



MARQUETTE UNIVERSITY

(E.I.N. 39-0806251)

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

June 30, 2020

(With Independent Auditors' Reports Thereon)

MARQUETTE UNIVERSITY

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KPMG LLP
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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 statements of financial position as of June 30, 2020 and 2019, 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 audits 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 financial position of Marquette University as of June 30, 2020 and 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.



Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Supplementary Schedule of Financial Responsibility Data, as of and for the year ended June 30, 2020, is presented for purposes of additional analysis as required by the US Department of Education, 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 Supplementary Schedule of Financial Responsibility Data is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2020, except as to note 16, which is as of April 5, 2021, 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 4, 2020, except as to note 16 and our report on the Supplementary Schedule of Financial Responsibility Data, which is as of April 5, 2021.

MARQUETTE UNIVERSITY
Consolidated Statements of Financial Position
June 30, 2020 and 2019
(Dollars in thousands)

Assets	2020	2019
Cash and cash equivalents	\$ 211,224	33,204
Pledges receivable, net	59,363	50,435
Student accounts and loans receivable, net	44,038	47,485
Investments	711,823	733,108
Other assets	8,393	10,031
Property, buildings, and equipment, net	640,969	643,191
Total assets	\$ <u>1,675,810</u>	<u>1,517,454</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 75,036	88,917
Deferred revenue and deposits	46,657	41,471
Refundable federal loan grants	35,742	40,561
Notes and bonds payable, net	374,925	220,020
Total liabilities	<u>532,360</u>	<u>390,969</u>
Net assets:		
Without donor restrictions	407,836	416,803
With donor restrictions	735,614	709,682
Total net assets	<u>1,143,450</u>	<u>1,126,485</u>
Total liabilities and net assets	\$ <u>1,675,810</u>	<u>1,517,454</u>

See accompanying notes to consolidated financial statements.

MARQUETTE UNIVERSITY
Consolidated Statement of Activities
Year ended June 30, 2020
(Dollars in thousands)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Operating revenues:			
Student tuition and fees, net	\$ 271,115	—	271,115
Government and private grants	39,101	—	39,101
Contributions	5,106	61,195	66,301
Auxiliary enterprises	46,949	—	46,949
Sales by educational departments	8,388	—	8,388
Investment income	630	1,142	1,772
Endowment income used in operations	5,990	24,156	30,146
Other income	31,367	—	31,367
Net assets released from restrictions	35,058	(35,058)	—
Total operating revenues	<u>443,704</u>	<u>51,435</u>	<u>495,139</u>
Operating expenses:			
Instruction	125,933	—	125,933
Academic support and libraries	64,497	—	64,497
Research	45,487	—	45,487
Student services	62,937	—	62,937
Auxiliary enterprises	50,445	—	50,445
Institutional support	86,305	—	86,305
Public services	5,811	—	5,811
Total operating expenses	<u>441,415</u>	<u>—</u>	<u>441,415</u>
Operating income	<u>2,289</u>	<u>51,435</u>	<u>53,724</u>
Nonoperating activities:			
Endowment loss in excess of amounts designated for current operations, net	(7,365)	(19,599)	(26,964)
Other, net	(3,891)	(5,904)	(9,795)
Total nonoperating activities, net	<u>(11,256)</u>	<u>(25,503)</u>	<u>(36,759)</u>
Change in net assets	(8,967)	25,932	16,965
Net assets, beginning of year	<u>416,803</u>	<u>709,682</u>	<u>1,126,485</u>
Net assets, end of year	<u>\$ 407,836</u>	<u>735,614</u>	<u>1,143,450</u>

See accompanying notes to consolidated financial statements.

MARQUETTE UNIVERSITY
Consolidated Statement of Activities
Year ended June 30, 2019
(Dollars in thousands)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Operating revenues:			
Student tuition and fees, net	\$ 256,633	—	256,633
Government and private grants	32,583	—	32,583
Contributions	6,228	41,484	47,712
Auxiliary enterprises	58,337	—	58,337
Sales by educational departments	10,294	—	10,294
Investment income	1,305	1,238	2,543
Endowment income used in operations	6,086	22,314	28,400
Other income	36,462	—	36,462
Net assets released from restrictions	35,964	(35,964)	—
Total operating revenues	<u>443,892</u>	<u>29,072</u>	<u>472,964</u>
Operating expenses:			
Instruction	124,496	—	124,496
Academic support and libraries	63,885	—	63,885
Research	42,500	—	42,500
Student services	66,564	—	66,564
Auxiliary enterprises	51,500	—	51,500
Institutional support	87,406	—	87,406
Public services	6,048	—	6,048
Total operating expenses	<u>442,399</u>	<u>—</u>	<u>442,399</u>
Operating income	<u>1,493</u>	<u>29,072</u>	<u>30,565</u>
Nonoperating activities:			
Endowment (loss) gain in excess of amounts designated for current operations, net	(1,113)	6,279	5,166
Other, net	14,139	(21,971)	(7,832)
Total nonoperating activities, net	<u>13,026</u>	<u>(15,692)</u>	<u>(2,666)</u>
Change in net assets	14,519	13,380	27,899
Net assets, beginning of year	<u>402,284</u>	<u>696,302</u>	<u>1,098,586</u>
Net assets, end of year	<u>\$ 416,803</u>	<u>709,682</u>	<u>1,126,485</u>

See accompanying notes to consolidated financial statements.

MARQUETTE UNIVERSITY
Consolidated Statements of Cash Flows
Years ended June 30, 2020 and 2019
(Dollars in thousands)

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 16,965	27,899
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	41,243	39,433
Discount amortization	(1,438)	(983)
Net realized and unrealized appreciation on investments	(2,045)	(30,427)
Bad debt expense	919	1,638
Contributions for major capital projects including gifts in kind	(5,278)	(5,468)
Contributions restricted for long-term endowments	(32,598)	(20,805)
Endowment income used in operations from net assets to be maintained permanently	(236)	(241)
(Loss) gain on sale of property, buildings, and equipment	(1,194)	1,645
Changes in assets and liabilities:		
Student accounts and loans receivable	(1,421)	164
Pledges receivable	(7,643)	(5,916)
Other assets, net	1,629	(1,615)
Accounts payables and other liabilities	922	8,768
Deferred revenue and deposits	5,186	(305)
Net cash provided by operating activities	15,011	13,787
Cash flows from investing activities:		
Purchases of property, buildings, and equipment	(38,853)	(73,721)
Proceeds from sale of property, buildings, and equipment	1,373	27
Student loans repayments	7,477	7,964
Student loans issued	(3,510)	(2,705)
Purchase of investments	(229,480)	(149,846)
Proceeds from the sale of investments	239,106	151,357
Net cash used in investing activities	(23,887)	(66,924)
Cash flows from financing activities:		
Contributions received for major capital projects	5,115	5,192
Proceeds from contributions restricted for long-term endowments	31,305	27,600
Endowment income used in operations from net assets to be maintained permanently	236	241
Decrease in refundable federal loan grants	(4,819)	(421)
Issuance of notes and bonds payable	202,143	—
Repayment of notes and bonds payable	(47,084)	(9,535)
Net cash provided by financing activities	186,896	23,077
Net increase (decrease) in cash, cash equivalents and restricted cash	178,020	(30,060)
Cash, cash equivalents and restricted cash, beginning of year	33,204	63,264
Cash, cash equivalents and restricted cash, end of year	\$ 211,224	33,204
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 9,619	9,782
Change in construction payables	(958)	1,913
Capital gifts in kind	162	278

See accompanying notes to consolidated financial statements.

MARQUETTE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

(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.

MARQUETTE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(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 for uncollectible pledges is calculated based upon the university's 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:

	<u>2020</u>	<u>2019</u>
Federal government loan programs	\$ 29,258	33,268
Institutional loan programs	1,485	1,443
Student receivables	8,358	7,020
Grants receivables	4,983	4,939
Other receivables	<u>3,367</u>	<u>3,852</u>
Subtotal	47,451	50,522
Less allowances for doubt accounts	<u>(3,413)</u>	<u>(3,037)</u>
Student accounts and loans receivable, net	\$ <u>44,038</u>	<u>47,485</u>

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.

MARQUETTE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Land and improvements	\$ 61,646	60,336
Buildings and improvements	830,504	807,806
Construction in progress	20,500	21,894
Furniture, fixtures, and equipment	166,319	158,871
Library contents	123,014	122,012
eBooks and other intangibles	22,454	17,882
Less accumulated depreciation	<u>(583,468)</u>	<u>(545,610)</u>
Property, buildings, and equipment, net	\$ <u>640,969</u>	<u>643,191</u>

Construction in progress includes the following as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Animal research center renovations	\$ 9,091	—
Electrical improvements	2,030	—
Facilities planning and management relocation	1,606	—
Physician assistant building	—	13,679
Johnston Hall renovations	—	1,119
Other renovation and construction projects	<u>7,773</u>	<u>7,096</u>
Total construction in progress	\$ <u>20,500</u>	<u>21,894</u>

(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 \$6,849 in fiscal year 2020 and \$6,568 in fiscal year 2019,

MARQUETTE UNIVERSITY
Notes to Consolidated Financial Statements
June 30, 2020 and 2019
(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. The university provided student tuition discounts of \$184,362 and \$172,282 in 2020 and 2019, respectively. 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.

	<u>Balance at June 30, 2019</u>	<u>Revenue recognized</u>	<u>Cash received in advance of performance</u>	<u>Accounts receivable for summer courses</u>	<u>Balance at June 30, 2020</u>
\$	8,575	8,575	9,250	487	9,737

	<u>Balance at June 30, 2018</u>	<u>Revenue recognized</u>	<u>Cash received in advance of performance</u>	<u>Accounts receivable for summer courses</u>	<u>Balance at June 30, 2019</u>
\$	8,612	8,612	8,146	429	8,575

The balance of deferred tuition revenue at June 30, 2020, will be recognized as revenue in the year ending June 30, 2021 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.

MARQUETTE UNIVERSITY
Notes to Consolidated Financial Statements
June 30, 2020 and 2019
(Dollars in thousands)

(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, 2020, the university has a federal tax credit carryforward of \$3,086, which expires between fiscal years 2034 and 2039.

(p) Postretirement Benefits

The university provides retired employees access to certain healthcare and life insurance benefits. University employees become eligible to access these benefits when their years of service plus age equal 70 with a minimum age of 55. 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

MARQUETTE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

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. As of June 30, 2020 and 2019, the university had post-retirement benefits payable of \$4,525 and \$4,481, respectively.

(g) 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 have been excluded from the consolidated 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, 2020, 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.

(r) Recent Accounting Pronouncements

During 2020, the university adopted Accounting Standards Update (ASU) No. 2018-08: *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance includes specific criteria to consider when determining whether a contract or agreement should be accounted for as a contribution or as an exchange transaction. It also provides a framework for determining whether a contribution is conditional or unconditional which will impact the timing of revenue recognition. As a result of this ASU, grants are accounted for like conditional contributions. The adoption of this ASU did not have a material impact on the university's consolidated financial statements.

(s) Reclassification

Certain amounts in the 2019 financial statements have been reclassified to conform to the 2020 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-term and long-term operating

MARQUETTE UNIVERSITY
Notes to Consolidated Financial Statements
June 30, 2020 and 2019
(Dollars in thousands)

investment strategies to align cash inflows with anticipated outflows. At June 30, 2020, existing financial assets and liquidity resources available within one year were as follows:

Financial assets:	
Cash and cash equivalents	\$ 211,224
Accounts receivable and prepaid	16,368
Pledges payments available for operations	5,617
Working capital investments	4
Endowment spending payout	<u>30,146</u>
Total financial assets available within one year	263,359
Liquidity resources:	
Bank line of credit	<u>50,000</u>
Total financial assets and liquid resources available within one year	<u>\$ 313,359</u>

Additionally, the university has \$118,538 in board-designated funds functioning as endowment of which \$96,361 can be liquidated within one year with Board approval, however, no liquidation is anticipated as of June 30, 2020.

(3) Investments

A summary of the university's investment return net of expenses is presented below for the years ended June 30, 2020 and 2019:

	2020	2019
Interest and dividends	\$ 2,909	5,851
Gain on investments, net	<u>2,045</u>	<u>30,258</u>
Return on investments	<u>\$ 4,954</u>	<u>36,109</u>

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.

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Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

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, 2020 and 2019, the university had loaned securities with a market value of \$9,512 and \$22,724, respectively, that were secured by collateral with a market value of approximately \$9,300 and \$23,216, respectively. The collateral received in connection with the security lending program and the obligation to return such collateral are reported as investments and accounts payable, 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.

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.

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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.

The following table presents the university's financial instruments at fair value as of June 30, 2020. 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, 2020:				
Assets:				
Recurring:				
Cash and cash equivalents	\$ 211,224	211,224	—	—
Investments:				
Money funds and other	19,573	19,573	—	—
Federal, state, and local agency securities	694	—	694	—
Nongovernment bonds and notes	266	—	266	—
Asset and mortgage-backed securities	318	—	318	—
Foreign bonds and notes	125	—	125	—
Common and preferred stocks	51,698	51,698	—	—
Mutual funds – bonds	66,773	66,773	—	—
Mutual funds – equity	101,459	101,459	—	—
Receivables under securities lending agreement	9,430	—	9,430	—
Investments measured at net asset value	<u>461,487</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total investments	<u>711,823</u>	<u>239,503</u>	<u>10,833</u>	<u>—</u>
Total assets measured at fair value on recurring basis	<u>\$ 923,047</u>	<u>450,727</u>	<u>10,833</u>	<u>—</u>

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	Total	Level 1	Level 2	Level 3
Liabilities:				
Recurring:				
Payables under securities lending agreement	\$ 9,512	—	9,512	—
Total liabilities measured at fair value on recurring basis	\$ 9,512	—	9,512	—

Certain investment companies and partnerships in which the university has invested have imposed restriction as to the frequency at which the university might redeem, in part or whole, its investment. Redemption frequencies can vary based on several criteria, including the liquidity of an investment company's underlying investments or initial investment lockup periods. Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2020 are as follows:

Fiscal year ended June 30, 2020	Net assets value	Unfunded commitments	Redemption frequency	Redemption notice period
Commingled funds	\$ 93,701	—	Weekly, Monthly, Annually	10–30 days
Multi-strategy hedge funds	242,275	1,840	Quarterly, Semi-annually Annually, 2 years, 3 years, Liquidating	45–90 days
Private equity partnerships	107,435	48,454	Illiquid	
Real estate limited partnership and membership interests	18,076	20,902	Illiquid	
	\$ 461,487	71,196		

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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.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
June 30, 2019:				
Assets:				
Recurring:				
Cash and cash equivalents	\$ 33,204	33,204	—	—
Investments:				
Money funds and other	36,083	36,083	—	—
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	50,281	50,281	—	—
Mutual funds – bonds	37,208	37,208	—	—
Mutual funds – equity	104,164	104,075	89	—
Receivables under securities				
lending agreement	23,216	—	23,216	—
Investments measured at				
net asset value	<u>473,691</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total investments	<u>733,108</u>	<u>227,647</u>	<u>31,770</u>	<u>—</u>
Total assets				
measured at fair value				
on recurring basis	<u>\$ 766,312</u>	<u>260,851</u>	<u>31,770</u>	<u>—</u>
Liabilities:				
Recurring:				
Payables under securities				
lending agreement	<u>\$ 23,216</u>	<u>—</u>	<u>23,216</u>	<u>—</u>
Total liabilities measured at				
fair value on recurring				
basis	<u>\$ 23,216</u>	<u>—</u>	<u>23,216</u>	<u>—</u>

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Certain investment companies and partnerships in which the university has invested have imposed restriction as to the frequency at which the university might redeem, in part or whole, its investment. Redemption frequencies can vary based on several criteria, including the liquidity of an investment company's underlying investments or initial investment lockup periods. 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:

<u>Fiscal year ended June 30, 2019</u>	<u>Net assets value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
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	<u>17,163</u>	<u>26,554</u>	Illiquid	
	<u>\$ 473,691</u>	<u>83,352</u>		

(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, 2020 and 2019, funds with fair market value of \$96,023 and \$31,099, an original gift value of \$101,100 and \$32,358 were underwater by \$5,077 and \$1,259, respectively.

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(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.

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.

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The following represents the composition and changes in endowment net assets for the year ended June 30, 2020:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$ 123,360	582,116	705,476
Investment return:			
Investment loss	—	(78)	(78)
Endowment income used for spending policy	5,990	24,156	30,146
Net realized and unrealized losses	(6,757)	(17,605)	(24,362)
Total investment return	(767)	6,473	5,706
Appropriation of endowment assets for expenditure	(5,990)	(23,920)	(29,910)
Contributions	1,935	32,598	34,533
Endowment net assets, end of year	\$ <u>118,538</u>	<u>597,267</u>	<u>715,805</u>

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	\$ <u>123,360</u>	<u>582,116</u>	<u>705,476</u>

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(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 \$27,203 and \$27,269 at June 30, 2020 and 2019, respectively, and are included in investments on the consolidated 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, 2020, and 2019, the contributions receivable is due as follows:

	<u>2020</u>	<u>2019</u>
Less than one year	\$ 24,633	18,566
Two to five years	38,768	35,944
Over five years	<u>5,265</u>	<u>5,116</u>
Subtotal	68,666	59,626
Less unamortized discount	(4,060)	(4,824)
Allowance for uncollectible accounts	<u>(5,243)</u>	<u>(4,367)</u>
Pledges receivable, net	<u>\$ 59,363</u>	<u>50,435</u>

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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, 2020 and 2019, the fair value of these conditional promises is approximately \$177,795 and \$155,062, 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, 2020, and 2019, notes and bonds payable consisted of the following:

	<u>2020</u>	<u>2019</u>
Revenue Bonds, Series 2008B1, payable with fixed interest rates ranging from 2.00% to 5.00%, maturing through 2030	\$ —	14,280
Revenue Bonds, Series 2008B2, payable with fixed interest rates ranging from 2.25% to 5.00%, maturing through 2030	—	9,030
Revenue Bonds, Series 2008B3, payable with fixed interest rates ranging from 2.00% to 5.00%, maturing through 2030	—	16,060
Revenue Bonds, Series 2011A, payable with fixed interest rates ranging from 2.00% to 5.00%, maturing through 2020	2,895	5,680
Revenue Bonds, Series 2012, payable with fixed interest rates ranging from 2.00% to 5.00%, maturing through 2032	73,645	75,045
Revenue Bonds, Series 2016, payable with fixed interest rates ranging from 4.00% to 5.00%, maturing through 2047	78,600	80,275
Revenue Bonds, Series 2019, payable with fixed interest rates ranging from 4.00% to 5.00%, maturing through 2033	43,650	—
Taxable Fixed Rate Bonds, Series 2020, payable with fixed interest rates ranging from 1.00% to 4.00%, maturing through 2050	150,000	—
Other long-term payables with variable interest rate, maturing through 2024	<u>1,067</u>	<u>—</u>
Subtotal	349,857	200,370
Unamortized premiums, discount and issuance costs	<u>25,068</u>	<u>19,650</u>
Notes and bonds payable, net	<u>\$ 374,925</u>	<u>220,020</u>

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, 2020 and 2019.

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Maturities of notes and bonds payable based on scheduled repayments at June 30, 2020 are as follows:

Fiscal year 2021	\$	9,006
Fiscal year 2022		9,473
Fiscal year 2023		10,054
Fiscal year 2024		13,509
Fiscal year 2025		14,040
Thereafter		293,775
Total	\$	349,857

As of June 30, 2020, 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, 2020 and 2019.

As of June 30, 2020, the university has a \$50,000 line of credit with a bank. There were no borrowings outstanding under this line of credit as of June 30, 2020 and 2019.

(8) Restricted Cash and Investments

The composition of assets restricted to investment in land, buildings and equipment as of June 30, 2020 and 2019 is shown below.

		2020	2019
Restricted cash	\$	10,067	6,030
Contributions receivable		18,656	11,209
Investments		4	1,000
Total assets restricted for investment in land, building and equipment	\$	28,727	18,239

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.

		2020	2019
Cash and cash equivalents	\$	201,157	27,174
Restricted cash included in assets restricted to investment in land, buildings and equipment		10,067	6,030
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	\$	211,224	33,204

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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 \$11,675 and \$11,522 in fiscal years 2020 and 2019, 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 2020 and 2019 totaled \$26,065 and \$27,766, 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, 2020 and 2019.

(11) Net Assets

Net assets consist of the following as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Without donor restrictions:		
Board designated endowments	\$ 118,538	123,360
Other net assets without donor restrictions	289,298	293,443
Total without donor restrictions	<u>407,836</u>	<u>416,803</u>
With donor restrictions:		
Amounts with time and purpose restrictions:		
Academic support, instruction and student services	138,890	137,511
Pledges receivable, net	27,900	22,435
Scholarships	58,836	71,498
Life income and annuity funds	4,472	5,148
Physical assets	6,848	8,595
Total net assets with time and purpose restrictions	<u>236,946</u>	<u>245,187</u>

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	2020	2019
Amount with permanent restrictions:	\$	
Academic support, instruction and student services	183,582	173,735
Pledges receivable, net	26,807	24,002
Scholarships	285,990	262,988
Life income and annuity funds	2,289	3,770
Total net assets with permanent restrictions	498,668	464,495
Total with donor restrictions	735,614	709,682
Total net assets	\$ 1,143,450	1,126,485

(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, 2020, the university has outstanding commitments for the following construction projects:

Animal research center renovations	\$	881
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The university leases athletic and other facilities and equipment under noncancelable arrangements that are accounted for as operating leases. Total future commitments under these leases as of June 30, 2020 are as follows:

FY21	\$	1,528
FY22		1,301
FY23		1,338
FY24		1,275
FY25		1,313
Thereafter		12,030
Total future commitments	\$	18,785

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(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, 2020 and 2019 are as follows:

2020						
	Compensation	Supplies, repairs, utilities and other	Interest	Depreciation	Operations and maintenance	Total
Instruction	\$ 100,117	9,602	2,006	—	14,208	125,933
Academic support and libraries	39,649	11,012	321	—	13,515	64,497
Research	25,828	17,848	—	608	1,203	45,487
Student services	32,038	21,553	333	—	9,013	62,937
Auxiliary enterprises	5,322	18,334	3,598	—	23,191	50,445
Institutional support	56,675	20,046	1,979	299	7,306	86,305
Public services	4,772	920	3	—	116	5,811
Operations and maintenance	9,738	18,220	258	40,336	(68,552)	—
Total operating expenses	<u>\$ 274,139</u>	<u>117,535</u>	<u>8,498</u>	<u>41,243</u>	<u>—</u>	<u>441,415</u>
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	<u>\$ 272,989</u>	<u>122,405</u>	<u>7,572</u>	<u>39,433</u>	<u>—</u>	<u>442,399</u>

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(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 2020 and 2019 comprise of the following:

	2020	2019
Sponsored research	\$ 32,258	32,159
Teaching and training	5,450	6,162
Development and others	7,779	4,179
Total research and grants	\$ 45,487	42,500

(15) Subsequent Events

On March 11, 2020, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a public health emergency. The pandemic could adversely affect the university's ability to conduct its operations and impact financial results. The Board of Trustees and the university's management are monitoring the outbreak and potential financial impact and are prepared to take measures to protect the health of the campus community and promote the continuity of the university mission.

Other than disclosed in the previous paragraph, subsequent events have been evaluated through September 4, 2020 which is the date the consolidated financial statements were available to be issued. No other subsequent events were identified requiring recording or disclosure in the consolidated financial statements or related notes to the consolidated financial statements.

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(16) Financial Responsibility Standards

The university participates in federal Title IV student financial assistance programs, which require it to meet standards of financial responsibility based on criteria determined by the U.S. Department of Education (ED), as set forth in 34 CFR Subpart 668.171. The criteria for private institutions includes the annual calculation by ED of a financial responsibility composite score, as further outlined in 34 CFR Subpart 668.172, using audited consolidated financial statements submitted through ED's eZ-Audit system. The composite score has been and will continue to be based on three ratios: Primary Reserve, Equity, and Net Income. Inputs to these ratios as of and for the year ended June 30, 2020 are bolded below and include (a) elements directly from the accompanying consolidated financial statements and related other notes to the consolidated financial statements, as well as (b) certain other financial data. Additional financial information, which is not bolded, has also been presented to facilitate understanding and reconciliation of such data elements to the accompanying consolidated financial statements and related other notes.

Data element	Direct input to ratio	Amount
(a) Property, buildings, and equipment, net: pre-implementation	Primary reserve \$	174,837
Property, buildings, and equipment, net: post-implementation	Primary reserve	51,652
Property, buildings, and equipment, net: post-implementation without outstanding debt for original purchase	Primary reserve	393,980
Construction in progress (note 1(h))	Primary reserve	20,500
Total property, buildings, and equipment, net (statement of financial position)	NA	\$ <u>640,969</u>
(b) Long-term debt, net: pre-implementation	Primary reserve \$	174,837
Long-term debt, net: post-implementation	Primary reserve	51,652
Long-term debt, net: non-qualified post-implementation	NA	<u>148,436</u>
Total notes and bonds payable, net (statement of financial position)	NA	\$ <u>374,925</u>

MARQUETTE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

Total long-term debt consists of (1) pre-implementation debt, defined as the amounts reported in the last consolidated financial statements Marquette University submitted to the ED prior to July 1, 2020 (Marquette University's consolidated financial statements for the fiscal year ended June 30, 2019), less any payments or other reductions after June 30, 2019, and not to exceed property, buildings, and equipment, net; and (2) post-implementation debt, defined as debt used to obtain property, buildings, and equipment, net, after the fiscal year ended June 30, 2019, less any payments or other reductions. Total notes and bonds payable, net as of June 30, 2020, described in note 7 to the 2020 consolidated financial statements, is classified as pre-implementation debt, except for Revenue Bonds Series 2019, Taxable Fixed Rate Bonds Series 2020, and Other long-term payables. Details of the Long-term debt, net: post-implementation are included in the table below:

<u>Long-term debt, net: post- implementation</u>	<u>As of June 30, 2020</u>	<u>Issue date</u>	<u>Years to original maturity</u>
Revenue Bonds, Series 2019, including unamortized premium; used to fund various capital projects, including the law school building, residence hall renovation, and physician assistant building.	\$ 51,652	September 17, 2019	13

MARQUETTE UNIVERSITY

Supplementary Schedule of Financial Responsibility Data

As of and for the year ended June 30, 2020

(In thousands of dollars)

Data element	Source of data element in consolidated financial statements or related notes to consolidated financial statements	Amount used as ratio input
Primary reserve ratio:		
Numerator: expendable net assets:		
Net assets without donor restrictions	Consolidated statement of financial position	\$ 407,836
Net assets with donor restrictions	Consolidated statement of financial position	735,614
Post-retirement benefits payable	Note 1(p)	4,525
Long-term debt, net: pre-implementation	Note 16	174,837
Long-term debt, net: post-implementation	Note 16	51,652
Total net assets with permanent restrictions	Note 11	498,668
Life income and annuity funds with permanent donor restrictions	Note 11	2,289
Property, buildings, and equipment, net: pre-implementation	Note 16	\$ 174,837
Property, buildings, and equipment, net: post-implementation	Note 16	51,652
Property, buildings, and equipment, net: post-implementation without outstanding debt for original purchase	Note 16	393,980
Construction in progress (note 1(h))	Note 16	20,500
Denominator: total expenses and losses without donor restrictions:		
Total operating expenses without donor restrictions	Consolidated statement of activities	\$ 441,415
Other, net nonoperating activities without donor restrictions	Consolidated statement of activities	3,891
Equity ratio:		
Numerator: modified net assets:		
Net assets without donor restrictions	Consolidated statement of financial position	\$ 407,836
Net assets with donor restrictions	Consolidated statement of financial position	735,614
Property, buildings and equipment: eBooks and other intangibles – post-implementation	Note 1(h)	22,454
Denominator: modified assets:		
Total assets	Consolidated statement of financial position	\$ 1,675,810
Property, buildings and equipment: eBooks and other intangibles – post-implementation	Note 1(h)	22,454
Net income ratio:		
Numerator: change in net assets without donor restrictions:		
Change in net assets without donor restrictions	Consolidated statement of financial position	\$ (8,967)
Denominator: total revenue and gains without donor restrictions		
Total operating revenues without donor restriction	Consolidated statement of activities	\$ 443,704

See accompanying independent auditors' report.

MARQUETTE UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2020

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		
Major federal programs:								
Student financial aid programs:								
U.S. Department of Education:								
Federal Supplemental Educational Opportunity Grants	84.007			\$ 1,287,907	—	1,287,907	—	547,302
COVID-19 Federal Supplemental Educational Opportunity Grants	84.007			354,000	—	354,000	—	—
Federal Work-Study Program	84.033			1,349,489	—	1,349,489	—	588,102
Perkins – Federal Capital Contributed	84.038			23,403,053	—	23,403,053	—	—
Federal Pell Grant Program	84.063			7,761,958	—	7,761,958	—	—
Federal Direct Loans	84.268			114,460,687	—	114,460,687	—	—
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	Wisconsin Department of Public Instruction		15,940	—	15,940	—	—
Iraq and Afghanistan Service Grant (IASG)	84.408			5,810	—	5,810	—	—
Total				148,638,844	—	148,638,844	—	1,135,404
U.S. Department of Health and Human Services								
Nurse Faculty Loan Program (NFLP)	93.264			516,168	—	516,168	—	(12,426)
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342			9,769,821	—	9,769,821	—	(15,974)
Nursing Student Loans	93.364			3,040,947	—	3,040,947	—	—
Nursing Faculty Loan Program (NFLP) – ARRA	93.408			8,565	—	8,565	—	—
Scholarships for Health Professions from Disadvantaged Backgrounds	93.925			1,239,163	—	1,239,163	—	—
Total				14,574,664	—	14,574,664	—	(28,400)
Total Student Financial Aid Programs				163,213,508	—	163,213,508	—	1,107,004
COVID-19 – Education Stabilization Fund:								
COVID-19 – Higher Education Emergency Relief Fund – Student Portion	84.425E			3,323,368	—	3,323,368	—	—
COVID-19 – Higher Education Emergency Relief Fund – Institutional Portion	84.425F			3,323,367	—	3,323,367	—	—
Total COVID-19 Education Stabilization Fund				6,646,735	—	6,646,735	—	—
Total Major Federal Program				169,860,243	—	169,860,243	—	1,107,004
Non-major federal programs:								
Research and development programs:								
U.S. Department of Agriculture:								
Agricultural Research Basic and Applied Research	10.001			42,946	—	42,946	—	—
National Institute of Food and Agriculture: Agriculture and Food Research Initiative (AFRI)	10.310			84,291	—	84,291	29,563	—
Total U.S. Department of Agriculture				127,237	—	127,237	29,563	—
U.S. Department of Commerce:								
Measurement and Engineering Research and Standards	11.609			79,209	—	79,209	—	—
Total U.S. Department of Commerce				79,209	—	79,209	—	—
U.S. Department of Defense:								
Military Medical Research and Development	12.420	Indiana University	IN4385300MU	—	13,119	13,119	—	—
Air Force Defense Research Sciences Program	12.800	Oceanit Laboratories, Inc.	N6833519C0068	327,183	39,408	366,591	—	—
Total U.S. Department of Defense				327,183	52,527	379,710	—	—
U.S. Department of Transportation:								
Highway Planning and Construction	20.205	Wisconsin Highway Research Program	0092-16-01	—	2,379	2,379	—	—
Total U.S. Department of Transportation				—	2,379	2,379	—	—

MARQUETTE UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2020

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			\$ 95,015	—	95,015	—	—
Aeronautics	43.002	University of Wisconsin-Madison	802K922	—	18,774	18,774	—	—
Education	43.008	Wisconsin Space Grant Consortium	RIP19 6.0, RIP201.0	—	10,329	10,329	—	3,463
Total NASA				95,015	29,103	124,118	—	3,463
U.S. National Science Foundation:								
Engineering Grants	47.041	University of Wisconsin-Milwaukee	183405381	690,312	2,398	692,710	—	40,467
Mathematical and Physical Sciences	47.049	University of Wisconsin-Madison	0000000301	499,084	58,073	557,157	37,416	—
Geosciences	47.050	Research Foundation for The SUNY	R984677	36,559	21,685	58,244	—	—
Computer and Information Science and Engineering	47.070	University of California Santa Cruz	A18-0775-S001	670,101	8,422	678,523	39,130	—
Computer and Information Science and Engineering	47.070	University of New Mexico	6633030-87CA, 1541148-87CA	—	73,179	73,179	—	—
Biological Sciences	47.074			596,583	—	596,583	—	88,664
Social, Behavioral, and Economic Sciences	47.075	Michigan State University	RC108871MU	7,230	19,237	26,467	—	—
Education and Human Resources	47.076			600,150	—	600,150	—	—
Office of International Science and Engineering	47.079			34,594	—	34,594	—	—
Total U.S. National Science Foundation				3,134,613	182,994	3,317,607	76,546	129,131
U.S. Department of Veterans Affairs:								
Research and Development	64.054			13,990	—	13,990	—	—
Other Veterans Affairs grant	64.RD			23,080	—	23,080	—	—
Total U.S. Department of Veterans Affairs				37,070	—	37,070	—	—
U.S. Department of Energy:								
Office of Science Financial Assistance Program	81.049			10,645	—	10,645	—	—
Advanced Research Projects Agency – Energy	81.135	Oak Ridge National Laboratory	4000179536	470,678	13,953	484,631	5,149	13,598
Other Research	81.RD	Sandia National laboratories	1995285	—	104,567	104,567	—	—
Total U.S. Department of Energy				481,323	118,520	599,843	5,149	13,598
U.S. Department of Education:								
Education Innovation and Research (formerly Investing in Innovation (i3) Fund)	84.411	Sacred Heart University	19-030A	—	22,276	22,276	—	—
Total U.S. Department of Education				—	22,276	22,276	—	—
U.S. Department of Health and Human Services:								
Oral Diseases and Disorders Research	93.121	University of Wisconsin – Madison	770K615	361,742	6,325	368,067	6,463	—
Community Programs to Improve Minority Health Grant Program	93.137			272,356	—	272,356	62,079	—
Research Related to Deafness and Communication Disorders	93.173			76,395	—	76,395	28,089	—

MARQUETTE UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2020

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:								
Mental Health Research Grants	93.242	Psyc Tech Ltd	2017-0166	\$ 164,084	276	164,360	49,301	—
Mental Health Research Grants	93.242	University of Michigan	3004683366	—	27,927	27,927	—	—
Mental Health Research Grants	93.242	Habitaware	114773-014	—	33,332	33,332	—	—
Drug Abuse Research Programs	93.279			579,702	—	579,702	44,852	82,833
Discovery and Applied Research for Technological Innovations to Improve Innovations to Improve Human Health								
Trans-NIH Research Support	93.286			893,696	—	893,696	565,813	—
National Center for Advancing Translational Sciences	93.310	Purdue University	11000760-011	—	33,142	33,142	—	—
Nursing Research	93.350	Medical College of Wisconsin	6071385; 6075044; 6136449; 6129378; 6131741; 5UL1TR001436	—	356,163	356,163	—	7,901
Cancer Cause and Prevention Research	93.361	Medical College of Wisconsin	1K23NR017652	—	11,845	11,845	—	—
Cancer Cause and Prevention Research	93.393	University of Wisconsin-Milwaukee	183405352	—	25,615	25,615	—	—
Cancer Treatment Research	93.393	Medical College of Wisconsin	1R01CA229546; 6112757	—	29,665	29,665	—	—
ACL National Institute on Disability, Independent Living, and Rehabilitation Research	93.395			156,998	—	156,998	—	—
ACL National Institute on Disability, Independent Living, and Rehabilitation Research	93.433	University of Wisconsin – Milwaukee	193405402	50,364	5,961	56,325	5,262	615
ACL National Institute on Disability, Independent Living, and Rehabilitation Research	93.433	Rehabilitation Institute of Chicago	5353	—	10,328	10,328	—	—
ACL National Institute on Disability, Independent Living, and Rehabilitation Research	93.433	Northwestern University	60039530 MU	—	10,328	10,328	—	—
Cardiovascular Disease Research	93.837			429,585	—	429,585	172,603	—
Lung Diseases Research	93.838			139,315	—	139,315	—	22,359
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	Baylor College of Medicine	102009807; 7000000784	—	64,761	64,761	—	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847			134,130	—	134,130	—	—
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Medical College of Wisconsin	R01NS110856	1,347,189	14,709	1,361,898	277,472	83,706
Allergy, Immunology and Transplantation Research	93.855	Medical College of Wisconsin	6083492; 6154971	—	26,733	26,733	—	—
Biomedical Research and Research Training	93.859	Stony Brook University	7769411385602	1,528,505	7,676	1,536,181	18,576	126,375
Biomedical Research and Research Training	93.859	Concordia University	R152019MU001	—	26,620	26,620	—	—
Child Health and Human Development Extramural Research	93.865	Medical College of Wisconsin	1R01HD091302-01A1	732,262	58,533	790,795	262,748	19,332
Aging Research	93.866	University of Maryland	55786-Z0081202	548,415	55,946	604,361	22,990	—
Aging Research	93.866	Cleveland Clinic	2R01AG022304-11	—	30,286	30,286	—	—
Total U.S. Department of Health and Human Services				7,414,738	836,171	8,250,909	1,516,246	343,121
U.S. Department of Homeland Security Science and Technology Scientific Leadership Awards								
Other research	97.061	Northeastern University	505126-78053	—	85,321	85,321	—	—
Other research	97.RD	Northeastern University	505118-78055; 505163-78050; 505178-78051	—	137,641	137,641	—	—
Other research	97.RD	University of North Carolina At Chapel Hill	5115356	—	23,527	23,527	—	—
Total U.S. Department of Homeland Security				—	246,489	246,489	—	—
Total Research and Development Programs				11,696,388	1,490,459	13,186,847	1,627,504	489,313
Other federal awards:								
U.S. Department of Defense:								
ROTC Language and Culture Training Grants	12.357	Institute of International Education	PG01801MARQ2SPGO051P01; PG01801MARQ2SPGO051P02	—	182,397	182,397	—	—
Total U.S. Department of Defense				—	182,397	182,397	—	—

MARQUETTE UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2020

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 Housing and Urban Development: Other Program	14.UNK			\$ 172,133	—	172,133	134,937	—
Total NASA				172,133	—	172,133	134,937	—
U.S. National Aeronautics and Space Administration (NASA): Education	43.000	Wisconsin Space Grant Consortium	OPP19 4.0, OPP20 4.0, HEI20 5.0	—	8,584	8,584	—	1,503
Total NASA				—	8,584	8,584	—	1,503
National Endowment for the Arts & Humanities (NEH): National Leadership Grants	45.000	Institute of Museum and Library Services	LG-94-17-0261-17	—	3,268	3,268	—	7,890
Total NEH				—	3,268	3,268	—	7,890
U.S. Department of Education: TRIO Cluster:								
TRIO – Student Support Services	84.000			516,126	—	516,126	—	132,689
TRIO – Talent Search	84.000			261,630	—	261,630	—	—
TRIO – Upward Bound	84.000			918,961	—	918,961	—	21,556
TRIO – McNair Post-Baccalaureate Achievement	84.000			244,039	—	244,039	—	53,001
Total TRIO Cluster				1,940,756	—	1,940,756	—	207,246
Rehabilitation Long-Term Training	84.000			27,926	—	27,926	—	14,753
Graduate Assistance in Areas of National Need	84.200			399,318	—	399,318	—	103,077
Total U.S. Department of Education				2,368,000	—	2,368,000	—	325,076
U.S. Department of Health and Human Services: Injury Prevention and Control Research and State and Community Based Programs	93.000	State of Wisconsin	435100-G19-307744-990	—	12,390	12,390	—	—
Nursing Workforce Diversity	93.000			480,944	—	480,944	—	—
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.000	Penfield Children's Inc	1U79SM063056	—	2,426	2,426	—	—
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.000			18,661	—	18,661	—	18,260
Health Careers Opportunity Program	94.000			36,972	—	36,972	—	—
Geriatric Education Centers	94.000			490,218	—	490,218	345,133	—
Total U.S. Department of Health and Human Services				1,026,795	14,816	1,041,611	345,133	18,260
Corporation for National and Community Service (CNCS) AmeriCorps	94.000			96,614	—	96,614	10,125	43,788
Total Corporation for National and Community Service				96,614	—	96,614	10,125	43,788
Total Other Federal Awards				3,663,542	209,065	3,872,607	490,195	396,517
Total Nonmajor Federal Programs				15,359,930	1,699,524	17,059,454	2,117,699	885,830
Total Federal Awards Expended				\$ 185,220,173	1,699,524	186,919,697	2,117,699	1,992,834

See accompanying independent auditors' report.

MARQUETTE UNIVERSITY
Schedule of Expenditures of State Awards
Year ended June 30, 2020

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		
Major state programs:								
State of Wisconsin Higher Education Aids Board:								
Wisconsin Tuition Grant	235.101			\$ 3,327,188	—	3,327,188	—	—
Minority Undergraduate Retention Grant	235.107			61,250	—	61,250	—	—
Wisconsin Department of Health Services:								
Marquette University Dental Services	435.151710			2,373,765	—	2,373,765	—	—
Total major programs:				<u>5,762,203</u>	<u>—</u>	<u>5,762,203</u>	<u>—</u>	<u>—</u>
Nonmajor state programs:								
Tuition Capitation Contract – Marquette Dental School	235.103			1,733,000	—	1,733,000	—	—
Wisconsin Covenant Scholars Grant	235.108			250	—	250	—	—
Academic Excellence Scholarship	235.109			111,934	—	111,934	—	111,934
Talent Incentive Program Grant	235.114			192,500	—	192,500	—	—
WI Nursing Loan	235.117			12,000	—	12,000	—	—
Indian Student Assistance Grant	235.132			5,500	—	5,500	—	—
Dental Sealant	435.151	Children's Health Alliance of Wisconsin	NONE	10,000	—	10,000	—	15,161
Dental Services	435.151720			53,803	—	53,803	—	—
Wisconsin Arts Board	xxx.xxx			5,580	—	5,580	—	—
Wisconsin Department of Public Instruction	xxx.xxx			19,990	—	19,990	—	—
Total nonmajor state programs				<u>2,144,557</u>	<u>—</u>	<u>2,144,557</u>	<u>—</u>	<u>127,095</u>
Total state awards expended				<u>\$ 7,906,760</u>	<u>—</u>	<u>7,906,760</u>	<u>—</u>	<u>127,095</u>

See accompanying independent auditors' report.

MARQUETTE UNIVERSITY

Notes to Schedules of Expenditures of Federal and State Awards

Year ended June 30, 2020

(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, 2020.

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:

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. Under the Perkins Loan Program Extension Act of 2015, no Perkins Loan disbursement could be made to the graduate students after June 30, 2017 and undergraduate students after June 30, 2018. The administrative cost allowance charged to the Perkins Loan Program is based on disbursements, and no disbursements occurred during the year ended June 30, 2020. 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.

COVID-19 – Education Stabilization Fund – includes two awards to prevent, prepare for and respond to coronavirus, including Higher Education Emergency Relief Fund-Student Portion and Higher Education Emergency Relief Fund-Institutional Portion.

In accordance with the criteria set forth in the State of Wisconsin State Single Audit Guidelines, the Wisconsin Tuition Grant, the Minority Undergraduate Retention Grant and the Marquette University Dental Services Grant were considered major state programs for the year ended June 30, 2020.

(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.

MARQUETTE UNIVERSITY

Notes to Schedules of Expenditures of Federal and State Awards

Year ended June 30, 2020

(3) Indirect Costs

The University has a predetermined indirect cost rate that has been negotiated with the Department of Health and Human Services. The predetermined rate was based on prior University financial information. Approximately \$3.5 million of indirect costs were reimbursed to the University for the year ended June 30, 2020. 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	07/01/19	06/30/22	53.0	on campus	Instruction
Predetermined	07/01/19	06/30/22	53.0	on campus	Organized Research
Predetermined	07/01/18	06/30/22	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, 2020 consists of:

Agency/Program	Federal CFDA number	Balance of loans outstanding
U.S. Department of Education:		
Perkins	84.037	\$ 18,615,231
U.S. Department of Health and Human Services:		
Health Profession Student Loans, including Primary Care Loans and Loans for Disadvantaged Students	93.342	7,751,378
Nursing Student Loans	93.364	2,567,348
Nurse Faculty Loan Program	93.264	335,121
Nurse Faculty Loan Program - ARRA	93.408	1,891
Total		\$ <u>29,270,969</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 the direct loan program.

MARQUETTE UNIVERSITY

Notes to Schedules of Expenditures of Federal and State Awards

Year ended June 30, 2020

(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 for the year ended June 30, 2020 are summarized as follows:

DHS identification Number:

(CARS Profile)

	151710	151720
Award Amount	\$ 2,373,765	53,806
Award period	07/01/19-06/30/20	07/01/19-06/30/20
Period of award within audit period	<u>07/01/19-06/30/20</u>	<u>07/01/19-06/30/20</u>

A. Expenditures reported to

DHS for payment

\$	2,373,765	53,805
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B. Actual allowable cost of award

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Program Expenses

1. Salaries and Wages

\$	1,833,163	33,580
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2. Other expenses

<u>540,602</u>	<u>20,223</u>
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Total Program

expenses

2,373,765	53,803
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C. *Less Program revenue and other offsets (identify in notes)*

<u>—</u>	<u>—</u>
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D. Total allowable Costs

\$	<u><u>2,373,765</u></u>	<u><u>53,803</u></u>
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KPMG LLP
Suite 1050
833 East Michigan Street
Milwaukee, WI 53202-5337

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, 2020, 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 4, 2020, except as to note 16, which is as of April 5, 2021.

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 a 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 4, 2020, except as to note 16, which is as of April 5, 2021.



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

**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 for Wisconsin* 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, 2020. 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 for Wisconsin*. Those standards, the Uniform Guidance and the *State Single Audit Guidelines for Wisconsin*, 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, 2020.

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 for Wisconsin*, 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 years ended June 30, 2020 and 2019, and have issued our report thereon dated September 4, 2020, except as to note 16, which is as of April 5, 2021, which contained an unmodified opinion on those consolidated 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 accompanying schedule of expenditures of state awards is presented for purposes of additional analysis as required by the *State Single Audit Guidelines* and are 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
April 5, 2021

MARQUETTE UNIVERSITY
Schedule of Findings and Questioned Costs
Year ended June 30, 2020

(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
 - COVID-19 Education Stabilization Fund –
 - COVID-19 Higher Education Emergency Relief Fund – Student Portion CFDA number 84.425E
 - COVID-19 Higher Education Emergency Relief Fund – Institutional Portion CFDA number 84.425F
 - State programs:*
 - Wisconsin Tuition Grant – State ID number 235.101
 - Minority Undergraduate Retention Grant – State ID number 235.107
 - Marquette University Dental Services – State ID number 435.151710
- 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: Federal: **Yes**; State: **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, 2020

(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: April 5, 2021