



**MARQUETTE UNIVERSITY**

Consolidated Financial Statements

June 30, 2016 and 2015

(With Independent Auditors' Report 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, 2016 and 2015, 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

*KPMG LLP*

Milwaukee, Wisconsin  
September 9, 2016

## MARQUETTE UNIVERSITY

### Consolidated Statements of Financial Position

June 30, 2016 and 2015

(Dollars in thousands)

<b>Assets</b>	<b>2016</b>	<b>2015</b>
Cash and cash equivalents	\$ 75,858	62,019
Collateral held under securities lending agreement	26,817	24,815
Unexpended bond proceeds	—	2,229
Contributions receivable, net	33,228	45,007
Accounts receivable, net	12,604	12,075
Prepaid expenses and deferred charges	4,900	6,328
Student loans receivable, net	40,464	40,265
Investments	582,668	590,008
Funds held in trust by others	14,826	18,857
Other assets	1,307	4,942
Net property, buildings, and equipment	524,790	524,394
Total assets	\$ 1,317,462	1,330,939
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 34,810	40,553
Payables under securities lending agreement	26,832	24,815
Student credits and other advance payments	7,769	7,699
Deferred revenue and deposits	32,744	33,584
Payable to beneficiaries under split-interest agreements	2,948	3,196
Refundable federal loan grants	39,802	40,547
Postretirement benefits payable	4,396	3,992
Notes and bonds payable, net	194,201	202,171
Total liabilities	343,502	356,557
Net assets:		
Unrestricted	225,487	228,891
Temporarily restricted	342,353	360,917
Permanently restricted	406,120	384,574
Total net assets	973,960	974,382
Total liabilities and net assets	\$ 1,317,462	1,330,939

See accompanying notes to consolidated financial statements.

**MARQUETTE UNIVERSITY**  
Consolidated Statement of Activities  
Year ended June 30, 2016  
(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Student tuition and fees – gross	\$ 371,831	—	—	371,831
Less tuition discounts	(125,839)	—	—	(125,839)
Net tuition and fees	245,992	—	—	245,992
Government and private grants	27,445	—	—	27,445
Contributions	5,597	13,656	21,203	40,456
Auxiliary enterprises	49,421	—	—	49,421
Sales by educational departments	10,190	—	—	10,190
Investment income	624	607	35	1,266
Endowment income used in operations	5,700	18,540	267	24,507
Other income	19,546	—	—	19,546
Total operating revenues	364,515	32,803	21,505	418,823
Net assets released from restrictions	35,543	(35,543)	—	—
Total operating revenues and net assets released from restrictions	400,058	(2,740)	21,505	418,823
Operating expenses:				
Instruction	117,144	—	—	117,144
Academic support	43,864	—	—	43,864
Research and grants	25,213	—	—	25,213
Libraries	18,620	—	—	18,620
Student services	56,613	—	—	56,613
Auxiliary enterprises	45,543	—	—	45,543
Institutional support	76,226	—	—	76,226
Public services	4,859	—	—	4,859
Total operating expenses	388,082	—	—	388,082
Operating income	11,976	(2,740)	21,505	30,741
Nonoperating activities:				
Endowment gain in excess of (less than) amounts designated for current operations, net	(14,095)	(14,923)	(67)	(29,085)
Other, net	(1,285)	(901)	108	(2,078)
Total nonoperating activities, net	(15,380)	(15,824)	41	(31,163)
Change in net assets	(3,404)	(18,564)	21,546	(422)
Net assets, beginning of year	228,891	360,917	384,574	974,382
Net assets, end of year	\$ 225,487	342,353	406,120	973,960

See accompanying notes to consolidated financial statements.

**MARQUETTE UNIVERSITY**

Statement of Activities

Year ended June 30, 2015

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Student tuition and fees – gross	\$ 366,931	—	—	366,931
Less tuition discounts	(121,574)	—	—	(121,574)
Net tuition and fees	245,357	—	—	245,357
Government and private grants	21,348	—	—	21,348
Contributions	3,291	28,879	25,767	57,937
Auxiliary enterprises	50,056	—	—	50,056
Sales by educational departments	9,711	—	—	9,711
Investment income	716	1,056	131	1,903
Endowment income used in operations	5,331	17,080	302	22,713
Other income	20,292	—	—	20,292
Total operating revenues	356,102	47,015	26,200	429,317
Net assets released from restrictions	34,011	(34,011)	—	—
Total operating revenues and net assets released from restrictions	390,113	13,004	26,200	429,317
Operating expenses:				
Instruction	118,546	—	—	118,546
Academic support	43,696	—	—	43,696
Research and grants	22,479	—	—	22,479
Libraries	20,307	—	—	20,307
Student services	52,568	—	—	52,568
Auxiliary enterprises	44,350	—	—	44,350
Institutional support	71,989	—	—	71,989
Public services	4,633	—	—	4,633
Total operating expenses	378,568	—	—	378,568
Operating income	11,545	13,004	26,200	50,749
Nonoperating activities:				
Endowment gain in excess of (less than) amounts designated for current operations, net	6,711	(12,047)	(65)	(5,401)
Other, net	(5,524)	229	508	(4,787)
Total nonoperating activities, net	1,187	(11,818)	443	(10,188)
Change in net assets	12,732	1,186	26,643	40,561
Net assets, beginning of year	216,159	359,731	357,931	933,821
Net assets, end of year	\$ 228,891	360,917	384,574	974,382

See accompanying notes to consolidated financial statements.

**MARQUETTE UNIVERSITY**  
Consolidated Statements of Cash Flows  
Years ended June 30, 2016 and 2015  
(Dollars in thousands)

	<b>2016</b>	<b>2015</b>
Cash flows from operating activities:		
Change in net assets	\$ (422)	40,561
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	37,868	36,293
Discount amortization	(487)	(489)
Net realized and unrealized depreciation (appreciation) on investments	9,877	(10,760)
Bad debt expense	2,275	945
Contributions for major capital projects including gifts in kind	(3,359)	(31,738)
Contributions restricted for long-term endowments	(14,828)	(25,767)
Permanently restricted endowment income used in operations	(267)	(302)
Gain on sale of property, buildings, and equipment	139	1,156
Changes in assets and liabilities:		
Accounts receivable	(1,119)	(864)
Contributions receivable	4,123	13,027
Funds held in trust by others	4,031	456
Other assets, net	4,911	(4,768)
Payables and other liabilities	(2,521)	(1,813)
Deferred revenue and deposits	(840)	355
Net cash provided by operating activities	39,381	16,292
Cash flows from investing activities:		
Purchases of property, buildings, and equipment	(42,216)	(51,686)
Proceeds from sale of property, buildings, and equipment	44	416
Student loan repayments	7,677	9,083
Student loans issued	(7,891)	(6,686)
Increase (decrease) in payables under securities lending agreement	2,017	(4,660)
(Increase) decrease in cash collateral held under securities lending agreement	(2,002)	4,660
Purchase of investments	(334,099)	(233,657)
Proceeds from the sale of investments	333,791	231,960
Net cash used in investing activities	(42,679)	(50,570)
Cash flows from financing activities:		
Contributions received for major capital projects	3,148	30,546
Contributions restricted for long-term endowments	20,814	23,894
Permanently restricted endowment income used in operations	267	302
Increase in refundable federal loan grants	(745)	4,607
Repayment of notes and bonds payable	(6,347)	(30,603)
Net cash provided by financing activities	17,137	28,746
Net increase (decrease) in cash and cash equivalents	13,839	(5,532)
Cash and cash equivalents, beginning of year	62,019	67,551
Cash and cash equivalents, end of year	\$ 75,858	62,019

See accompanying notes to consolidated financial statements.



# MARQUETTE UNIVERSITY

## Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

### (1) Organization

Marquette University (the University) is an independent, coeducational, not-for-profit institution of higher learning and research located in Milwaukee, Wisconsin, formally opened in 1881 and conducted under the auspices of the Society of Jesus. Through its 12 separate colleges and schools, the University offers bachelor's degree programs, master's degree programs, doctoral degree programs, and post-baccalaureate first professional degree programs.

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

### (2) Summary of Significant Accounting Policies

#### (a) Basis of Presentation

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

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

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

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

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

## MARQUETTE UNIVERSITY

### Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

**(b) *Use of Estimates***

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

**(c) *Cash and Cash Equivalents***

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

**(d) *Unexpended Bond Proceeds***

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

**(e) *Prepaid Expenses and Deferred Charges***

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

**(f) *Investments***

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

**(g) *Funds Held in Trust by Others***

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

**(h) *Student Loans Receivable, Net***

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

**MARQUETTE UNIVERSITY**

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

At June 30, student loans consisted of the following:

	<b>2016</b>	<b>2015</b>
Federal government loan programs	\$ 39,285	38,972
Institutional loan programs	1,281	1,380
Subtotal	40,566	40,352
Less allowance for doubtful accounts:		
Beginning of year	(87)	(90)
Increases	(81)	(79)
Write-offs	66	82
End of year	(102)	(87)
Student loans receivable, net	\$ 40,464	40,265

The University participates in the Perkins, Health Professionals Student, Nursing Student, Nurse Faculty, ARRA-Nurse Faculty, and Loans for Disadvantaged Student federal revolving loan programs. The availability of funds for loans under the programs, is dependent on reimbursements to the pool from repayments on outstanding loans. At June 30, 2016 and 2015, the U.S. government had provided 88% of the funds for the federal student loan programs, and the University provided the remaining 12%. The initial receipt of U.S. government funds is recorded as refundable federal loan grants on the consolidated statements of financial position. A portion of the student loan may be canceled if the student meets certain criteria. The University will either be reimbursed by the U.S. government for its portion of the canceled loan or will reduce the refundable federal loan liability.

At June 30, 2016 and 2015, the following amounts were past due under student loan programs:

<b>June 30</b>	<b>1-240 days</b>	<b>241 days to 2 years</b>	<b>over 2 years</b>	<b>Total</b>
2016	\$ 1,334	834	1,560	3,728
2015	1,846	567	1,373	3,786

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

**(i) Property, Buildings, and Equipment**

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

## MARQUETTE UNIVERSITY

### Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

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

Property, buildings, and equipment include the following at June 30, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Land and improvements	\$ 56,579	51,279
Buildings and improvements	666,141	638,800
Construction in progress	2,968	16,587
Furniture, fixtures, and equipment	133,009	128,180
Library contents	118,931	116,837
Intangible assets	4,843	1,851
Less accumulated depreciation	(457,681)	(429,140)
Net property, buildings, and equipment	\$ 524,790	524,394

Construction in progress includes the following as of June 30, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Jesuit Residence	\$ —	7,730
Humphrey Hall Conversion to Residence Hall	—	1,887
Coughlin Hall Remodel	—	1,544
Rec Plex Renovation	—	899
Dental School Expansion	803	—
Other renovation and construction projects	2,165	4,527
Total construction in progress	\$ 2,968	16,587

**(j) Asset Retirement Obligations**

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

# MARQUETTE UNIVERSITY

## Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

assumptions used to determine the asset retirement obligation may be imprecise or be subject to changes in the future. Any change in the assumptions can impact the value of the determined liability and impact future net activities of the University.

**(k) *Student Tuition and Fees***

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

**(l) *Auxiliary Enterprises***

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

**(m) *Contributions***

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

**(n) *Operating Income***

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

# MARQUETTE UNIVERSITY

## Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

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

**(o) *Income Taxes***

The University is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and Section 71.26(1)(a) of the Wisconsin statutes and is generally not subject to federal and state income taxes. However, the University is subject to income taxes on any income that is derived from a trade or business regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the consolidated financial statements taken as a whole. Flora is considered a disregarded entity under IRC Section 301.7701-3.

The University has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 740, *Income Taxes*, related to accounting for uncertainty in income taxes, which prescribes a recognition threshold and measurement of a tax position taken or expected to be taken in a tax return. The interpretation requires that the entity account for and disclose in the consolidated financial statements the impact of a tax position if that position will more likely than not be sustained upon examination based on the technical merits of the position. The University has evaluated the consolidated financial statement impact of tax positions taken or expected to be taken and determined it has no uncertain tax position that would require tax assets or liabilities to be recorded in accordance with accounting guidance at June 30, 2016 or 2015.

As of June 30, 2016, the University has a federal tax credit carryforward of \$287, expiring in 2034.

**(p) *Art Collection***

The University has various collections of fine arts and rare books in museums, libraries, and on loan. The University does not assign or record a value to art works and other collections received as gifts or purchased with contributions restricted for that purpose. Valuations for some collections are updated periodically, and as such, the total value of all fine arts may vary with appraisals and/or auction prices. Accordingly, the value of fine art and other collections has been excluded from the statements of financial position. Proceeds, if any, from 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 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, 2016, the specific policy covering highly valued works provides for insured coverage of \$82,000 aggregate limit (subject to policy sublimits-including \$3,000 for the Joan of Arc Chapel) for any one loss or any one occurrence and includes some appraised items from the library collections.

**MARQUETTE UNIVERSITY**

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

**(q) New Accounting Pronouncements**

In April 2015, the FASB issued Accounting Standards Codification (ASU) 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the consolidated statements of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, rather than as separate asset. The University elected early adoption of ASU 2015-03 and implemented this guidance for the year ending June 30, 2016.

**(r) Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation.

**(3) Investments**

Cost and estimated fair values of investments as of June 30, 2016 and 2015 were as follows:

	<b>2016</b>		<b>2015</b>	
	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>
Money funds and other	\$ 27,837	27,861	36,009	36,014
Federal, state, and local agencies securities	30,033	30,429	38,478	38,601
Nongovernment bonds and notes	15,431	15,961	21,738	22,037
Asset and mortgage-backed securities	2,384	2,411	3,050	3,005
Foreign bonds and notes	3,940	4,135	3,356	3,523
Common and preferred stocks	24,353	30,966	19,993	29,878
Mutual funds – bonds	3,101	3,127	2,174	2,195
Mutual funds – equity	48,414	46,698	48,166	56,031
Investments measured at net asset value	<u>329,000</u>	<u>421,081</u>	<u>297,779</u>	<u>398,724</u>
Total investments	<u>\$ 484,493</u>	<u>582,669</u>	<u>470,743</u>	<u>590,008</u>

**MARQUETTE UNIVERSITY**

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

The University's investments at fair value are categorized as of June 30, 2016 and 2015 as follows:

	<u>2016</u>	<u>2015</u>
Investments permanently restricted by donors	\$ 361,991	335,124
Investments functioning as endowment	<u>166,029</u>	<u>194,254</u>
Total investments subject to endowment spending policy	528,020	529,378
Long-term cash management investments	24,614	35,410
Trust and other investments	<u>30,034</u>	<u>25,220</u>
Total investments	<u>\$ 582,668</u>	<u>590,008</u>

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

Investment returns as of June 30, 2016 and 2015 comprise the following:

	<u>2016</u>			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Interest and dividends	\$ 1,856	4,615	94	6,565
Loss on investments, net	<u>(9,627)</u>	<u>(391)</u>	<u>141</u>	<u>(9,877)</u>
Return on investments	<u>\$ (7,771)</u>	<u>4,224</u>	<u>235</u>	<u>(3,312)</u>
Return on investments are classified on the consolidated statement of activities as follows:				
Investment income	\$ 624	607	35	1,266
Endowment income used in operations	5,700	18,540	267	24,507
Endowment gain (less than) amounts designated for current operations, net	<u>(14,095)</u>	<u>(14,923)</u>	<u>(67)</u>	<u>(29,085)</u>
Return on investments	<u>\$ (7,771)</u>	<u>4,224</u>	<u>235</u>	<u>(3,312)</u>

Return on investments is net of investment fees of \$2,325.



## MARQUETTE UNIVERSITY

### Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

	2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Interest and dividends	\$ 2,253	5,984	218	8,455
Gain on investments, net	10,505	105	150	10,760
Return on investments	\$ 12,758	6,089	368	19,215
Return on investments are classified on the consolidated statement of activities as follows:				
Investment income	\$ 716	1,056	131	1,903
Endowment income used in operations	5,331	17,080	302	22,713
Endowment gain in excess of (less than) amounts designated for current operations, net	6,711	(12,047)	(65)	(5,401)
Return on investments	\$ 12,758	6,089	368	19,215

Return on investments is net of investment fees of \$1,905.

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

As of June 30, 2016 and 2015, the University had loaned securities with a market value of \$26,267 and \$23,858, respectively, that were secured by collateral with a market value of approximately \$26,832 and \$24,815, respectively. The collateral received in connection with the security lending program and the obligation to return such collateral are reported as an asset and liability, respectively, in the consolidated financial statements.

#### (4) Fair Value Measurements

During fiscal year 2015, the University adopted FASB ASU 2015-07, *Fair Value Measurement – Disclosures for Investments in Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. This standard removed the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient.

## MARQUETTE UNIVERSITY

### Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

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

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

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

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

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

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

## MARQUETTE UNIVERSITY

### Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

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

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

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

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

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

The University's policy is to reflect transfers between levels at the end of the year in which a change in circumstances results in the transfer. The following table presents the University's financial instruments at fair value as of June 30, 2016. 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.

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
June 30, 2016:				
Assets				
Recurring:				
Cash and cash equivalents	\$ 75,858	75,858	—	—
Collateral held under securities lending agreement	26,817	—	26,817	—

**MARQUETTE UNIVERSITY**

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Money funds and other	\$ 27,860	—	27,861	—
Federal, state, and local				
agency securities	30,429	—	30,429	—
Nongovernment bonds				
and notes	15,961	—	15,961	—
Asset and mortgage-				
backed securities	2,411	—	2,411	—
Foreign bonds and notes	4,135	—	4,135	—
Common and preferred				
stocks	30,966	30,966	—	—
Mutual funds – bonds	3,127	3,127	—	—
Mutual funds – equity	46,698	46,698	—	—
Investments measured				
at net asset value	<u>421,081</u>			
Total investments	582,668	80,791	80,797	—
Funds held in trust by others	<u>14,826</u>	—	—	14,826
Total recurring assets	<u>\$ 700,169</u>	<u>156,649</u>	<u>107,614</u>	<u>14,826</u>
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
June 30, 2016:				
Liabilities				
Recurring:				
Payables under securities				
lending agreement	<u>\$ 26,832</u>	—	26,832	—
Total recurring				
liabilities	<u>\$ 26,832</u>	—	26,832	—

**MARQUETTE UNIVERSITY**

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

The following table represents additional information for all Level 3 assets measured at fair value on a recurring basis for the fiscal year ended June 30, 2016:

	<b>June 30, 2016</b>	
	<b>Funds held</b>	
	<b>in trust</b>	
	<b>by others</b>	
	<hr/>	
Financial assets:		
Beginning balance	\$	18,857
Irrevocable trusts that matured		(3,405)
Unrealized losses, net		(626)
		<hr/>
Ending balance	\$	<u>14,826</u>

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2016 are as follows:

<u>Fiscal year ended June 30, 2016</u>	<u>Net assets</u>	<u>Unfunded</u>	<u>Redemption</u>	<u>Redemption</u>
	<u>value</u>	<u>commitments</u>	<u>frequency</u>	<u>notice period</u>
Commingled funds	\$ 106,670	—	Daily, Monthly	1–10 days
Multi-strategy hedge funds	224,138	—	Quarterly, Annually, 2 years, 5 years	30–180 days
Private equity partnerships	63,783	34,208	Illiquid	
Real estate limited partnership and membership interests	<u>26,490</u>	<u>20,760</u>	Quarterly, illiquid	
	\$ <u>421,081</u>	<u>54,968</u>		

**MARQUETTE UNIVERSITY**

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

The following table presents the University's financial instruments at fair value as of June 30, 2015. 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, 2015:				
Assets				
Recurring:				
Cash and cash equivalents	\$ 62,019	62,019	—	—
Collateral held under securities				
lending agreement	24,815	—	24,815	—
Unexpended bond proceeds	2,229	—	2,229	—
Investments:				
Money funds and other	36,014	—	36,014	—
Federal, state, and local				
agency securities	38,601	—	38,601	—
Nongovernment bonds				
and notes	22,037	—	22,037	—
Asset and mortgage-				
backed securities	3,005	—	3,005	—
Foreign bonds and notes	3,523	—	3,523	—
Common and preferred				
stocks	29,878	29,878	—	—
Mutual funds – bonds	2,195	2,195	—	—
Mutual funds – equity	56,031	56,031	—	—
Investments measured				
at net asset value	<u>398,724</u>			
Total investments	590,008	88,104	103,180	—
Funds held in trust by others	<u>18,857</u>	—	—	<u>18,857</u>
Total recurring assets	\$ <u><u>697,928</u></u>	<u><u>150,123</u></u>	<u><u>130,224</u></u>	<u><u>18,857</u></u>

**MARQUETTE UNIVERSITY**

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
June 30, 2015:				
Liabilities				
Recurring:				
Payables under securities lending agreement	\$ <u>24,815</u>	<u>—</u>	<u>24,815</u>	<u>—</u>
Total recurring liabilities	\$ <u><u>24,815</u></u>	<u><u>—</u></u>	<u><u>24,815</u></u>	<u><u>—</u></u>

The following table represents additional information for all Level 3 assets measured at fair value on a recurring basis for the fiscal year ended June 30, 2015:

	<u>June 30, 2015 Funds held in trust by others</u>
Financial assets:	
Beginning balance	\$ 19,313
Unrealized losses, net	<u>(456)</u>
Ending balance	\$ <u><u>18,857</u></u>

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2015 are as follows:

<u>Fiscal year ended June 30, 2015</u>	<u>Net asset value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Commingled funds	\$ 83,733	—	Daily, Monthly	1–10 days
Multi-strategy hedge funds	226,545	—	Quarterly, Annually, 2 years, 5 years	30–180 days
Private equity partnerships	63,119	32,437	Illiquid	
Real estate limited partnership and membership interests	<u>25,327</u>	<u>12,391</u>	Quarterly, illiquid	
	\$ <u><u>398,724</u></u>	<u><u>44,828</u></u>		

# MARQUETTE UNIVERSITY

## Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

### (5) Endowments and Endowment Income

#### (a) *Interpretation of Relevant Law Governing Endowments*

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

From time to time, the value of assets associated with a permanently restricted fund may fall below the historical cost. Deficiencies of this nature are reported in the unrestricted net assets and totaled \$4,799 and \$1,774 as of June 30, 2016 and 2015, respectively. These deficiencies resulted from unfavorable market conditions that occurred after the investment of permanently restricted contributions and from appropriations to certain programs. Subsequent gains that restore the market value of such funds to the historical cost will be classified as unrestricted net assets.

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

#### (b) *Endowment Spending Policy*

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



## MARQUETTE UNIVERSITY

### Notes to Consolidated Financial Statements

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(Dollars in thousands)

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

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

(c) ***Endowment Investment Policy***

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

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

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

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Notes to Consolidated Financial Statements

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(Dollars in thousands)

The following represents the endowment net assets composition by type of fund as of June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (4,799)	70,282	406,120	471,603
Quasi-/board-designated endowment funds	<u>110,886</u>	<u>—</u>	<u>—</u>	<u>110,886</u>
Total funds	\$ <u>106,087</u>	<u>70,282</u>	<u>406,120</u>	<u>582,489</u>

The following represents the changes in endowment net assets for the year ended June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 111,886	84,490	384,574	580,950
Investment return:				
Investment income	—	—	35	35
Endowment income used for spending policy	5,700	18,540	267	24,507
Net realized and unrealized gains (losses)	<u>(13,524)</u>	<u>(14,208)</u>	<u>41</u>	<u>(27,691)</u>
Total investment return (loss)	(7,824)	4,332	343	(3,149)
Appropriation of endowment assets for expenditure	(5,700)	(18,540)	—	(24,240)
Contributions	<u>7,725</u>	<u>—</u>	<u>21,203</u>	<u>28,928</u>
Endowment net assets, end of year	\$ <u>106,087</u>	<u>70,282</u>	<u>406,120</u>	<u>582,489</u>

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Notes to Consolidated Financial Statements

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(Dollars in thousands)

The following represents the endowment net assets composition by type of fund as of June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (1,774)	84,490	384,574	467,290
Quasi-/board-designated endowment funds	<u>113,660</u>	<u>—</u>	<u>—</u>	<u>113,660</u>
Total funds	\$ <u>111,886</u>	<u>84,490</u>	<u>384,574</u>	<u>580,950</u>

The following represents the changes in endowment net assets for the year ended June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 104,417	95,925	357,931	558,273
Investment return:				
Investment income	—	—	131	131
Endowment income used for spending policy	5,331	17,080	302	22,713
Net realized and unrealized gains (losses)	<u>6,832</u>	<u>(11,435)</u>	<u>443</u>	<u>(4,160)</u>
Total investment return	12,163	5,645	876	18,684
Appropriation of endowment assets for expenditure	(5,331)	(17,080)	—	(22,411)
Contributions	<u>637</u>	<u>—</u>	<u>25,767</u>	<u>26,404</u>
Endowment net assets, end of year	\$ <u>111,886</u>	<u>84,490</u>	<u>384,574</u>	<u>580,950</u>

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

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

For those agreements where the University is the trustee, contribution revenue is recognized at the date the agreement is established, net of the liability that is recorded for the present value of the estimated future payments to be made to the beneficiaries. The present value of payments to beneficiaries is calculated using discount rates that range from 1.8% to 5.5%. Gains or losses resulting from changes in actuarial assumptions

**MARQUETTE UNIVERSITY**

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

are recorded as changes in the respective net asset class in the consolidated statements of activities as incurred. Investments and other assets maintained in trusteeship by the University totaled \$6,258 and \$6,623 at June 30, 2016 and 2015, respectively.

The University is the beneficiary of seven trusts that, in accordance with the decedent's instructions, are managed and maintained by separate trustees not affiliated with the University. The University receives distributions from the trusts. The fair value of the trusts was \$23,204 and \$17,896 at June 30, 2016 and 2015, respectively.

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

Irrevocable trusts for which the University is not the trustee totaled \$14,826 and \$18,857 at June 30, 2016 and 2015, respectively.

**(7) Contributions Receivable**

Contributions receivable expected to be collected within one year are recorded at net realizable value. Contributions receivable expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using an appropriate risk-free rate of return ranging from 0.63% to 1.93% on the date the promise to give is received. Amortization of the discount is included in contribution revenues.

As of June 30, 2016 and 2015, the contributions receivable are due as follows:

	<b>2016</b>	<b>2015</b>
Less than one year	\$ 10,219	13,170
Two to five years	19,020	22,662
Over five years	11,222	17,376
	40,461	53,208
Less unamortized discount	(5,554)	(6,643)
Allowance for uncollectible accounts	(1,679)	(1,558)
Total contributions receivable, net	\$ 33,228	45,007

The University has received certain conditional promises to give that are in the form of revocable trusts and bequests, which are not included in the consolidated financial statements. As of June 30, 2016 and 2015, the fair value of these conditional promises is approximately \$69,168 and \$57,457, respectively.

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June 30, 2016 and 2015

(Dollars in thousands)

**(8) Notes and Bonds Payable**

As of June 30, 2016 and 2015, notes and bonds payable consisted of the following:

	<b>2016</b>	<b>2015</b>
Revenue Bonds, Series 2007A, payable with fixed interest rates ranging from 4.00% to 5.00%, maturing through 2023	\$ 16,150	17,784
Revenue Bonds, Series 2007B, payable with fixed interest rates ranging from 4.50% to 5.00%, maturing through 2032	27,232	27,215
Revenue Bonds, Series 2008B1, payable with fixed interest rates ranging from 2.00% to 5.00%, maturing through 2030	17,485	18,445
Revenue Bonds, Series 2008B2, payable with fixed interest rates ranging from 2.25% to 5.00%, maturing through 2030	10,767	11,338
Revenue Bonds, Series 2008B3, payable with fixed interest rates ranging from 2.00% to 5.00%, maturing through 2030	19,399	20,401
Revenue Bonds, Series 2011A, payable with fixed interest rates ranging from 2.00% to 5.00%, maturing through 2020	13,409	15,790
Revenue Bonds, Series 2012, payable with fixed interest rates ranging from 2.00% to 5.00%, maturing through 2032	88,897	91,157
Capitalized lease, payable with variable interest rate, maturing through 2016	862	41
Total notes and bonds payable	\$ 194,201	202,171

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

Accelerated pledge payments related to the Eckstein Law School Building were used to defease the following debt during 2015:

Revenue Bonds, Series 2008B1	\$ 9,090
Revenue Bonds, Series 2008B2	4,595
Revenue Bonds, Series 2008B3	8,275
Total notes and bonds payable	\$ 21,960

## MARQUETTE UNIVERSITY

### Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

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, 2016 and 2015.

Maturities of notes and bonds payable based on scheduled repayments at June 30, 2016 are as follows:

2017	\$	9,358
2018		9,799
2019		10,306
2020		9,587
2021		9,953
Thereafter		<u>145,198</u>
Total notes and bonds payable	\$	<u>194,201</u>

As of June 30, 2016, 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, 2016 and 2015.

Cash utilized for the payment of interest on notes and bonds payable was \$9,091 and \$10,232 during fiscal years 2016 and 2015, respectively.

#### (9) Retirement Plan

All eligible full-time personnel may elect to participate in a defined contribution individual annuity plan. Under the provisions of the plan, participants are required to contribute 5% of their annual wages to the plan. The University has neither administrative responsibilities nor any financial liabilities under this plan except to make contributions, currently limited to 8% of the annual wages of participants, up to defined limits. In addition, voluntary contributions by participants may be made subject to Internal Revenue Service limitations. Payments for contributions to this plan totaled \$10,305 and \$9,927 in fiscal years 2016 and 2015, respectively.

#### (10) Self-Funded Health and Dental Benefit Plans

The University has self-funded benefit plans covering all active and certain retired employees' health and dental costs. Under the plans, the University's losses are limited, through the use of excess loss insurance, to \$300 per claim. Claims paid under the plans for fiscal years 2016 and 2015 totaled \$23,901 and \$25,340, respectively. The University has also contracted with a third party administrator to provide administrative services for the plans. Accrued liabilities include an estimate of the University's liability for claims incurred but not paid through June 30, 2016 and 2015.

## MARQUETTE UNIVERSITY

### Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

#### (11) Postretirement Benefits

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

Summary information regarding the accounting for both plans for the years ended June 30, 2016 and 2015 is presented in the following:

	<b>2016</b>	<b>2015</b>
Change in benefit obligation:		
Benefit obligation, beginning of year	\$ 3,992	4,473
Service cost	—	1
Interest cost	175	184
Actuarial (gain) loss	333	(581)
Benefits paid	(104)	(85)
Benefit obligation, end of year	\$ 4,396	3,992
Change in plan assets:		
Fair value of plan assets, beginning of year	\$ —	—
Employer contributions	104	85
Actual benefits paid	(104)	(85)
Fair value of plan assets, end of year	\$ —	—
Change in postretirement benefits:		
Change in postretirement benefits other than net periodic benefit cost	\$ —	—
Prior service credits	—	—
Net (loss) gain	(124)	(486)
Change in postretirement benefits	\$ (124)	(486)

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Notes to Consolidated Financial Statements

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(Dollars in thousands)

	<u>2016</u>	<u>2015</u>
	June 30	June 30
Measurement date		
Weighted average assumptions for liability:		
Discount rate	3.75%	4.50%
Salary increase	3.50	3.50
Components of net periodic benefit cost:		
Service cost	\$ —	1
Interest cost	175	184
Amortization of:		
Unrecognized prior service cost	—	—
Unrecognized actuarial gain	(29)	(1)
Net periodic cost	\$ <u>146</u>	<u>184</u>

The projected postretirement benefit payments for the fiscal years subsequent to June 30, 2016 are as follows:

2017	\$ 228
2018	232
2019	236
2020	239
2021	243
2022 to 2025	1,257

**(12) Temporarily Restricted Net Assets**

Temporarily restricted net assets consist of the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Physical assets	\$ 177,988	183,154
General operations and education	108,067	109,194
Contributions receivable, net	9,866	9,950
Scholarships	41,527	46,799
Life income and annuity funds	4,905	11,820
Total temporarily restricted net assets	\$ <u>342,353</u>	<u>360,917</u>



## MARQUETTE UNIVERSITY

### Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

#### (13) Permanently Restricted Net Assets

Permanently restricted net assets consist of the following as of June 30, 2016 and 2015, the income from which is expendable to support:

	<b>2016</b>	<b>2015</b>
Scholarships	\$ 220,409	196,645
General operations and education	149,365	139,985
Contributions receivable, net	23,097	34,606
Life income and annuity funds	13,249	13,338
Total permanently restricted net assets	\$ 406,120	384,574

#### (14) Related Parties

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

#### (15) Commitments and Contingencies

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

As of June 30, 2016, the University has outstanding commitments for the following construction projects:

Demolition of Jesuit Residence	\$ 1,057
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#### (16) Tuition Discounts

Tuition discounts, as reported in the consolidated statements of activities as a reduction of student tuition and fees, were funded in fiscal years 2016 and 2015 from the following revenue sources:

	<b>2016</b>	<b>2015</b>
Institutional revenue sources	\$ 105,161	101,686
Gifts, grants, and endowment earnings	20,678	19,888
Total tuition discount	\$ 125,839	121,574

## MARQUETTE UNIVERSITY

### Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

#### (17) Natural Expenses

The University's classification of unrestricted expenses in the consolidated statements of activities is classified by natural expenses as of June 30, 2016 and 2015 as follows:

	<u>2016</u>	<u>2015</u>
Salaries and fringe benefits	\$ 240,397	234,440
Supplies	18,131	19,081
Telephone	766	849
Professional fees	12,509	8,966
Administrative expenses	12,988	12,011
Meal plans and promotional items	13,198	13,057
Repairs and maintenance	14,827	15,898
Travel	12,874	11,708
Advertising and public relations	1,735	1,620
Utilities	10,180	10,553
Insurance (property, liability, etc.)	3,392	3,202
Interest	7,572	8,695
Depreciation	37,868	36,293
Miscellaneous expense	1,645	2,195
Total operating expenses	<u>\$ 388,082</u>	<u>378,568</u>

#### (18) Research and Grant Costs

The University receives grant and contract revenue from various government agencies and private sources for the support of research, training, and other sponsored programs. Revenues associated with the direct costs of these programs are recognized as the related costs are incurred. Indirect cost reimbursements from federal agencies are based on negotiated predetermined rates. Research and grant costs reported for fiscal years 2016 and 2015 comprise of the following:

	<u>2016</u>	<u>2015</u>
Sponsored research	\$ 15,380	13,956
Teaching and training	5,616	5,427
Development and others	4,217	3,096
Total research and grants	<u>\$ 25,213</u>	<u>22,479</u>

#### (19) Subsequent Events

The University evaluated events after the consolidated statement of financial position date of June 30, 2016 through September 9, 2016, which was the date the consolidated financial statements were issued. No significant subsequent were noted.