



**MARQUETTE UNIVERSITY**  
(E.I.N. 39-0806251)

Audit Reports in Accordance with *Government Auditing Standards*  
and Uniform Guidance

June 30, 2018

(With Independent Auditors' Reports Thereon)

# MARQUETTE UNIVERSITY

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## 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 statement 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 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 consolidated 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.



**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2018 on our consideration of Marquette University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Marquette University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Marquette University's internal control over financial reporting and compliance.

KPMG LLP

Milwaukee, Wisconsin  
September 10, 2018

**MARQUETTE UNIVERSITY**

Consolidated Statements of Financial Position

June 30, 2018 and 2017

(Dollars in thousands)

<b>Assets</b>	<b>2018</b>	<b>2017</b>
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	<u>612,838</u>	<u>536,565</u>
Total assets	\$ <u>1,487,304</u>	<u>1,453,970</u>
<b>Liabilities and Net Assets</b>		
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	<u>230,538</u>	<u>240,834</u>
Total liabilities	<u>388,718</u>	<u>412,984</u>
Net assets:		
Unrestricted	239,084	234,405
Temporarily restricted	416,349	376,525
Permanently restricted	<u>443,153</u>	<u>430,056</u>
Total net assets	<u>1,098,586</u>	<u>1,040,986</u>
Total liabilities and net assets	\$ <u>1,487,304</u>	<u>1,453,970</u>

See accompanying notes to consolidated financial statements.

**MARQUETTE UNIVERSITY**

Consolidated Statement of Activities

Year ended June 30, 2018

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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)

	<b>2018</b>	<b>2017</b>
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.

## MARQUETTE UNIVERSITY

### Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

#### (1) Organization

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

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

#### (2) Summary of Significant Accounting Policies

##### (a) Basis of Presentation

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

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

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

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

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

##### (b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the

## MARQUETTE UNIVERSITY

### Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

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.

**MARQUETTE UNIVERSITY**  
Notes to Consolidated Financial Statements  
June 30, 2018 and 2017  
(Dollars in thousands)

At June 30, student loans consisted of the following:

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

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:

<u>June 30</u>	<u>1–240 days</u>	<u>241 days to 2 years</u>	<u>over 2 years</u>	<u>Total</u>
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

**MARQUETTE UNIVERSITY**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(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:

	<u>2018</u>	<u>2017</u>
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	<u>(521,098)</u>	<u>(492,872)</u>
Net property, buildings, and equipment	\$ <u>612,838</u>	<u>536,565</u>

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

	<u>2018</u>	<u>2017</u>
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	<u>2,385</u>	<u>7,821</u>
Total construction in progress	\$ <u>109,700</u>	<u>27,292</u>

**(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

## MARQUETTE UNIVERSITY

### Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

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

**MARQUETTE UNIVERSITY**  
Notes to Consolidated Financial Statements  
June 30, 2018 and 2017  
(Dollars in thousands)

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 from 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.

**MARQUETTE UNIVERSITY**  
Notes to Consolidated Financial Statements  
June 30, 2018 and 2017  
(Dollars in thousands)

**(3) Investments**

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

	<u>2018</u>	<u>2017</u>
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	<u>446,433</u>	<u>408,474</u>
Total investments	<u>\$ 677,830</u>	<u>669,012</u>

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

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

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

**MARQUETTE UNIVERSITY**  
Notes to Consolidated Financial Statements  
June 30, 2018 and 2017  
(Dollars in thousands)

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

	<b>2018</b>			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Interest and dividends	\$ 2,165	5,148	39	7,352
Gain on investments, net	9,978	29,841	900	40,719
Return on investments	<u>\$ 12,143</u>	<u>34,989</u>	<u>939</u>	<u>48,071</u>
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	<u>\$ 12,143</u>	<u>34,989</u>	<u>939</u>	<u>48,071</u>

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

	<b>2017</b>			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Interest and dividends	\$ 2,054	4,782	(29)	6,807
Gain on investments, net	15,753	45,990	678	62,421
Return on investments	<u>\$ 17,807</u>	<u>50,772</u>	<u>649</u>	<u>69,228</u>
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	<u>\$ 17,807</u>	<u>50,772</u>	<u>649</u>	<u>69,228</u>

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

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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.

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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.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
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 Federal, state, and local agency securities	41,560	—	41,560	—
Nongovernment bonds and notes	6,263	—	6,263	—
Asset and mortgage- backed securities	4,293	—	4,293	—
Foreign bonds and notes	376	—	376	—
Common and preferred stocks	532	—	532	—
Mutual funds – bonds	45,294	45,294	—	—
Mutual funds – equity	33,067	33,067	—	—
Investments measured at net asset value	100,012	100,012	—	—
	<u>446,433</u>	<u>—</u>	<u>—</u>	<u>—</u>
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	<u>\$ 764,040</u>	<u>241,637</u>	<u>68,975</u>	<u>6,995</u>
Liabilities:				
Recurring:				
Payables under securities lending agreement	\$ 15,951	—	15,951	—
Total liabilities measured at fair value on recurring basis	<u>\$ 15,951</u>	<u>—</u>	<u>15,951</u>	<u>—</u>

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

	<b>Funds held in trust by others</b>
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:

<b>Fiscal year ended June 30, 2018</b>	<b>Net assets value</b>	<b>Unfunded commitments</b>	<b>Redemption frequency</b>	<b>Redemption notice period</b>
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		

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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.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
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 Federal, state, and local agency securities	58,649	—	58,649	—
Nongovernment bonds and notes	34,157	—	34,157	—
Asset and mortgage- backed securities	17,291	—	17,291	—
Foreign bonds and notes	1,974	—	1,974	—
Common and preferred stocks	3,203	—	3,203	—
Mutual funds – bonds	37,443	37,443	—	—
Mutual funds – equity	3,843	3,843	—	—
Investments measured at net asset value	103,978	103,978	—	—
	<u>408,474</u>	<u>—</u>	<u>—</u>	<u>—</u>
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	<u>\$ 774,253</u>	<u>214,447</u>	<u>137,906</u>	<u>13,426</u>
Liabilities:				
Recurring:				
Payables under securities lending agreement	\$ 22,632	—	22,632	—
Total liabilities measured at fair value on recurring basis	<u>\$ 22,632</u>	<u>—</u>	<u>22,632</u>	<u>—</u>

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

	<b>Funds held in trust by others</b>
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:

<b>Fiscal year ended June 30, 2017</b>	<b>Net assets value</b>	<b>Unfunded commitments</b>	<b>Redemption frequency</b>	<b>Redemption notice period</b>
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

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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

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effects of inflation. It is the intention that any excess return (interest income, dividends, realized gains, and unrealized gains), above and beyond the amount approved for expenditure or distribution, will be reinvested in the endowment fund. The endowment fund will be managed on a total return basis, consistent with the applicable standard of conduct set forth in UPMIFA.

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

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

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

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

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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)	<u>5,029</u>	<u>12,985</u>	<u>(8,675)</u>	<u>9,339</u>
Total investment return	10,916	34,127	(8,303)	36,740
Appropriation of endowment assets for expenditure	(5,887)	(21,142)	—	(27,029)
Contributions	<u>70</u>	<u>—</u>	<u>21,400</u>	<u>21,470</u>
Endowment net assets, end of year	<u>\$ 122,727</u>	<u>112,528</u>	<u>443,153</u>	<u>678,408</u>

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

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

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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	<u>11,794</u>	<u>29,261</u>	<u>963</u>	<u>42,018</u>
Total investment return	17,508	48,708	1,182	67,398
Appropriation of endowment assets for expenditure	(5,714)	(19,447)	—	(25,161)
Contributions	<u>(252)</u>	<u>—</u>	<u>22,754</u>	<u>22,502</u>
Endowment net assets, end of year	<u>\$ 117,628</u>	<u>99,543</u>	<u>430,056</u>	<u>647,227</u>

**(6) Irrevocable Split-Interest Agreements**

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

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

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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:

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

The University has received certain conditional promises to give that are in the form of revocable trusts and bequests, which are not included in the 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.

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**(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:

	<b>2018</b>	<b>2017</b>
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

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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.

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

	<u>2018</u>	<u>2017</u>
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	<u>\$ 4,173</u>	<u>4,474</u>
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	<u>\$ —</u>	<u>—</u>
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	<u>\$ (452)</u>	<u>(142)</u>
	<u>2018</u>	<u>2017</u>
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	<u>\$ 162</u>	<u>161</u>

**MARQUETTE UNIVERSITY**  
Notes to Consolidated Financial Statements  
June 30, 2018 and 2017  
(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:

	<u>2018</u>	<u>2017</u>
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	<u>5,204</u>	<u>5,278</u>
Total temporarily restricted net assets	<u>\$ 416,349</u>	<u>376,525</u>

**(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:

	<u>2018</u>	<u>2017</u>
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	<u>5,130</u>	<u>11,605</u>
Total permanently restricted net assets	<u>\$ 443,153</u>	<u>430,056</u>

**(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

**MARQUETTE UNIVERSITY**  
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decisions on behalf of the University when the employee's obligations to the University are in conflict with the employee's material financial interests. The University's transactions with related parties are considered to be in the normal course of business.

**(15) Commitments and Contingencies**

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

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

Athletic and Human Performance Research Center	\$	10,743
The Commons		<u>5,838</u>
Total construction commitments	\$	<u><u>16,581</u></u>

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		<u>15,857</u>
Total future commitments	\$	<u><u>20,968</u></u>

**(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:

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

**MARQUETTE UNIVERSITY**  
Notes to Consolidated Financial Statements  
June 30, 2018 and 2017  
(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:

	<u>2018</u>	<u>2017</u>
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	<u>\$ 410,879</u>	<u>403,957</u>

**(18) Research and Grant Costs**

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

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

**MARQUETTE UNIVERSITY**  
Notes to Consolidated Financial Statements  
June 30, 2018 and 2017  
(Dollars in thousands)

**(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.

**MARQUETTE UNIVERSITY**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2018

Federal grantor/program title	Federal CFDA number	Pass through entity name	Pass through entity identifying number	Federal expenditures			Passed through to subrecipient	Marquette University Cost Share
				Direct awards	Pass through awards	Total		
Student financial aid programs:								
U.S. Department of Education:								
Federal Supplemental Educational Opportunity Grants	84.007			\$ 1,243,230	—	1,243,230	—	414,410
Federal Work-Study Program	84.033			1,285,433	—	1,285,433	—	501,687
Perkins – Federal Capital Contributed	84.038			33,614,476	—	33,614,476	—	—
Federal Pell Grant Program	84.063			6,784,149	—	6,784,149	—	—
Federal Direct Loans	84.268			101,678,902	—	101,678,902	—	—
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	State of Wisconsin	NONE	—	101,520	101,520	—	—
Iraq and Afghanistan Service Grant (IASG)	84.408			5,511	—	5,511	—	—
Total				<u>144,611,701</u>	<u>101,520</u>	<u>144,713,221</u>	<u>—</u>	<u>916,097</u>
U.S. Department of Health and Human Services:								
Nurse Faculty Loan Program (NFLP)	93.264			469,588	—	469,588	—	—
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342			9,445,048	—	9,445,048	—	(15,109)
Nursing Student Loans	93.364			2,782,214	—	2,782,214	—	(37,440)
Nursing Faculty Loan Program (NFLP) – ARRA	93.408			25,062	—	25,062	—	—
Scholarships for Health Professions from Disadvantaged Backgrounds	93.925			1,108,663	—	1,108,663	—	—
Total				<u>13,830,575</u>	<u>—</u>	<u>13,830,575</u>	<u>—</u>	<u>(52,549)</u>
Total Student Financial Aid Programs				<u>\$ 158,442,276</u>	<u>101,520</u>	<u>158,543,796</u>	<u>—</u>	<u>863,548</u>
Research and development programs:								
U.S. Department of Agriculture:								
Agricultural Research Basic and Applied Research	10.001			\$ 23,312	—	23,312	—	—
National Institute of Food and Agriculture: Agriculture and Food Research Initiative (AFRI)	10.310			36,388	—	36,388	—	—
Total U.S. Department of Agriculture				<u>59,700</u>	<u>—</u>	<u>59,700</u>	<u>—</u>	<u>—</u>
U.S. Department of Commerce:								
Measurement and Engineering Research and Standards	11.609			106,570	—	106,570	—	—
Total U.S. Department of Commerce				<u>106,570</u>	<u>—</u>	<u>106,570</u>	<u>—</u>	<u>—</u>
U.S. Department of Defense:								
Basic Scientific Research – Combating Weapons of Mass Destruction								
Military Medical Research and Development	12.351			123,149	—	123,149	—	—
Air Force Defense Research Sciences Program	12.420	University of Illinois – Urbana Champaign	W81XWH-14-2-0131	116,743	19,364	136,107	16,387	504
Air Force Defense Research Sciences Program	12.800	APEX Microdevices LLC	SUB-001	53,383	3,549	56,932	—	—
Air Force Defense Research Sciences Program	12.800	Oceanit Laboratories, Inc.	FA8651-16-2-0008	—	85,788	85,788	—	—
Total U.S. Department of Defense				<u>293,275</u>	<u>108,701</u>	<u>401,976</u>	<u>16,387</u>	<u>504</u>
U.S. Department of Transportation:								
Highway Planning and Construction	20.205	Wisconsin Highway Research Program	0092-16-01	—	42,303	42,303	32,028	—
Total U.S. Department of Transportation				<u>—</u>	<u>42,303</u>	<u>42,303</u>	<u>32,028</u>	<u>—</u>

**MARQUETTE UNIVERSITY**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2018

Federal grantor/program title	Federal CFDA number	Pass through entity name	Pass through entity identifying number	Federal expenditures			Passed through to subrecipient	Marquette University Cost Share
				Direct awards	Pass through awards	Total		
U.S. National Aeronautics and Space Administration (NASA):								
Science	43.001			\$ 168,873	—	168,873	—	13,830
Aeronautics	43.002	University of Wisconsin-Madison	802K922	—	4,878	4,878	—	—
Total NASA				168,873	4,878	173,751	—	13,830
National Endowment for the Humanities (NEH):								
Promotion of the Humanities Division of Preservation and Access	45.149	Texas A&M University	02-S150268	—	21,883	21,883	—	4,201
Total NEH				—	21,883	21,883	—	4,201
U.S. National Science Foundation:								
Engineering Grants	47.041	University of Wisconsin-Milwaukee	1,450,386	532,461	7,177	539,638	—	72,282
Engineering Grants	47.041	Regents of the University of Minnesota	A00462202	—	(672)	(672)	—	—
Mathematical and Physical Sciences	47.049			624,423	—	624,423	—	—
Geosciences	47.050	Research Foundation for The SUNY	R984677	46,570	10,553	57,123	—	—
Computer and Information Science and Engineering	47.070			788,268	—	788,268	81,430	—
Biological Sciences	47.074			489,954	—	489,954	—	—
Social, Behavioral, and Economic Sciences	47.075			10,055	—	10,055	—	—
Education and Human Resources	47.076			368,738	—	368,738	—	—
Total U.S. National Science Foundation				2,860,469	17,058	2,877,527	81,430	72,282
U.S. Department of Veterans Affairs:								
Other Veterans Affairs grant	64.RD			30,918	—	30,918	—	—
Total U.S. Department of Veterans Affairs				30,918	—	30,918	—	—
U.S. Environmental Protection Agency (EPA):								
Science To Achieve Results (STAR) Research Program	66.509	University of Massachusetts-Amherst	15-008462100	—	48,724	48,724	—	—
Total EPA				—	48,724	48,724	—	—
U.S. Department of Energy:								
Office of Science Financial Assistance Program	81.049			185,531	—	185,531	—	—
Advanced Research Projects Agency – Energy	81.135			67,563	—	67,563	—	9,900
Total U.S. Department of Energy				253,094	—	253,094	—	9,900
U.S. Department of Health and Human Services:								
Maternal and Child Health Federal Consolidated Programs	93.110	University of Wisconsin – Madison	734K753, 773K076	—	59,135	59,135	—	—
Oral Diseases and Disorders Research	93.121	University of Wisconsin – Madison	770K615	183,620	32,470	216,090	19,248	43,198
Community Programs to Improve Minority Health Grant Program	93.137			149,437	—	149,437	—	8,166
Mental Health Research Grants	93.242	Psyc Tech Ltd	2017-0166	20,135	38,652	58,787	—	3,163
Mental Health Research Grants	93.242	University of Wisconsin – Milwaukee	173,405,000	—	8,492	8,492	—	—
Alcohol Research Programs	93.273			34,767	—	34,767	—	—
Drug Abuse Research Programs	93.279	Medical College of Wisconsin	5R21DA039681-02	1,532,858	8,104	1,540,962	255,134	—
Drug Abuse Research Programs	93.279	University of Michigan	3,004,683,366	—	28,687	28,687	—	—
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286			444,939	—	444,939	204,528	—
National Center for Advancing Translational Sciences	93.350	Medical College of Wisconsin	5TL1TR001437, 5ULTR001436	—	302,246	302,246	—	—
Nursing Research	93.361			22,864	—	22,864	—	—

**MARQUETTE UNIVERSITY**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2018

Federal grantor/program title	Federal CFDA number	Pass through entity name	Pass through entity identifying number	Federal expenditures			Passed through to subrecipient	Marquette University Cost Share
				Direct awards	Pass through awards	Total		
U.S. Department of Health and Human Services:								
Cancer Treatment Research	93.395			\$ 108,144	—	108,144	23,665	—
ACL National Institute on Disability, Independent Living, and Rehabilitation Research	93.433	University of Wisconsin – Milwaukee	15,340,556	158,618	1,012	159,630	55,870	9,932
Lung Diseases Research	93.838			92,805	—	92,805	3,027	—
Blood Diseases and Resources Research	93.839			121,676	—	121,676	—	—
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	Baylor College of Medicine	5601065545, 102009807	—	92,033	92,033	—	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847			54,597	—	54,597	—	—
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853			1,072,043	—	1,072,043	—	—
Allergy, Immunology and Transplantation Research	93.855	Medical College of Wisconsin	1R01AL101898-01, 1U1A133594-01	—	13,829	13,829	—	—
Biomedical Research and Research Training	93.859	Stony Brook University	7769411385602	1,194,498	1,884	1,196,382	106,466	79,743
Biomedical Research and Research Training	93.859	Concordia University	R152015MU001	—	11,919	11,919	—	—
Child Health and Human Development Extramural Research	93.865	Southern Methodist University	1R21HD085063-01A1	183,472	3,790	187,262	—	—
Aging Research	93.866	University of Maryland	55786-Z0081202	594,940	31,226	626,166	24,720	—
Aging Research	93.866	Cleveland Clinic	2R01AG022304	—	15,425	15,425	—	—
Total U.S. Department of Health and Human Services				<u>5,969,413</u>	<u>648,904</u>	<u>6,618,317</u>	<u>692,658</u>	<u>144,202</u>
U.S. Department of Homeland Security Science and Technology Scientific Leadership Awards	97.061	Northeastern University	505126-78053	—	36,700	36,700	—	—
Total U.S. Department of Homeland Security				<u>—</u>	<u>36,700</u>	<u>36,700</u>	<u>—</u>	<u>—</u>
Total Research and Development Programs				<u>\$ 9,742,312</u>	<u>929,151</u>	<u>10,671,463</u>	<u>822,503</u>	<u>244,919</u>
Other federal awards:								
U.S. Department of Agriculture:								
Other USDA Program	10.xxx	Wisconsin Department of Public Instructions	NONE	\$ —	66,604	66,604	—	—
Total U.S. Department of Commerce				<u>—</u>	<u>66,604</u>	<u>66,604</u>	<u>—</u>	<u>—</u>
U.S. Department of Defense:								
ROTC Language and Culture Training Grants	12.357	Institute of International Education	2603-MARQ-27-GO-051-P03, 2603-MARQ-27-GO-051-P04	—	301,067	301,067	—	—
GenCyber Grants Program	12.903			3,628	—	3,628	—	—
Total U.S. Department of Defense				<u>3,628</u>	<u>301,067</u>	<u>304,695</u>	<u>—</u>	<u>—</u>

**MARQUETTE UNIVERSITY**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2018

Federal grantor/program title	Federal CFDA number	Pass through entity name	Pass through entity identifying number	Federal expenditures			Passed through to subrecipient	Marquette University Cost Share
				Direct awards	Pass through awards	Total		
National Aeronautics and Space Administration (NASA): Education	43.008	Wisconsin Space Grant Consortium	NNX15AJ12H	\$ —	—	—	—	6,858
Total NASA				—	—	—	—	6,858
National Endowment for the Arts & Humanities (NEH): Promotion of the Humanities Teaching and Learning Resources and Curriculum Development	45.162			15,421	—	15,421	—	—
Total NEH				15,421	—	15,421	—	—
Institute of Museum and Library Services (IMLS): National Leadership Grants	45.312	Institute of Museum and Library Services	LG-94-17-0261-17	62,764	—	62,764	—	—
Total IMLS				62,764	—	62,764	—	—
U.S. Department of Education: TRIO Cluster:								
TRIO – Student Support Services	84.042			574,887	—	574,887	—	169,143
TRIO – Talent Search	84.044			299,350	—	299,350	—	—
TRIO – Upward Bound	84.047			891,938	—	891,938	—	34,530
TRIO – McNair Post-Baccalaureate Achievement	84.217			295,543	—	295,543	—	15,484
Total TRIO Cluster				2,061,718	—	2,061,718	—	219,157
Graduate Assistance in Areas of National Need	84.200			424,840	—	424,840	—	129,613
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	Milwaukee Public School	C025560	—	88,721	88,721	—	—
Total U.S. Department of Education				2,486,558	88,721	2,575,279	—	348,770
U.S. Department of Health and Human Services:								
Nursing Workforce Diversity	93.178			527,682	—	527,682	—	—
Mental Health Research Grants	93.242	University of Pittsburgh	0049415 (128103-2)	—	9,922	9,922	—	—
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	Penfield Children's Inc	1U79SM063056-01	—	64,677	64,677	—	(1,007)
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286			25,715	—	25,715	—	18,010
Health Careers Opportunity Program	93.822			667,868	—	667,868	—	39,793
Family and Community Violence Prevention Program	93.910			97,572	—	97,572	3,227	—
Geriatric Education Centers	93.969			796,733	—	796,733	615,891	—
Total U.S. Department of Health and Human Services				2,115,570	74,599	2,190,169	619,118	56,796
Total other federal awards				4,683,941	530,991	5,214,932	619,118	412,424
Total federal awards expended				\$ 172,868,529	1,561,662	174,430,191	1,441,621	1,520,891

See accompanying independent auditors' report.

**MARQUETTE UNIVERSITY**  
Schedule of Expenditures of State Awards  
Year ended June 30, 2018

State grantor/program title	State ID number	Pass through entity name	Pass through entity identifying number	State Expenditures			Passed through to subrecipient	Marquette University Cost Share
				Direct awards	Pass through awards	Total		
Student financial aid programs:								
State of Wisconsin Higher Education Aids Board								
Wisconsin Tuition Grant	235.101			\$ 2,765,769	—	2,765,769	—	—
Tuition Capitation Contract – Marquette Dental School	235.103			1,728,668	—	1,728,668	—	—
Minority Undergraduate Retention Grant	235.107			53,855	—	53,855	—	—
Wisconsin Covenant Scholars Grant	235.108			138,688	—	138,688	—	—
Academic Excellence Scholarship	235.109			114,747	—	114,747	—	114,753
Talent Incentive Program Grant	235.114			166,580	—	166,580	—	—
WI Nursing Loan	235.117			18,000	—	18,000	—	—
WI Covenant Foundation Grant	235.131			78,750	—	78,750	—	—
Indian Student Assistance Grant	235.132			6,600	—	6,600	—	—
Total Student Financial Aid Programs				5,071,657	—	5,071,657	—	114,753
Other state programs:								
Wisconsin State Building Commission								
Wisconsin State Building Commission	230.xxx			216,516	—	216,516	—	—
Total State Building Commission				216,516	—	216,516	—	—
Wisconsin Department of Health Services:								
Dental Sealant	435.151	Children's Health Alliance of Wisconsin	NONE	—	10,000	10,000	—	—
Marquette University Dental Services	435.151710			2,373,765	—	2,373,765	—	—
Dental Services	435.151720			51,362	—	51,362	—	—
Total WI Department of Health Services				2,425,127	10,000	2,435,127	—	—
Total other state programs				2,641,643	10,000	2,651,643	—	—
Total state awards expended				\$ 7,713,300	10,000	7,723,300	—	114,753

See accompanying independent auditors' report.

## MARQUETTE UNIVERSITY

### Notes to Schedules of Expenditures of Federal and State Awards

Year ended June 30, 2018

#### **(1) Basis of Presentation**

The accompanying schedule of expenditures of federal awards and schedule of expenditures of state awards (the schedules) include the federal and state awards received by Marquette University (the University) under programs of the federal government and the State of Wisconsin for the fiscal year ended June 30, 2018.

The schedule of expenditures of federal awards includes all grants, contracts, and similar agreements entered into directly between the University and agencies and departments of the federal government, and all subawards to the University by nonfederal organizations pursuant to federal grants, contracts, and similar agreements. The information in the schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the University. Compliance testing of all direct and material compliance requirements, as described in the Compliance Supplement, was performed for the federal grant programs noted below:

*Research and Development Cluster* – includes awards for research and development activities at the University sponsored by various agencies of the federal government.

*Student Financial Aid Cluster* – includes certain awards to provide financial assistance to students, primarily under the Federal Pell Grant (Pell), Federal Supplemental Educational Opportunity Grants (FSEOG), Federal Direct Loan (FDL), and Federal Work Study (FWS) programs of the U.S. Department of Education. In addition, the University receives awards to make loans to eligible students under the Federal Perkins Loan (Perkins) program. The University also receives other federal assistance from the U.S. Department of Health and Human Services and the U.S. Department of Education for certain other grant and loan programs.

In accordance with the criteria set forth in the State of Wisconsin State Single Audit Guidelines, Academic Excellence Scholarship, Talent Incentive Program Grant, and the Marquette University Dental Services Grant were considered major state programs for the year ended June 30, 2018.

#### **(2) Summary of Significant Accounting Policies**

The schedules are prepared on the accrual basis of accounting. Expenditures are recognized as incurred. The University's cost share amounts presented as a separate column within the schedules represents the University's matching portion related to those programs and such amounts are not included in the federal and state expenditures in the schedules. Negative amounts shown on the schedules represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

#### **(3) Indirect Costs**

The University has a predetermined indirect cost rate that has been negotiated with the U.S. Department of Health and Human Services. The predetermined rate was based on prior University financial information.

**MARQUETTE UNIVERSITY**

Notes to Schedules of Expenditures of Federal and State Awards

Year ended June 30, 2018

Approximately \$3.2 million of indirect costs were reimbursed to the University for the year ended June 30, 2018. The base rates for on-and off-campus research of modified total direct costs are listed below:

Type	Effective period		Rate percentage	Locations	Applicable to
	From	To			
Predetermined	07/1/2014	6/30/2018	51.0	on campus	Instruction
Predetermined	07/1/2014	6/30/2018	51.0	on campus	Organized research
Predetermined	07/1/2014	6/30/2018	24.0	off campus	All Programs

**(4) Federal Student Loan Programs**

The federal student loan programs listed below are administered directly by Marquette University, and balances and transactions relating to these programs are included in Marquette University's financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the schedules. The balance of loans outstanding at June 30, 2018 consists of:

	Federal CFDA number	Balance of loans outstanding
U.S. Department of Education:		
Perkins	84.037	\$ 28,521,571
U.S. Department of Health and Human Services:		
Health Profession Student Loans, including Primary Care Loans and Loans for Disadvantaged Students	93.342	7,625,860
Nursing Student Loans	93.364	2,059,481
Nurse Faculty Loan Program	93.264	395,889
Nurse Faculty Loan Program – ARRA	93.408	17,474
Total		\$ <u>38,620,275</u>

The University is responsible only for the performance of certain administrative duties with respect to the Federal Direct Loan program, and accordingly, these loans are not included in its financial statements. It is not practical to determine the balance of loans outstanding to students and former students of the University under this program at June 30, 2018.

**MARQUETTE UNIVERSITY**

Notes to Schedules of Expenditures of Federal and State Awards

Year ended June 30, 2018

**(5) Settlement of Wisconsin Department of Health Services (DHS) Cost Reimbursement Awards**

The University's settlement of DHS cost reimbursement awards presented in the Schedule of Expenditures of State Awards for the year ended June 30, 2018 are summarized as follows:

DHS identification number:

(CARS Profile)	151710	151720
Award amount	\$ 2,373,765	53,806
Award period	07/01/17–06/30/18	07/01/17–06/30/18
Period of award within audit period	<u>07/01/17–06/30/18</u>	<u>07/01/17–06/30/18</u>
A. Expenditures reported to DHS for payment	\$ <u>2,373,765</u>	<u>53,806</u>
B. Actual allowable cost of award		
Program expenses		
1. Salaries and wages	\$ 1,841,851	47,640
2. Other expenses	<u>531,914</u>	<u>3,722</u>
Total program expenses	2,373,765	51,362
C. Less Program revenue and other offsets (identify in notes)	<u>—</u>	<u>—</u>
D. Total allowable costs	\$ <u>2,373,765</u>	<u>51,362</u>



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## **Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

The Board of Trustees  
Marquette University:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Marquette University, which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 10, 2018.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered Marquette University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Marquette University's internal control. Accordingly, we do not express an opinion on the effectiveness of Marquette University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Marquette University's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Marquette University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Marquette University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Milwaukee, Wisconsin  
September 10, 2018



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**Independent Auditors' Report on Compliance for Each Major Federal Program and State Program;  
Report on Internal Control over Compliance; Report on Schedule of Expenditures of Federal Awards  
Required by the Uniform Guidance; and Report on Schedule of Expenditures of State Awards as  
Required by the State Single Audit Guidelines**

The Board of Trustees  
Marquette University:

**Report on Compliance for Each Major Federal and State Program**

We have audited Marquette University's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *State Single Audit Guidelines* that could have a direct and material effect on each of Marquette University's major federal and state programs for the year ended June 30, 2018. Marquette University's major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

Management is responsible for compliance with federal and state statutes, regulations, and the terms and conditions of its federal and state awards applicable to its federal and state programs.

*Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of Marquette University's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the *State Single Audit Guidelines*. Those standards, the Uniform Guidance and the *State Single Audit Guidelines*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about Marquette University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of Marquette University's compliance.

*Opinion on Each Major Federal and State Program*

In our opinion, Marquette University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended June 30, 2018.

**Report on Internal Control over Compliance**

Management of Marquette University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Marquette University's internal control over compliance with the types of



requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and the *State Single Audit Guidelines*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Marquette University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and the *State Single Audit Guidelines*. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance and Report on Schedule of Expenditures of State Awards as Required by the *State Single Audit Guidelines***

We have audited the consolidated financial statements of Marquette University as of and for the year ended June 30, 2018 and 2017, and have issued our report thereon dated September 10, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and the *State Single Audit Guidelines* and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and the schedule of expenditures of state awards are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

**KPMG LLP**

Milwaukee, Wisconsin  
March 19, 2019

**MARQUETTE UNIVERSITY**  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2018

**(1) Summary of Auditors' Results**

- a. Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- b. Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
  - Material weaknesses: **No**
  - Significant deficiencies: **None Reported**
- c. Noncompliance material to the financial statements: **No**
- d. Internal control deficiencies over major programs disclosed by the audit:
  - Material weaknesses: **No**
  - Significant deficiencies: **None Reported**
- e. Type of report issued on compliance for major programs: **Unmodified**
- f. Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**
- g. Major programs:
  - Federal programs:*
    - Student Financial Aid Cluster – various CFDA numbers
    - Research and Development Cluster – various CFDA numbers
  - State programs:*
    - Marquette University Dental Services – State ID Number 435.151710
    - Academic Excellence Scholarship – State ID Number 235.109
    - Talent Incentive Program Grant – State ID Number 235.114
- h. Dollar threshold used to distinguish between Type A and Type B programs: *Federal Awards* – **\$3,000,000**; *State Awards* – **\$250,000**.
- i. Auditee qualified as a low-risk auditee: **Yes**

**(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards***

None

**MARQUETTE UNIVERSITY**  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2018

**(3) Findings and Questioned Costs Relating to Federal Awards**

None

**(4) Findings and Questioned Costs Relating to State Awards**

None

**(5) Other Issues**

- A. Does the auditors' report or notes to the financial statements include disclosure with regard to substantial doubt as to the auditees' ability to continue as a going concern? **No**
- B. Does the audit report show audit issues (i.e., material noncompliance, nonmaterial noncompliance, questioned costs, material weakness, significant deficiencies, management letter comment, excess revenue, or excess reserve) related to grants/contracts with funding agencies that require audits to be in accordance with *State Single Audit Guidelines*: **No**
- C. Was a management letter or other document conveying audit comments issued as the result of this audit? **No**
- D. Date of report: **March 19, 2019**