocable trusts that matured		198
Unrealized losses, net		(1,598)
Ending balance	$	13,426

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

Fiscal year ended June 30, 2017		Net assets value	Unfunded commitments	Redemption frequency	Redemption notice period
Commingled funds	$	72,678	—	Weekly, Monthly	1–10 days
Multi-strategy hedge funds		234,655	—	Quarterly, Annually, 2 years, 5 years	30–180 days
Private equity partnerships		76,071	29,728	Illiquid	
Real estate limited partnership and membership interests		9,573	—	Quarterly	90 days
		15,497	22,798	Illiquid	
	$	408,474	52,526		

(5) Endowments and Endowment Income

(a) Interpretation of Relevant Law Governing Endowments

The State of Wisconsin enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) on July 20, 2009. This law provides, among other things, expanded spending flexibility by allowing, subject to a standard of prudence, the University to spend from an endowment fund without regard to the book value of the corpus. The Board of Trustees (the Board) of the University has interpreted UPMIFA as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift agreement. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted or temporarily restricted in accordance with UPMIFA and donor stipulations. Absent donor stipulations, the Board may appropriate for expenditure, for the uses and purposes of the endowment fund, the net appreciation, realized and unrealized, in the fair value of the assets of the endowment established by UPMIFA.

From time to time, the value of assets associated with a permanently restricted fund may fall below the historical cost. Deficiencies of this nature are reported in the unrestricted net assets and totaled $911 and $1,023 as of June 30, 2018 and 2017, respectively. These deficiencies resulted from unfavorable market conditions that occurred after the investment of permanently restricted contributions and from appropriations to certain programs. Subsequent gains that restore the market value of such funds to the historical cost will be classified as unrestricted net assets.

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

(b) Endowment Spending Policy

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

The cash required for spending, as determined above, may be drawn from both ordinary income earned (i.e., dividends and interest) and capital appreciation, both realized and unrealized of both current and prior years. Compliant with UPMIFA, the University will be allowed to prudently withdraw spendable funds even if an endowment’s market value is less than its historical book value. Any “return” that is not required to meet spending shall be retained in the endowment funds and invested in accordance with the investment policy statement.

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

(c) Endowment Investment Policy

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

(Dollars in thousands)

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

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

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

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(911)	112,528	443,153	554,770
Quasi-/board-designated endowment funds		123,638	—	—	123,638
Total funds	$	122,727	112,528	443,153	678,408

(Dollars in thousands)

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

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$	117,628	99,543	430,056	647,227
Investment return:					
Investment loss		—	—	(42)	(42)
Endowment income used for spending policy		5,887	21,142	414	27,443
Net realized and unrealized gains (losses)		5,029	12,985	(8,675)	9,339
Total investment return		10,916	34,127	(8,303)	36,740
Appropriation of endowment assets for expenditure		(5,887)	(21,142)	—	(27,029)
Contributions		70	—	21,400	21,470
Endowment net assets, end of year	$	122,727	112,528	443,153	678,408

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

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(1,023)	99,543	430,056	528,576
Quasi-/board-designated endowment funds		118,651	—	—	118,651
Total funds	$	117,628	99,543	430,056	647,227

(Continued)

(Dollars in thousands)

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ 106,086	70,282	406,120	582,488
Investment return:				
Investment loss	—	—	(90)	(90)
Endowment income used for spending policy	5,714	19,447	309	25,470
Net realized and unrealized gains	11,794	29,261	963	42,018
Total investment return	17,508	48,708	1,182	67,398
Appropriation of endowment assets for expenditure	(5,714)	(19,447)	—	(25,161)
Contributions	(252)	—	22,754	22,502
Endowment net assets, end of year	$ 117,628	99,543	430,056	647,227

(6) Irrevocable Split-Interest Agreements

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

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

The University is the beneficiary of seven trusts that, in accordance with the decedent's instructions, are managed and maintained by separate trustees not affiliated with the University. The University receives distributions from the trusts. The fair value of the trusts was $22,063 and $25,951 at June 30, 2018 and 2017, respectively.

For those agreements where the University does not serve as trustee, but is designated as an irrevocable beneficiary of the trust, temporarily or permanently restricted funds held in trust and revenue are recognized for the present value of the estimated future benefits due to the University over the life of the

(Continued)

(Dollars in thousands)

trust and when the trust is distributed. The present value calculation of the trust considers both the contribution revenue discount rate and, if applicable, the estimated life expectancy of the trust originator.

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

(7) Contributions Receivable

Contributions receivable expected to be collected within one year are recorded at net realizable value. Contributions receivable expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using an appropriate risk-free rate of return ranging from 0.65% to 2.20% on the date the promise to give is received. Amortization of the discount is included in contribution revenues.

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

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

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

(Dollars in thousands)

(8) Notes and Bonds Payable

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

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

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

The notes and bonds payable are subject to various covenants. Management confirms the University is in compliance with all covenants as of and for the years ended June 30, 2018 and 2017.

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

2019	$ 9,125
2020	8,810
2021	9,175
2022	9,565
2023	10,065
Thereafter	162,755
Total notes and bonds payable	$ 209,495

As of June 30, 2018, the University has two secured letters of credit with banks under which it may borrow up to $3,101. There were no borrowings outstanding under these letters of credit as of June 30, 2018 and 2017.

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

(9) Retirement Plan

All eligible full-time personnel may elect to participate in a defined contribution individual annuity plan. Under the provisions of the plan, participants are required to contribute 5% of their annual wages to the plan. The University has neither administrative responsibilities nor any financial liabilities under this plan except to make contributions, currently limited to 8% of the annual wages of participants, up to defined limits. In addition, voluntary contributions by participants may be made subject to Internal Revenue Service limitations. Payments for contributions to this plan totaled $11,675 and $10,599 in fiscal years 2018 and 2017, respectively.

(10) Self-Funded Health and Dental Benefit Plans

The University has self-funded benefit plans covering all active and certain retired employees' health and dental costs. Under the plans, the University's losses are limited, through the use of excess loss insurance, to $300 per claim. Claims paid under the plans for fiscal years 2018 and 2017 totaled $28,728 and $25,153, respectively. The University has also contracted with a third party administrator to provide administrative services for the plans. Accrued liabilities include an estimate of the University's liability for claims incurred but not paid through June 30, 2018 and 2017.

(11) Postretirement Benefits

The University provides retired employees access to certain healthcare and life insurance benefits. All University employees become eligible to access these benefits when their years of service plus age equal 70. Qualified retired employees under the age of 65 are eligible to participate in the University's healthcare plan. Retirees are expected to pay the full cost of their premiums, based on the claims experience associated with that defined group of retired employees. The University also pays group life insurance premiums for active or future retired employees hired prior to February 1, 1982 that provide for limited death benefits. The premiums paid are based on the group community rate associated with death claims filed for the entire population of employees and retirees participating in the program.

(Dollars in thousands)

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

		2018	2017
Change in benefit obligation:			
Benefit obligation, beginning of year	$	4,474	4,396
Service cost		—	—
Interest cost		163	161
Actuarial (gain) loss		(311)	(18)
Benefits paid		(153)	(65)
Benefit obligation, end of year	$	4,173	4,474
Change in plan assets:			
Fair value of plan assets, beginning of year	$	—	—
Employer contributions		153	65
Actual benefits paid		(153)	(65)
Fair value of plan assets, end of year	$	—	—
Change in postretirement benefits:			
Change in postretirement benefits other than net periodic benefit cost	$	—	—
Prior service credits		—	—
Net loss		(452)	(142)
Change in postretirement benefits	$	(452)	(142)

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

(Continued)

(Dollars in thousands)

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

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

(12) Temporarily Restricted Net Assets

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

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

(13) Permanently Restricted Net Assets

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

		2018	2017
Scholarships	$	248,216	235,606
Academic support, instruction and student services		164,152	156,210
Contributions receivable, net		25,655	26,635
Life income and annuity funds		5,130	11,605
Total permanently restricted net assets	$	443,153	430,056

(14) Related Parties

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

(Dollars in thousands)

(15) Commitments and Contingencies

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

As of June 30, 2018, the University has outstanding commitments for the following construction projects:

Athletic and Human Performance Research Center	$	10,743
The Commons		5,838
Total construction commitments	$	16,581

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

2019	$	1,316
2020		1,284
2021		1,309
2022		1,202
Thereafter		15,857
Total future commitments	$	20,968

(16) Tuition Discounts

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

		2018	2017
Institutional revenue sources	$	130,352	115,666
Gifts, grants, and endowment earnings		24,157	23,576
Total tuition discount	$	154,509	139,242

(Dollars in thousands)

(17) Natural Expenses

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

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

(18) Research and Grant Costs

The University receives grant and contract revenue from various government agencies and private sources for the support of research, training, and other sponsored programs. Revenues associated with the direct costs of these programs are recognized as the related costs are incurred. Indirect cost reimbursements from federal agencies are based on negotiated predetermined rates. Research and grant costs reported for fiscal years 2018 and 2017 comprise of the following:

		2018	2017
Sponsored research	$	16,404	15,641
Teaching and training		6,369	6,454
Development and others		3,934	3,888
Total research and grants	$	26,707	25,983

(Continued)

(19) Subsequent Events

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