MARQUETTE UNIVERSITY

Consolidated Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

MARQUETTE UNIVERSITY

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

Independent Auditors' Report

The Board of Trustees
Marquette University:

We have audited the accompanying consolidated financial statements of Marquette University, which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, the related consolidated statements of activities for the year ended June 30, 2019, cash flows for the years ended June 30, 2019 and 2018, 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. 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 organization'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 organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Marquette University as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited Marquette University's 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated September 10, 2018. In our opinion, the summarized comparative information presented herein for the year ended June 30, 2018 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Emphasis of Matters

As discussed in note 1(q) to the consolidated financial statements, in 2019, Marquette University adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, and ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). Our opinion is not modified with respect to these matters.

KPMG LLP

Milwaukee, Wisconsin
September 6, 2019

MARQUETTE UNIVERSITY

Consolidated Statements of Financial Position

June 30, 2019 and 2018

(Dollars in thousands)

Assets		2019	2018
Cash and cash equivalents	$	33,204	63,264
Pledges receivable, net		50,435	52,070
Student accounts and loans receivable, net		47,485	53,727
Investments		733,108	696,926
Other assets		10,031	8,479
Property, buildings, and equipment, net		643,191	612,838
Total assets	$	1,517,454	1,487,304
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	88,917	75,422
Deferred revenue and deposits		41,471	41,776
Refundable federal loan grants		40,561	40,982
Notes and bonds payable, net		220,020	230,538
Total liabilities		390,969	388,718
Net assets:			
Without donor restrictions		416,803	402,284
With donor restrictions		709,682	696,302
Total net assets		1,126,485	1,098,586
Total liabilities and net assets	$	1,517,454	1,487,304

See accompanying notes to consolidated financial statements.

MARQUETTE UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2019
With summarized comparative financial information for the year ended June 30, 2018

(Dollars in thousands)

	Without donor restrictions	With donor restrictions	Total	2018 Total
Operating revenues:				
Student tuition and fees, net	$ 256,633	—	256,633	247,662
Government and private grants	32,583	—	32,583	29,868
Contributions	6,228	41,484	47,712	71,680
Auxiliary enterprises	58,337	—	58,337	53,866
Sales by educational departments	10,294	—	10,294	10,164
Investment income	1,305	1,238	2,543	1,952
Endowment income used in operations	6,086	22,314	28,400	27,443
Other income	36,462	—	36,462	28,688
Net assets released from restrictions	35,964	(35,964)	—	—
Total operating revenues	443,892	29,072	472,964	471,323
Operating expenses:				
Instruction	124,496	—	124,496	117,187
Academic support and libraries	63,885	—	63,885	61,637
Research	42,500	—	42,500	38,296
Student services	66,564	—	66,564	60,651
Auxiliary enterprises	51,500	—	51,500	46,285
Institutional support	87,406	—	87,406	82,475
Public services	6,048	—	6,048	5,887
Total operating expenses	442,399	—	442,399	412,418
Operating income	1,493	29,072	30,565	58,905
Nonoperating activities:				
Endowment (loss) gain in excess of amounts designated for current operations, net	(1,113)	6,279	5,166	18,676
Other, net	14,139	(21,971)	(7,832)	(19,981)
Total nonoperating activities, net	13,026	(15,692)	(2,666)	(1,305)
Change in net assets	14,519	13,380	27,899	57,600
Net assets, beginning of year	402,284	696,302	1,098,586	1,040,986
Net assets, end of year	$ 416,803	709,682	1,126,485	1,098,586

See accompanying notes to consolidated financial statements.

MARQUETTE UNIVERSITY

Consolidated Statements of Cash Flows

Years ended June 30, 2019 and 2018

(Dollars in thousands)

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	27,899	57,600
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		39,433	37,292
Discount amortization		(983)	(983)
Net realized and unrealized appreciation on investments		(30,427)	(40,719)
Bad debt expense		1,638	7,839
Contributions for major capital projects including gifts in kind		(5,468)	(14,238)
Contributions restricted for long-term endowments		(20,805)	(21,400)
Endowment income used in operations		(241)	(414)
Loss on sale of property, buildings, and equipment		1,645	112
Changes in assets and liabilities:			
Student accounts and loans receivable		164	(805)
Pledges receivable		(5,916)	(3,436)
Other assets, net		(1,615)	(1,543)
Accounts payables and other liabilities		8,768	(3,509)
Deferred revenue and deposits		(305)	(8,050)
Net cash provided by operating activities		13,787	7,746
Cash flows from investing activities:			
Purchases of property, buildings, and equipment		(73,721)	(109,086)
Proceeds from sale of property, buildings, and equipment		27	20
Student loans repayments		7,964	7,476
Student loans issued		(2,705)	(6,284)
Purchase of investments		(149,846)	(225,965)
Proceeds from the sale of investments		151,357	300,681
Net cash used in investing activities		(66,924)	(33,158)
Cash flows from financing activities:			
Contributions received for major capital projects		5,192	13,646
Proceeds from contributions restricted for long term endowments		27,600	14,494
Permanently restricted endowment income used in operations		241	414
(Decrease) increase in refundable federal loan grants		(421)	252
Repayment of notes and bonds payable		(9,535)	(9,313)
Net cash provided by financing activities		23,077	19,493
Net decrease in cash, cash equivalents and restricted cash		(30,060)	(5,919)
Cash, cash equivalents and restricted cash, beginning of year		63,264	69,183
Cash, cash equivalents and restricted cash, end of year	$	33,204	63,264
Supplemental disclosure of cash flow information			
Cash paid for interest	$	9,782	10,072
Change in construction payables		1,913	(3,610)
Capital gifts in kind		278	592

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) 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. The university provides education and training services, primarily for students enrolled in undergraduate, graduate, and professional degree programs and performs research, training and other services under grants, contracts and other agreements with sponsoring organizations, including both government agencies and private enterprises.

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.

(b) Basis of Presentation

The consolidated financial statements of the university have been prepared in conformity with U.S. generally accepted accounting principles (GAAP).

The accompanying consolidated financial statements present information regarding the university's financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

(i) Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions.

(ii) With Donor Restrictions

Net assets that are subject to donor restrictions that will be met either by actions of the university or the passage of time. Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the university, wherein the donor stipulates that the corpus of the gift be held in perpetuity and the income from those assets be made available for scholarships or program operations.

(c) Use of Estimates

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

(d) Cash and Cash Equivalents

Cash equivalents with original maturities of three months or less are classified as cash and 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.

(Dollars in Thousands)

(e) Pledges Receivable

Unconditional promises to give are recognized initially at fair value as contribution revenue in the period the promise is made by a donor. The fair value of the pledge is estimated based on anticipated future cash payments discounted using a risk-adjusted rate commensurate with the duration of the planned payments. In subsequent periods, the discount rate is unchanged. Pledges receivable are net of an allowance for uncollectible amounts. Allowance of uncollectible pledges is calculated based upon the university past collection experience. The allowance is reassessed and adjusted as necessary.

(f) Student accounts and Loans Receivable, Net

At June 30, student accounts and loans receivable consisted of the following:

		2019	2018
Federal government loan programs	$	33,268	38,608
Institutional loan programs		1,443	1,361
Student receivables		7,020	7,144
Grants receivables		4,939	4,763
Other receivables		3,852	4,351
Subtotal		50,522	56,227
Less allowances for doubt accounts		(3,037)	(2,500)
Student accounts and loans receivable, net	$	47,485	53,727

The university records an allowance for uncollectible accounts when, in management's judgment, it is probable a portion of the receivable or loan will not be collected. Allowances for doubtful accounts are established based on prior collections. Balances are written off when they are deemed to be permanently uncollectible.

(g) 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.

(Dollars in Thousands)

(h) Property, Buildings, and Equipment, net

Property, buildings, and equipment are recorded at cost at date of acquisition or fair value at date of donation including, where appropriate, capitalized interest. Property and equipment under capital leases are initially valued and recorded on the present value of minimum lease payments. The university depreciates buildings, building improvements, land improvements, equipment, library contents and eBooks over the estimated useful lives of the assets (25 to 50, 10 to 20, 10 to 20, 5 to 7, 20 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.

Property, buildings, and equipment include the following at June 30, 2019 and 2018:

		2019	2018
Land and improvements	$	60,336	57,483
Buildings and improvements		807,806	685,613
Construction in progress		21,894	109,700
Furniture, fixtures, and equipment		158,871	146,729
Library contents		122,012	120,798
eBooks and other		17,882	13,613
Less accumulated depreciation		(545,610)	(521,098)
Property, buildings, and equipment, net	$	643,191	612,838

Construction in progress includes the following as of June 30, 2019 and 2018:

		2019	2018
Freshman/Sophomore housing	$	—	99,518
Athletic Human Performance Research Center		—	5,517
Al McGuire Center upgrades		—	1,224
Physician Assistant Building		13,679	1,056
Johnston Hall renovations		1,119	—
Other renovation and construction projects		7,096	2,385
Total construction in progress	$	21,894	109,700

(i) Capital gifts to acquire or construct long-lived assets

Capital gifts to acquire or construct long-lived assets are recorded as a gift with donor restriction until the related asset is placed in service, at which time the capital gift is released from net assets with donor restrictions to net assets without donor restrictions as other non-operating activity and subsequently amortized into operations over the estimated useful life of the acquired or constructed asset. This amortization, which amounted to $6,568 in fiscal year 2019 and $6,390 in fiscal year 2018,

(Continued)

(Dollars in Thousands)

is recorded as a reclassification between non-operating and operating sections of the changes in net assets without donor restrictions in the consolidated statement of activities.

(j) Refundable federal loan grants

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 university holds certain amounts advanced from the federal government to facilitate these loan programs. In the event the university no longer participates, the amounts related to the program are generally refundable to the government.

(k) Student Tuition and Fees

Student tuition revenue is recognized in the fiscal year in which the academic programs are delivered. Scholarships reduce the amount of revenue recognized. Students who withdraw may receive a full or partial refund in accordance with the university's refund policy.

Deferred tuition revenue and deposits represents payments for summer term courses conducted in July and August along with deposits for the fall academic term.

The following tables depict activities for deferred revenue.

Balance at June 30, 2018	Revenue Recognized	Cash Received in Advance of Performance	Balance at June 30, 2019
$ 8,612	8,612	8,575	8,575

Balance at June 30, 2017	Revenue Recognized	Cash Received in Advance of Performance	Balance at June 30, 2018
$ 7,624	7,624	8,612	8,612

The balance of deferred tuition revenue at June 30, 2019, will be recognized as revenue in the year ending June 30, 2020 as services are rendered.

The university applies the practical expedient in Accounting Standards Codification (ASC) 606-10-50-14 and therefore does not disclose information about performance obligations that have an origination and expected duration within the fiscal year.

(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. 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 net assets with donor restrictions 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 in the consolidated statement of activities reflect all transactions that change net assets without donor restrictions, except for activity associated with endowment investments and certain other nonrecurring transactions, including adjustments to allowance for uncollectible contributions, changes due to adopting new accounting guidance, and other gains and losses. In accordance with the university's endowment distribution policy as described in note 4, 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.

(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.

There was no provision for income taxes due on unrelated business income and there are no uncertain tax positions considered to be material.

As of June 30, 2019, the university has a federal tax credit carryforward of $3,531, which expires between fiscal years 2034 and 2038.

(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.

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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, 2019, the specific policy covering highly valued works provides for insured coverage of $100,000 aggregate limit (subject to policy sublimit-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) Recent Accounting Pronouncements

During 2019, the university adopted *Accounting Standards Update (ASU) No. 2016-14 – Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities.* This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosure for board designated amounts, composition of net assets without donor restriction, liquidity and expenses by both their natural and functional classification.

(Dollars in Thousands)

A recap of the net asset reclassifications as a result of the adoption of ASU 2016-14 as of June 30, 2018 follows:

		ASU 2016-14 Classifications		
		Without donor restrictions	**With donor restrictions**	**Total net assets**
Net asset classifications:				
As previously presented:				
Unrestricted	$	239,084	—	239,084
Temporarily restricted		—	416,349	416,349
Permanently restricted		—	443,153	443,153
Net assets as previously presented		239,084	859,502	1,098,586
Reclassifications of implemented ASU 2016-14:				
Capital gifts for construction		162,289	(162,289)	—
Underwater endowments		911	(911)	—
Net assets, as reclassified	$	402,284	696,302	1,098,586

During 2019, the university adopted *ASU 2014-09 Revenue from Contracts with Customers (Topic 606)*. This guidance is intended to remove inconsistencies and weaknesses in revenue requirements, provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices, provide more useful information to users of financial statements through improved disclosure requirements and simplify the preparation of financial statements. As a result of this guidance, student tuition and fees are presented net of tuition discounts. Other impact of this guidance to the statements is considered immaterial.

During 2019, the university adopted *ASU 2016-18 Statement of Cash Flows (Topic 230) Restricted Cash*. This guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. See note 8.

ASU 2016-02 Leases (Topic 842) is intended to increase transparency and comparability among organizations by recognizing right of use assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under this update, right of use assets and lease liabilities are recognized for leases with a term of 12 months or more. The university is still evaluating the impact and will adopt this update in the June 30, 2020 statements.

(Continued)

(Dollars in Thousands)

(r) Comparative Financial Information and Reclassifications

The consolidated financial statements include certain prior information presented for comparative purposes, which does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the university's consolidated financial statements for the year ended June 30, 2018 from which this information was derived. In addition, certain reclassifications have been made for consistency to the current year presentation.

(2) Availability of Financial Assets for General Expenditures

Resources available to the university to fund general expenditures, such as operating expenses, scheduled principal payments on debt, and internally funded capital costs have seasonal variations related to the timing of tuition payments, receipts of gifts and pledge payments, and transfers from the endowment. The university actively manages its resources, utilizing a combination of short and long-term operating investment strategies to align cash inflows with anticipated outflows. At June 30, 2019, existing financial assets and liquidity resources available within one year were as follows:

Financial assets:		
Cash and cash equivalents	$	33,204
Accounts receivable and prepaid		17,095
Pledges payments available for operations		5,065
Working capital investments		1,000
Endowment spending payout		28,400
Total financial assets available within one year		84,764
Liquidity Resources:		
Bank line of credit		25,000
Total financial assets and liquid resources available within one year	$	109,764

Additionally, the university has $123,360 in board-designated funds functioning as endowment of which $101,905 can be liquidated within one year with Board approval, however, no liquidation is anticipated as of June 30, 2019.

(Dollars in Thousands)

(3) Investments

A summary of the university's investment return net of expenses is presented below for the years ended June 30, 2019 and 2018:

		2019	2018
Interest and dividends	$	5,851	7,352
Gain on investments, net		30,258	40,719
Return on investments	$	36,109	48,071

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. As of June 30, 2019 and 2018, the university had loaned securities with a market value of $22,724 and $15,574, respectively, that were secured by collateral with a market value of approximately $23,216 and $15,951, 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.

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 partnership and membership interests. Investments are based on valuations provided by external investment managers and the custodian banks. Valuations provided by external investment managers and the custodian bank include observable market quotation prices, observable inputs other than quoted prices such as price services or indexes, estimates, appraisals, assumptions and other methods that are reviewed by management. Real estate, multi-strategy hedge funds, 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 included in accounts payable and accrued liabilities on the consolidated statements of financial position and 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.

Accounting standards establish 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.

(Dollars in Thousands)

The following table presents the university's financial instruments at fair value as of June 30, 2019. The categorization of financial instruments within the hierarchy is based on price transparency and does not necessarily correspond to the perceived risk of the instruments.

	Total	Level 1	Level 2	Level 3
June 30, 2019:				
Assets:				
Recurring:				
Cash and cash equivalents	$ 33,204	33,204	—	—
Investments:				
Money funds and other	36,441	36,441	—	—
Federal, state, and local agency securities	3,979	—	3,979	—
Nongovernment bonds and notes	3,322	—	3,322	—
Asset and mortgage-backed securities	426	—	426	—
Foreign bonds and notes	738	—	738	—
Common and preferred stocks	50,301	50,301		—
Mutual funds – bonds	37,208	37,208		—
Mutual funds – equity	103,786	103,697	89	—
Collateral held under securities lending agreement	23,216	—	23,216	—
Investments measured at net asset value	473,691	—	—	—
Total investments	733,108	227,647	31,770	—
Total assets measured at fair value on recurring basis	$ 766,312	260,851	31,770	—

(Dollars in Thousands)

	Total	Level 1	Level 2	Level 3
Liabilities:				
Recurring:				
Payables under securities lending agreement	$ 23,216	—	23,216	
Total liabilities measured at fair value on recurring basis	$ 23,216	—	23,216	—

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2019 are as follows:

Fiscal year ended June 30, 2019	Net assets value	Unfunded commitments	Redemption frequency	Redemption notice period
Commingled funds	$ 84,528		Weekly, Monthly	10–30 days
Multi-strategy hedge funds	271,606		Quarterly, Semi-annually, Annually, 2 years, 3 years, Liquidating	45–90 days
Private equity partnerships	100,394	56,798	Illiquid	
Real estate limited partnership and membership interests	17,163	26,554	Illiquid	
	$ 473,691	83,352		

(Dollars in Thousands)

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

		Total	Level 1	Level 2	Level 3
June 30, 2018:					
Assets:					
Recurring:					
Cash and cash equivalents	$	63,264	63,264	—	—
Investments:					
Money funds and other		41,560	41,560	—	—
Federal, state, and local agency securities		9,408	—	9,408	—
Nongovernment bonds and notes		4,293	—	4,293	—
Asset and mortgage-backed securities		376	—	376	—
Foreign bonds and notes		532	—	532	—
Common and preferred stocks		45,294	45,294	—	—
Mutual funds – bonds		33,067	33,067	—	—
Mutual funds – equity		100,012	100,012	—	—
Collateral held under securities lending agreement		15,951	—	15,951	—
Investments measured at net asset value		446,433	—	—	—
Total investments		696,926	219,933	30,560	—
Total assets measured at fair value on recurring basis	$	760,190	283,197	30,560	—
Liabilities:					
Recurring:					
Payables under securities lending agreement	$	15,951	—	15,951	—
Total liabilities measured at fair value on recurring basis	$	15,951	—	15,951	—

(Dollars in Thousands)

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

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

(4) Endowment

(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 university classifies as net assets with donor restrictions (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. Also included in net assets with donor restrictions is accumulated appreciation on endowment funds which are available for expenditure in a manner consistent with the standard of prudence established by UPMIFA.

(b) Underwater Endowment Funds

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 net assets with donor restrictions. These deficiencies resulted from unfavorable market conditions that occurred after the investment of endowed contributions and from appropriations to certain programs. As of June 30, 2019 and 2018, funds with fair market value of $31,099 and $25,933, an original gift value of $32,358 and $26,844 were underwater by $1,259 and $911, respectively.

(c) 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.

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).

(d) Endowment Investment Policy

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

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

(Continued)

(Dollars in Thousands)

Endowment net assets without donor restriction are "Investments functioning as endowment" that are not permanently restricted by donors but are designated by the university for endowment purposes. The following represents the composition and changes in endowment net assets for the year ended June 30, 2019:

		Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$	123,638	554,770	678,408
Investment return:				
Investment loss		—	(17)	(17)
Endowment income used for spending policy		6,086	22,314	28,400
Net realized and unrealized (losses) gains		(365)	6,316	5,951
Total investment return		5,721	28,613	34,334
Appropriation of endowment assets for expenditure		(6,087)	(22,072)	(28,159)
Contributions		88	20,805	20,893
Endowment net assets, end of year	$	123,360	582,116	705,476

Endowment net assets without donor restriction are "Investments functioning as endowment" that are not permanently restricted by donors but are designated by the university for endowment purposes. The following represents the composition and changes in endowment net assets for the year ended June 30, 2018:

		Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$	117,628	529,599	647,227
Investment return:				
Investment loss		—	(42)	(42)
Endowment income used for spending policy		5,887	21,556	27,443
Net realized and unrealized gains (losses)		5,940	3,399	9,339
Total investment return		11,827	24,913	36,740
Appropriation of endowment assets for expenditure		(5,887)	(21,142)	(27,029)
Contributions		70	21,400	21,470
Endowment net assets, end of year	$	123,638	554,770	678,408

(Continued)

(Dollars in Thousands)

(5) Irrevocable Split-Interest Agreements and Funds Held in Trust by Others

The university's split-interest agreements with donors consist primarily of charitable gift annuities, pooled income funds, and charitable remainder trusts for which the university serves as trustee. Assets are invested and payments are made to beneficiaries in accordance with the respective agreements. Assets associated with split-interest agreements are included in investments on the consolidated statement of financial position.

A liability for split-interest obligations is recorded when the agreement is established at the estimated net present value of future cash flows using a risk-adjusted discount rate commensurate with the duration of the estimated payments.

The university is the beneficiary of 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 $27,269 and $22,063 at June 30, 2019 and 2018, respectively, and are included in investments on the statement of financial position.

For those agreements where the university does not serve as trustee, but is designated as an irrevocable beneficiary of the trust, restricted funds held in trust and revenue are recognized for the present value of the estimated future benefits due to the university over the life of the trust and when the trust is distributed. The present value calculation of the trust considers both the discount rate and, if applicable, the estimated life expectancy of the trust originator.

(6) Pledges Receivable

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

As of June 30, 2019, and 2018, the contributions receivable is due as follows:

		2019	2018
Less than one year	$	18,566	16,325
Two to five years		35,944	39,513
Over five years		5,116	6,115
Subtotal		59,626	61,953
Less unamortized discount		(4,824)	(5,562)
Allowance for uncollectible accounts		(4,367)	(4,321)
Pledges receivable, net	$	50,435	52,070

(Dollars in Thousands)

In addition, the university has received certain conditional promises to give that are in the form of revocable trusts, bequests and pledges. As of June 30, 2019 and 2018, the fair value of these conditional promises is approximately $155,062 and $108,792, respectively. These amounts can be recognized as revenue in the periods in which the conditions are fulfilled.

(7) Notes and Bonds Payable, net

As of June 30, 2019, and 2018, notes and bonds payable consisted of the following:

	2019	2018
Revenue Bonds, Series 2008B1, payable with fixed interest rates ranging from 2.00% to 5.00%, maturing through 2030	$ 14,280	15,360
Revenue Bonds, Series 2008B2, payable with fixed interest rates ranging from 2.25% to 5.00%, maturing through 2030	9,030	9,670
Revenue Bonds, Series 2008B3, payable with fixed interest rates ranging from 2.00% to 5.00%, maturing through 2030	16,060	17,185
Revenue Bonds, Series 2011A, payable with fixed interest rates ranging from 2.00% to 5.00%, maturing through 2020	5,680	8,345
Revenue Bonds, Series 2012, payable with fixed interest rates ranging from 2.00% to 5.00%, maturing through 2032	75,045	77,060
Revenue Bonds, Series 2016, payable with fixed interest rates ranging from 4.00% to 5.00%, maturing through 2047	80,275	81,875
Other long-term payables with variable interest rate, maturing through 2019	—	409
Subtotal	200,370	209,904
Unamortized premiums, discount and issuance costs	19,650	20,634
Notes and bonds payable, net	$ 220,020	230,538

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, 2019 and 2018.

(Dollars in Thousands)

Maturities of notes and bonds payable based on scheduled repayments at June 30, 2019 are as follows:

Fiscal Year 2020	$	8,810
Fiscal Year 2021		9,175
Fiscal Year 2022		9,565
Fiscal Year 2023		10,065
Fiscal Year 2024		10,540
Thereafter		152,215
Total	$	200,370

As of June 30, 2019, 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, 2019 and 2018.

As of June 30, 2019, the university has a $25,000 line of credit with a bank. There were no borrowings outstanding under this line of credit as of June 30, 2019.

(8) Restricted cash and investments

The composition of assets restricted to investment in land, buildings and equipment as of June 30, 2019 and 2018 is shown below.

		2019	2018
Restricted cash	$	6,030	3,119
Contributions receivable		11,209	9,119
Investments		1,000	4,665
Total assets restricted for investment in land, building and equipment	$	18,239	16,903

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated statement of financial position that sum to the total of same amounts shown in the consolidated statement of cash flows.

		2019	2018
Cash and cash equivalents	$	27,174	60,145
Restricted cash included in assets restricted to investment in land, buildings and equipment		6,030	3,119
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	$	33,204	63,264

(Dollars in Thousands)

Assets restricted to investment in land, buildings and equipment include restricted cash equivalents received with a donor-imposed restriction that limits the use of that cash to long-term purposes.

(9) Retirement Plan

All eligible full-time and part-time personnel who meet the waiting period criteria, may elect to participate in a defined contribution individual retirement plan. Under the provisions of the plan in order to receive the university's matching contribution, 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 $11,522 and $11,675 in fiscal years 2019 and 2018, respectively.

(10) Self-Funded Health, Dental and Vision Benefit Plans

The university has self-funded benefit plans covering all active and certain retired employees' health, dental and vision costs. Under the plans, the university's losses are limited, through the use of excess loss insurance, to $350 per claim. Claims paid under the plans for fiscal years 2019 and 2018 totaled $27,766 and $28,728, respectively. The university has also contracted with third party administrators 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, 2019 and 2018.

(11) Net Assets

Net assets consist of the following as of June 30, 2019 and 2018:

		2019	2018
Without donor restrictions:			
Board designated endowments	$	123,360	123,638
Other net assets without donor restrictions		293,443	278,646
Total without donor restrictions		416,803	402,284
With donor restrictions:			
Academic support, instruction and student services		309,513	298,844
Contributions receivable, net		50,435	52,070
Scholarships		334,486	316,188
Life income and annuity funds		6,653	6,939
Other net assets with donor restrictions		8,595	22,261
Total with donor restrictions		709,682	696,302
Total net assets	$	1,126,485	1,098,586

(Continued)

(Dollars in Thousands)

(12) 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, 2019, the university has outstanding commitments for the following construction projects:

Physician assistant building	$	3,823
Central chilled water		2,427
McCormick demolition		1,535
Total construction commitments	$	7,785

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, 2019 are as follows:

FY20	$	1,420
FY21		1,399
FY22		1,295
FY23		1,333
FY24		1,275
Thereafter		13,344
Total future commitments	$	20,066

(13) Expenses

The university's primary programs are instruction, research, and public service. Academic support and libraries, student services, and auxiliary enterprises are considered integral to the delivery of these programs. Athletics expenses are included in student services. 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 square footage. Interest expense on external debt is allocated to the activities that have most directly benefited from the debt proceeds. Natural expenses allocated by function for the years ended June 30, 2019 and 2018 are as follows:

MARQUETTE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(Dollars in Thousands)

2019

		Compensation	Supplies, repairs, utilities and other	Interest	Depreciation	Operations and maintenance	Total
Instruction	$	98,581	11,029	2,023	—	12,863	124,496
Academic support and libraries		38,560	12,218	334	—	12,773	63,885
Research		25,204	15,792	—	467	1,037	42,500
Student services		33,029	24,822	440	—	8,273	66,564
Auxiliary enterprises		5,428	21,006	3,184	—	21,882	51,500
Institutional support		57,724	20,590	1,198	246	7,648	87,406
Public services		4,878	1,059	4	—	107	6,048
Operations and maintenance		9,585	15,889	389	38,720	(64,583)	—
Total operating expenses	$	272,989	122,405	7,572	39,433	—	442,399

2018

		Compensation	Supplies, repairs, utilities and other	Interest	Depreciation	Operations and maintenance	Total
Instruction	$	93,460	9,272	2,005	—	12,450	117,187
Academic support and libraries		37,074	12,213	345	—	12,005	61,637
Research		24,346	12,810	—	302	838	38,296
Student services		30,955	21,326	474	—	7,896	60,651
Auxiliary enterprises		5,117	20,169	1,985	—	19,014	46,285
Institutional support		55,638	16,405	882	246	9,304	82,475
Public services		4,555	1,207	3	—	122	5,887
Operations and maintenance		10,132	14,458	295	36,744	(61,629)	—
Total operating expenses	$	261,277	107,860	5,989	37,292	—	412,418

(Continued)

(Dollars in Thousands)

(14) 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 2019 and 2018 comprise of the following:

		2019	2018
Sponsored research	$	32,159	27,993
Teaching and training		6,162	6,369
Development and others		4,179	3,934
Total research and grants	$	42,500	38,296

(15) Subsequent Events

The university evaluated events after the consolidated statement of financial position date of June 30, 2019 through September 6, 2019, which was the date the consolidated financial statements were issued, noting no subsequent events requiring recording or disclosure in the consolidated financial statements or related notes to the consolidated financial statements.