KPMG

MARQUETTE UNIVERSITY

Consolidated Financial Statements

June 30, 2021 and 2020

(With Independent Auditors' Report Thereon)

MARQUETTE UNIVERSITY

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

Independent Auditors' Report

The Board of Trustees
Marquette University:

We have audited the accompanying consolidated financial statements of Marquette University, which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Marquette University as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 1(r) to the consolidated financial statements, in 2021, Marquette University adopted Accounting Standards Codification (ASC) Topic 842, *Leases*. Our opinion is not modified as a result of this matter.

KPMG LLP

Milwaukee, Wisconsin
September 9, 2021

MARQUETTE UNIVERSITY

Consolidated Statements of Financial Position

June 30, 2021 and 2020

(Dollars in thousands)

Assets		**2021**	**2020**
Cash and cash equivalents	$	111,265	211,224
Pledges receivable, net		88,732	59,363
Student accounts and loans receivable, net		43,511	44,038
Investments		1,071,998	711,823
Other assets		8,591	8,393
Right of use assets – operating leases		16,574	—
Property, buildings, and equipment, net		626,527	640,969
Total assets	$	1,967,198	1,675,810
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	88,246	75,036
Deferred revenue and deposits		48,813	46,657
Refundable federal loan grants		32,191	35,742
Lease obligation – operating		17,994	—
Notes and bonds payable, net		364,338	374,925
Total liabilities		551,582	532,360
Net assets:			
Without donor restrictions		431,877	407,836
With donor restrictions		983,739	735,614
Total net assets		1,415,616	1,143,450
Total liabilities and net assets	$	1,967,198	1,675,810

See accompanying notes to consolidated financial statements.

MARQUETTE UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2021

(Dollars in thousands)

		Without donor restrictions	With donor restrictions	Total
Operating revenues:				
Student tuition and fees, net	$	272,268	—	272,268
Government and private grants		47,520	—	47,520
Contributions		6,199	104,564	110,763
Auxiliary enterprises		41,380	—	41,380
Sales by educational departments		10,286	—	10,286
Investment income		1,374	1,291	2,665
Endowment income used in operations		6,800	28,043	34,843
Other income		15,993	—	15,993
Net assets released from restrictions		31,753	(31,753)	—
Total operating revenues		433,573	102,145	535,718
Operating expenses:				
Instruction		149,409	—	149,409
Academic support and libraries		50,766	—	50,766
Research and grants		44,889	—	44,889
Student services		76,503	—	76,503
Auxiliary enterprises		49,005	—	49,005
Institutional support		53,838	—	53,838
Public services		5,114	—	5,114
Total operating expenses		429,524	—	429,524
Operating income		4,049	102,145	106,194
Nonoperating activities:				
Endowment gain in excess of amounts designated for current operations, net		26,842	153,495	180,337
Other, net		(6,850)	(7,515)	(14,365)
Total nonoperating activities, net		19,992	145,980	165,972
Change in net assets		24,041	248,125	272,166
Net assets, beginning of year		407,836	735,614	1,143,450
Net assets, end of year	$	431,877	983,739	1,415,616

See accompanying notes to consolidated financial statements.

MARQUETTE UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2020

(Dollars in thousands)

		Without donor restrictions	With donor restrictions	Total
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		443,704	51,435	495,139
Operating expenses:				
Instruction		152,412	—	152,412
Academic support and libraries		55,140	—	55,140
Research and grants		46,794	—	46,794
Student services		72,414	—	72,414
Auxiliary enterprises		50,344	—	50,344
Institutional support		58,423	—	58,423
Public services		5,888	—	5,888
Total operating expenses		441,415	—	441,415
Operating income		2,289	51,435	53,724
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		(11,256)	(25,503)	(36,759)
Change in net assets		(8,967)	25,932	16,965
Net assets, beginning of year		416,803	709,682	1,126,485
Net assets, end of year	$	407,836	735,614	1,143,450

See accompanying notes to consolidated financial statements.

MARQUETTE UNIVERSITY

Consolidated Statements of Cash Flows

Years ended June 30, 2021 and 2020

(Dollars in thousands)

		2021	2020
Cash flows from operating activities:			
Change in net assets	$	272,166	16,965
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		39,468	41,243
Discount amortization		(1,556)	(1,438)
Net realized and unrealized appreciation on investments		(216,027)	(2,045)
Bad debt expense		3,945	919
Contributions for major capital projects including gifts in kind		(26,644)	(5,278)
Contributions restricted for long-term endowments		(28,748)	(32,598)
Endowment income used in operations from net assets to be maintained permanently		(269)	(236)
Loss (gain) on sale of property, buildings, and equipment		3,543	(1,194)
Reduction in carrying amount of right to use assets		1,420	—
Changes in assets and liabilities:			
Student accounts and loans receivable		(2,728)	(1,421)
Pledges receivable		(28,406)	(7,643)
Other assets, net		(198)	1,629
Accounts payables and other liabilities		22,023	922
Deferred revenue and deposits		2,156	5,186
Net cash provided by operating activities		40,145	15,011
Cash flows from investing activities:			
Purchases of property, buildings, and equipment		(27,936)	(38,853)
Proceeds from sale of property, buildings, and equipment		5	1,373
Student loans repayments		6,326	7,477
Student loans issued		(3,449)	(3,510)
Purchase of investments		(357,676)	(229,480)
Proceeds from the sale of investments		204,016	239,106
Net cash used in investing activities		(178,714)	(23,887)
Cash flows from financing activities:			
Contributions received for major capital projects		26,620	5,115
Proceeds from contributions restricted for long-term endowments		24,218	31,305
Endowment income used in operations from net assets to be maintained permanently		269	236
Decrease in refundable federal loan grants		(3,551)	(4,819)
Issuance of notes and bonds payable		—	202,143
Repayment of notes and bonds payable		(8,946)	(47,084)
Net cash provided by financing activities		38,610	186,896
Net (decrease) increase in cash, cash equivalents and restricted cash		(99,959)	178,020
Cash, cash equivalents and restricted cash, beginning of year		211,224	33,204
Cash, cash equivalents and restricted cash, end of year	$	111,265	211,224
Supplemental disclosure of cash flow information			
Cash paid for interest	$	13,943	9,619
Change in construction payables		708	(958)
Capital gifts in kind		24	162

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

Marquette University (the university) is an independent, coeducational, not-for-profit institution of higher learning and research located in Milwaukee, Wisconsin, formally opened in 1881 and conducted under the auspices of the Society of Jesus. The university provides education and training services, primarily for students enrolled in undergraduate, graduate, and professional degree programs and performs research, training and other services under grants, contracts and other agreements with sponsoring organizations, including both government agencies and private enterprises.

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

(b) Basis of Presentation

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

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

(i) Without Donor Restrictions

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

(ii) With Donor Restrictions

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

(c) Use of Estimates

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

(d) Cash and Cash Equivalents

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

(Continued)

(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:

	2021	2020
Federal government loan programs	$ 26,198	29,258
Institutional loan programs	1,668	1,485
Student receivables	7,500	8,358
Grant receivables	7,869	4,983
Other receivables	3,649	3,367
Subtotal	46,884	47,451
Less allowances for doubtful accounts	(3,373)	(3,413)
Student accounts and loans receivable, net	$ 43,511	44,038

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 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.

(Continued)

(Dollars in thousands)

(h) Property, Buildings, and Equipment, Net

Property, buildings, and equipment are recorded at cost at the date of acquisition or fair value at the 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, 2021 and 2020:

		2021	2020
Land and improvements	$	58,378	61,646
Buildings and improvements		833,676	830,504
Construction in progress		34,827	20,500
Furniture, fixtures, and equipment		170,280	166,319
Library contents		124,561	123,014
eBooks and other intangibles		27,127	22,454
Less accumulated depreciation		(622,322)	(583,468)
Property, buildings, and equipment, net	$	626,527	640,969

Construction in progress includes the following as of June 30, 2021 and 2020:

		2021	2020
Animal research center renovations	$	11,185	9,091
College of business administration		7,608	830
Facilities planning and management relocation		1,688	1,606
Lalumiere renovation		1,577	—
Smart classrooms		1,521	—
Electrical improvements		—	2,030
Other renovation and construction projects		11,248	6,943
Total construction in progress	$	34,827	20,500

Long-lived assets such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Based on current market value, an impairment loss of $3,538 was recognized on property during the reporting period.

(Continued)

(Dollars in thousands)

(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 restrictions 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 $6,950 in fiscal year 2021 and $6,849 in fiscal year 2020, 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 $189,670 and $184,362 in 2021 and 2020, 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 student – related deferred revenue.

Balance at June 30, 2020	Revenue recognized	Cash received in advance of performance	Accounts receivable for summer courses	Balance at June 30, 2021
$ 9,737	9,737	8,807	464	9,271

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

The balance of deferred tuition revenue at June 30, 2021, will be recognized as revenue in the year ending June 30, 2022, as services are rendered.

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

(l) Auxiliary Enterprises

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

(m) Contributions

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

(n) Operating Income

Operating results in the consolidated statement of activities reflect all transactions that change net assets without donor restrictions, except for activity associated with endowment investments and certain other nonrecurring transactions, including adjustments to allowance for uncollectible contributions, changes due to adopting new accounting guidance, and other gains and losses. In accordance with the university's endowment distribution policy as described in note 4, only the portion of total investment return distributed under this policy to meet operating needs is included in operating revenue. Operating investment income consists of dividends, interest, and realized gains and losses on unrestricted nonendowed investments.

(o) Income Taxes

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

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

As of June 30, 2021, the university has a federal tax credit carryforward of $2,117, which expires between fiscal years 2035 and 2040.

(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 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, 2021 and 2020, the university had post-retirement benefits payable of $4,869 and $4,525, respectively.

(q) 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, 2021, 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 2021, the university adopted Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842).* Under this guidance, an entity is required to recognize right-of-use assets (ROU assets) and lease liabilities on its consolidated statement of financial position and disclose key information about leasing arrangements. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the consolidated financial statements to assess the amount, timing and uncertainty of cash flows from leases. The university elected the effective date transition method and the package of practical expedients that permit relief from the burden of having to reassess whether any expired or existing contracts are or contain a lease, the lease classification for any expired or existing leases, the need to break down consideration paid in connection with a contract into lease and nonlease components or any initial direct costs for any existing leases as of the effective date.

The university has elected not to recognize ROU assets and lease liabilities for space and equipment leases that have a lease term of 12 months or less.

(Dollars in thousands)

As of July 1, 2020, the university recognized an operating lease liability of $17,903, which represents the present value of the remaining lease payment of $22,312, discounted using the university's weighted average incremental borrowing rate of 3.07% and an operating right of use asset of $17,903.

(s) COVID – 19

The COVID – 19 pandemic resulted in revenue declines due to lower student enrollment, de-densification of residence halls, and a reduction in athletic revenues, as well as higher costs to take appropriate health and safety measures. These economic challenges were partially mitigated by temporary suspensions of merit increases and 403(b) employer matching contributions, decreases in leadership and basketball coach salaries, reduction of discretionary expenses, and state and federal emergency relief aid.

(t) Reclassification

Certain amounts in the 2020 financial statements have been reclassified to conform to the 2021 presentation. 2020 functional expense amounts were revised to reflect updated, commonly applied cost classifications utilized in 2021.

(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 investment strategies to align cash inflows with anticipated outflows. At June 30, 2021, existing financial assets and liquidity resources available within one year were as follows:

Financial assets:		
Cash and cash equivalents	$	111,265
Accounts receivable		15,743
Pledge payments available for operations		7,917
Working capital investments		149,043
Endowment spending payout		34,574
Total financial assets available within one year		318,542
Liquidity resources:		
Bank line of credit		50,000
Total financial assets and liquid resources available within one year	$	368,542

(Dollars in thousands)

Additionally, the university has $151,782 in board designated funds functioning as endowment of which $119,348 could be liquidated within one year with Board approval, however no liquidation is anticipated as of June 30, 2021. The university's investment policy follows Wisconsin's Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), which requires institutions to maintain intergenerational equity, meaning the university must make efforts to preserve purchasing power of the endowment for both current and future generations served by the university.

(3) Investments

A summary of the university's investment return net of expenses is presented below for the years ended June 30, 2021 and 2020:

	2021	2020
Interest and dividends	$ 6,323	2,909
Gain on investments, net	211,522	2,045
Return on investments	$ 217,845	4,954

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.

During fiscal year 2021, the university withdrew from the securities lending program. In fiscal year 2020, 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, the university had loaned securities with a market value of $9,512, that were secured by collateral with a market value of approximately $9,300. The collateral received in connection with the security lending program and the obligation to return such collateral are reported in the consolidated financial statements as investments and accounts payable, respectively.

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.

In fiscal year 2020, 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.

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

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

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

(Dollars in thousands)

The following table presents the university's financial instruments at fair value as of June 30, 2021. The categorization of financial instruments within the hierarchy is based on price transparency and does not necessarily correspond to the perceived risk of the instruments.

	Total	Level 1	Level 2	Level 3
June 30, 2021:				
Assets:				
Recurring:				
Cash and cash equivalents	$ 111,265	111,265	—	—
Investments:				
Money funds and other	33,974	33,974	—	—
Federal, state, and local agency securities	679	—	679	—
Nongovernment bonds and notes	301	—	301	—
Asset and mortgage-backed securities	454	—	454	—
Foreign bonds and notes	125	—	125	—
Common and preferred stocks	61,914	61,914	—	—
Mutual funds – bonds	238,582	238,582	—	—
Mutual funds – equity	126,506	126,506	—	—
Investments measured at net asset value	609,463	—	—	—
Total investments	1,071,998	460,976	1,559	—
Total assets measured at fair value on recurring basis	$ 1,183,263	572,241	1,559	—
Liabilities:				
Recurring:				
Payables under securities lending agreement	$ —	—	—	—
Total liabilities measured at fair value on recurring basis	$ —	—	—	—

(Dollars in thousands)

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, 2021, are as follows:

Fiscal year ended June 30, 2021	Net assets value	Unfunded commitments	Redemption frequency	Redemption notice period
Commingled funds	$ 125,035	—	Weekly, Monthly, Annually	10–30 days
Multi-strategy hedge funds	294,929	—	Quarterly, Semi-annually Annually, 2 years, 3 years, Liquidating	45–90 days
Private equity partnerships	167,363	66,724	Illiquid	
Real estate limited partnership and membership interests	22,136	15,954	Illiquid	
	$ 609,463	82,678		

(Dollars in thousands)

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.

	Total	Level 1	Level 2	Level 3
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	461,487	—	—	—
Total investments	711,823	239,503	10,833	—
Total assets measured at fair value on recurring basis	$ 923,047	450,727	10,833	—
Liabilities:				
Recurring:				
Payables under securities lending agreement	$ 9,512	—	9,512	—
Total liabilities measured at fair value on recurring basis	$ 9,512	—	9,512	—

(Dollars in thousands)

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		

(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, 2021 and 2020, funds with fair market value of $8,389 and $96,023, an original gift value of $8,682 and $101,100, were underwater by $293 and $5,077, respectively.

(Continued)

(c) Endowment Spending Policy

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

Compliant with UPMIFA, the university will be allowed to prudently withdraw spendable funds even if an endowment's market value is less than its historical book value. Any "return" that is not required to meet spending shall be retained in the endowment funds and invested in accordance with the investment policy statement.

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

(d) Endowment Investment Policy

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

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

(Continued)

(Dollars in thousands)

Endowment net assets without donor restriction are "Investments functioning as endowment" that are not permanently restricted by donors but are designated by the university for endowment purposes. The following represents the composition and changes in endowment net assets for the year ended June 30, 2021:

		Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	$	118,538	597,267	715,805
Investment return:				
Investment gain		—	84	84
Endowment income used for spending policy		6,800	28,043	34,843
Net realized and unrealized gains		27,472	150,848	178,320
Total investment return		34,272	178,975	213,247
Appropriation of endowment assets for expenditure		(6,800)	(27,773)	(34,573)
Contributions		5,772	28,748	34,520
Endowment net assets, end of year	$	151,782	777,217	928,999

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	$	118,538	597,267	715,805

(Dollars in thousands)

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

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

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

The university is the beneficiary of trusts that, in accordance with the decedent's instructions, are managed and maintained by separate trustees not affiliated with the university. The university receives distributions from the trusts. The fair value of the trusts was $31,223 and $27,203 at June 30, 2021 and 2020, 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, net

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, 2021, and 2020, the contributions receivable is due as follows:

	2021	2020
Less than one year	$ 54,332	24,633
Two to five years	40,717	38,768
Over five years	4,583	5,265
Subtotal	99,632	68,666
Less unamortized discount	(2,782)	(4,060)
Allowance for uncollectible accounts	(8,118)	(5,243)
Pledges receivable, net	$ 88,732	59,363

(Dollars in thousands)

In addition, the university has received certain conditional promises to give that are in the form of revocable trusts, bequests and pledges. As of June 30, 2021 and 2020, the fair value of these conditional promises is approximately $152,742 and $177,795, respectively. These amounts can be recognized as revenue in the periods in which the conditions are fulfilled.

(7) Leases

The university has operating leases, primarily for athletic facility use, clinic space, office space and vehicles, that expire over the next twelve years. Some leases contain renewal options. For instances where it is probable that the university will renew, the renewal period is included in the lease period and calculations. Certain leases include payment escalators based on stated rates. Variable lease payments based on stated rates such as mileage or sales volume are not included in the calculation of lease liabilities and ROU assets but, rather, are recognized during the year incurred. The present value of the lease obligation is determined using a discount rate equal to the interest rate implicit in the lease or, if unavailable, the university's incremental borrowing rate is used. Included in ROU calculations are adjustments to lease payments made as a result of COVID-19 economic impact.

The components of operating lease costs for the fiscal year ended June 30, 2021, were as follows:

Operating lease costs	$	1,821
Variable lease costs		47
Total lease costs	$	1,868

Amounts reported in the consolidated statements of financial position as of June 30, 2021, were as follows:

Operating lease ROU assets net of amortization	$	16,574
Operating lease liabilities		17,994

Other information related to operating leases as of June 30, 2021, were as follows:

Weighted average Remaining Lease term in years	11.6
Weighted average discount rate	3.07 %

(Dollars in thousands)

Maturities of the operating leases as of June 30, 2021, are as follows:

2022	$	1,717
2023		1,757
2024		1,791
2025		1,765
2026		1,814
Thereafter		13,109
Operating lease liabilities – undiscounted		21,953
Impact of present value discount		3,959
Operating lease liabilities	$	17,994

Future minimum lease obligations under Topic 840 for operating leases as June 30, 2020, were 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

(Dollars in thousands)

(8) Notes and Bonds Payable, Net

As of June 30, 2021, and 2020, notes and bonds payable consisted of the following:

	2021	2020
Revenue Bonds, Series 2011A, payable with fixed interest rates ranging from 2.00% to 5.00%, maturing through 2020	$ —	2,895
Revenue Bonds, Series 2012, payable with fixed interest rates ranging from 2.00% to 5.00%, maturing through 2032	72,190	73,645
Revenue Bonds, Series 2016, payable with fixed interest rates ranging from 4.00% to 5.00%, maturing through 2047	76,840	78,600
Revenue Bonds, Series 2019, payable with fixed interest rates ranging from 4.00% to 5.00%, maturing through 2033	41,040	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	150,000
Other long-term payables with variable interest rate, maturing through 2024	755	1,067
Subtotal	340,825	349,857
Unamortized premiums, discount and issuance costs	23,513	25,068
Notes and bonds payable, net	$ 364,338	374,925

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, 2021 and 2020.

Maturities of notes and bonds payable based on scheduled repayments at June 30, 2021, are as follows:

Fiscal year 2022	$ 9,315
Fiscal year 2023	9,876
Fiscal year 2024	13,819
Fiscal year 2025	14,040
Fiscal year 2026	14,665
Thereafter	279,110
Total	$ 340,825

As of June 30, 2021, 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, 2021 and 2020.

(Dollars in thousands)

As of June 30, 2021, 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, 2021 and 2020.

(9) Restricted Cash and Investments

The composition of assets restricted to investment in land, buildings and equipment as of June 30, 2021 and 2020 is shown below.

		2021	2020
Restricted cash	$	13,329	10,067
Contributions receivable		53,605	18,656
Investments		17,855	4
Total assets restricted for investment in land, building and equipment	$	84,789	28,727

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.

		2021	2020
Cash and cash equivalents	$	97,936	201,157
Restricted cash included in assets restricted to investment in land, buildings and equipment		13,329	10,067
Total cash, cash equivalents, and restricted cash shown in the consolidated statement of cash flows	$	111,265	211,224

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.

(10) 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. As part of the COVID-19 financial risk mitigation plan, the university matching contribution to Marquette's 403(b) retirement plan was suspended from July 1, 2020 through April 30, 2021. Payments for contributions to this plan totaled $3,547 and $11,675 in fiscal years 2021 and 2020, respectively.

(Dollars in thousands)

(11) 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 $300 per claim. Claims paid under the plans for fiscal years 2021 and 2020 totaled $25,235 and $26,065, 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, 2021 and 2020.

(12) Net Assets

Net assets consist of the following as of June 30, 2021 and 2020:

	2021	2020
Without donor restrictions:		
Board designated endowments	$ 151,782	118,538
Other net assets without donor restrictions	280,095	289,298
Total without donor restrictions	431,877	407,836
With donor restrictions:		
Amounts with time and purpose restrictions:		
Academic support, instruction and student services	221,591	138,890
Pledges receivable, net	61,438	27,900
Scholarships	147,155	58,836
Life income and annuity funds	6,957	4,472
Physical assets	16,978	6,848
Total net assets with time and purpose restrictions	454,119	236,946
Amount with permanent restrictions:		
Academic support, instruction and student services	197,864	183,582
Pledges receivable, net	23,726	26,807
Scholarships	306,760	285,990
Life income and annuity funds	1,270	2,289
Total net assets with permanent restrictions	529,620	498,668
Total with donor restrictions	983,739	735,614
Total net assets	$ 1,415,616	1,143,450

(Dollars in thousands)

(13) 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, 2021, the university has outstanding commitments for the following construction projects:

College of Business Administration new building	$	12,763
Lalumiere Hall renovation		1,785
Total	$	14,548

(14) 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, 2021 and 2020 are as follows:

	2021					
	Compensation	Supplies, repairs, utilities and other	Interest	Depreciation	Operations and maintenance	Total
Instruction	$ 113,071	13,177	2,728	12,388	8,045	149,409
Academic support and libraries	29,107	9,981	536	6,092	5,050	50,766
Research and grants	26,524	16,208	—	2,057	100	44,889
Student services	42,149	23,027	412	5,129	5,786	76,503
Auxiliary enterprises	6,456	18,499	4,618	7,407	12,025	49,005
Institutional support	36,431	10,301	3,770	1,994	1,342	53,838
Public services	4,461	573	3	—	77	5,114
Operations and maintenance	9,797	18,015	212	4,401	(32,425)	—
Total operating expenses	$ 267,996	109,781	12,279	39,468	—	429,524

(Dollars in thousands)

	2020					
	Compensation	Supplies, repairs, utilities and other	Interest	Depreciation	Operations and maintenance	Total
Instruction	$ 115,385	14,725	2,012	12,916	7,374	152,412
Academic support and libraries	31,166	12,361	319	6,021	5,273	55,140
Research and grants	26,779	18,293	—	1,692	30	46,794
Student services	35,352	25,672	335	5,251	5,804	72,414
Auxiliary enterprises	7,095	18,948	3,598	8,243	12,460	50,344
Institutional support	42,381	9,269	1,972	2,670	2,131	58,423
Public services	4,833	973	3	—	79	5,888
Operations and maintenance	11,148	17,294	259	4,450	(33,151)	—
Total operating expenses	$ 274,139	117,535	8,498	41,243	—	441,415

(15) 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 2021 and 2020 are comprised of the following:

	2021	2020
Sponsored research	$ 31,271	31,221
Teaching and training	5,828	5,450
Development and others	7,790	10,123
Total research and grants	$ 44,889	46,794

(16) Subsequent Events

Subsequent events have been evaluated through September 9, 2021, which is the date the consolidated financial statements were available to be issued. No subsequent events were identified that require recording or disclosure in the consolidated financial statements or related notes to the consolidated financial statements.