MARQUETTE UNIVERSITY FINANCIAL PERFORMANCE

All Dollar Amounts in Thousands

Dashboard for September 2014

The purpose of the Marquette Financial Performance dashboard is to give the reader a clear depiction Marquette's financial health.

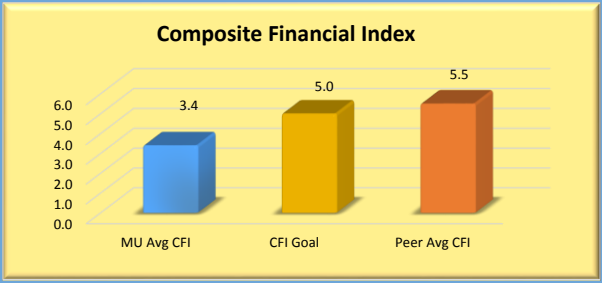
Click on any chart to see trends and explanations of the data. For more information, or to ask a question about any topic, click on the Ask a Question button.

For an analysis of this information, visit the **Treasurer's Comments.**

Trend Evaluation Key

Positive Trend **Neutral Position** **Negative Position**

Composite Financial Index - OVERALL USE OF THE UNIVERSITIES FINANCIAL RESOURCES

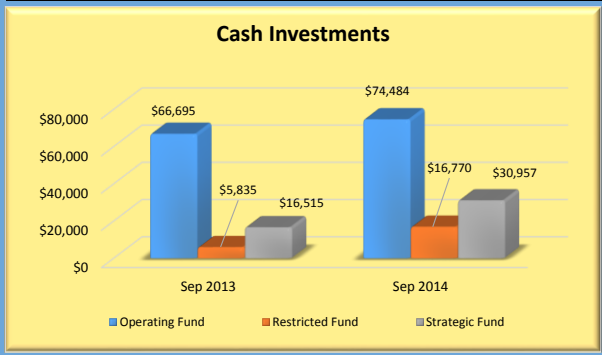


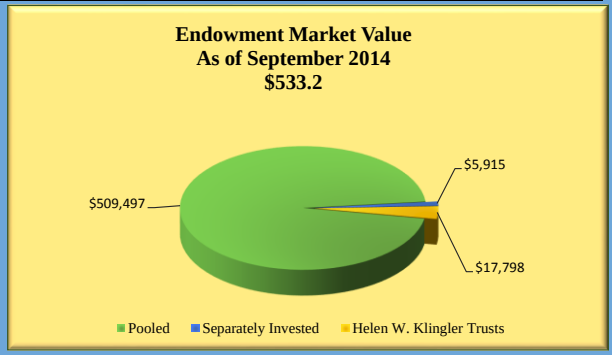
The Composite Financial Index (CFI) depicts the overall financial health of the university. The CFI is most impacted by these key factors:

- Cash
- Enrollment
- Operating Results
- Expenses
- Debt
- Asset Growth

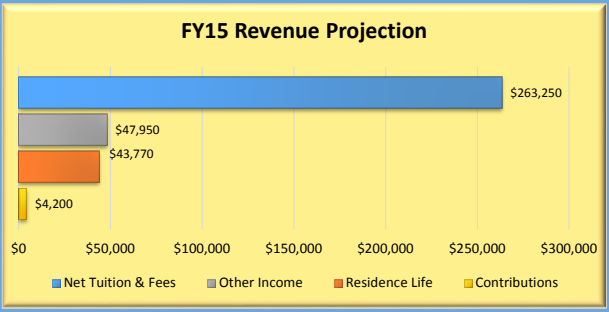
Marquette's CFI currently lags peer institutions and is not adequate to support substantial program development.

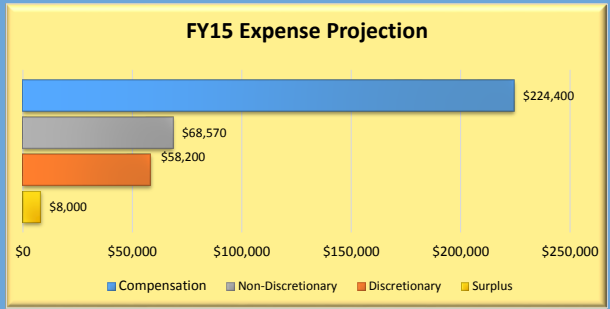
Investments

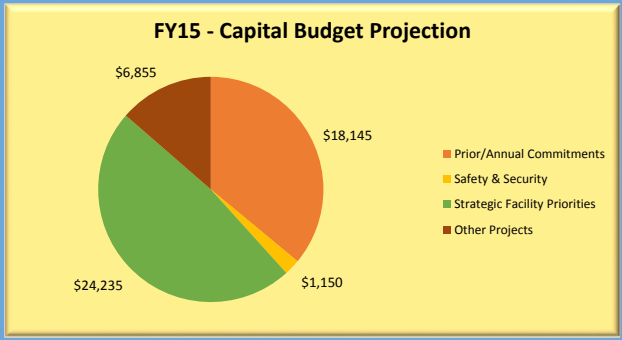




Operating and Capital Budgets







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Treasurer's Comments

General Comments

This Dashboard report brings an end to the traditional Treasurer's Report that made its debut six years ago. The Treasurer's report was intended to provide university leadership with information regarding the financial health of Marquette. While it was adequate in serving its purpose, it did not reach the broader university community of students, faculty and staff. In aligning our priorities with the strategic direction of the university's plan, *Beyond Boundaries,* I felt that a new format was necessary to convey not only financial news but to provide a greater sense of the financial stewardship that we all share. The Finance area hopes that you, the reader, will find the dashboard an easy read and that you will gain a more complete understanding of the financial metrics we use in Finance. We invite your comments and hope that you will feel free to use the new "Ask a Question" feature.

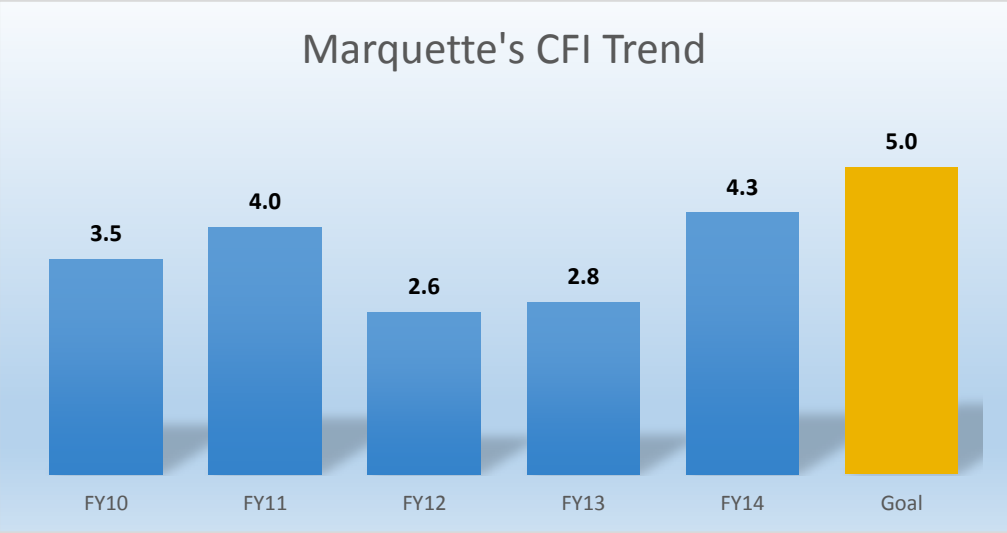
Economic News

The recent volatility in the world's markets was fueled by continuing fears of global disinflation and the inability of the European markets to achieve "price stability." Closer to home, the United States has seen poorer than expected retail sales, declining revenues and conflicting views over the next actions of the Fed.

Marquette Financial News

The University Financial Planning and Review Committee (UFPRC) has been meeting since early September and is busy working on the FY16 Operating and Capital Budget recommendations. The committee is comprised of Deans, Faculty, Staff and Students. For the Operating Budget, the committee reviews trend data, projections on enrollment, and forecasts for future expenses such as health care costs, utilities, contractual obligations, etc. Proposed Capital Budget requests are rated and prioritized by the Capital Planning Group and sent to the UFPRC for final review. After completion of these reviews, the UFPRC makes specific recommendations to the President and his Cabinet on tuition and room and board rates, merit pool increases and other operating and capital budget requests.

At the December Board meeting, the university will present the final budget recommendations to the Board of Trustees for approval. In January, the final approved budget will be communicated to the university community.



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Ask a Question?

What does this trend indicate?
Marquette took major steps beginning in FY13 to improve its financial position by reducing expenses. Going forward, the CFI will continue to improve through strategic enrollment decisions and positive bottom lines.

Composite Financial Index (CFI)

What is a CFI?

A university's Composite Financial Index (CFI) is an indicator of the institution's overall financial health and is intended to be measured over time. The CFI evaluates the following underlying business functions: the ability to pay for expenses and debt with available cash, the discipline to structure its business model so that cash savings from operations are realized, and whether the assets of the institution are growing as a result of management's strategic planning implementation.

Why does a CFI score matter for Marquette?

A healthy CFI provides a strong indication that Marquette will be able to support its core mission by investing in its academic programs. A healthy CFI will allow the university to borrow money at lower interest rates when large outlays of cash are needed for capital projects. A healthy CFI trend indicates that the university will remain financially sustainable over time. A low or shrinking CFI is an indication of financial trouble and can lead to a lack of financial resources to support current academic programs, a drop in credit ratings, or lessen the ability to borrow cash, and it creates concerns about the university's financial future. Additionally, if the CFI drops to an unsustainable level, the federal government will remove financial aid sources.

What is a healthy CFI rating?

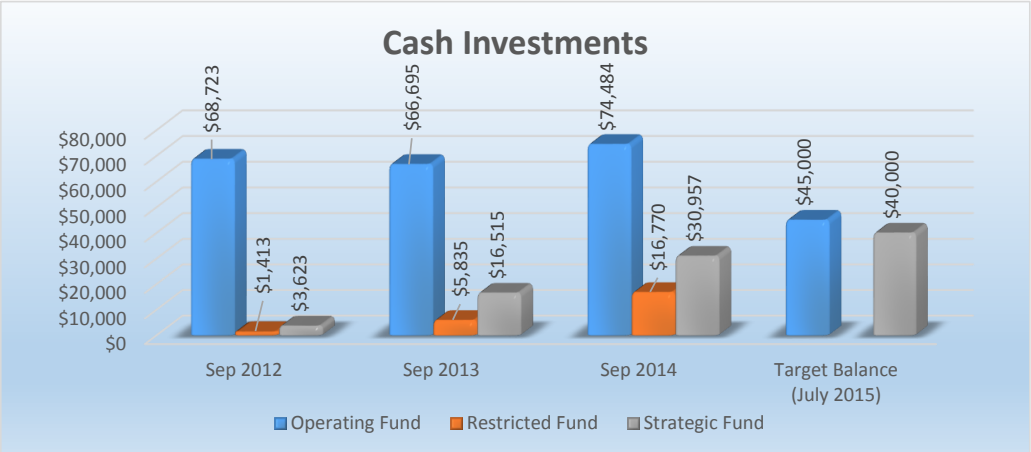
A healthy CFI begins at a 5.0 average rating over time. Marquette's 5-year average CFI is 3.4, which indicates that it will take time to improve through careful stewardship of the university's financial resources. Marquette has benchmarked itself against 36 other private institutions by analyzing their financial statements. With the peer average CFI of 5.5 over time, there is clear evidence that our competition has made the safeguarding of financial resources a high priority at their respective institutions.

What is the plan to improve Marquette's CFI rating?

Improving the CFI cannot be accomplished without a university-wide effort. This was the case when the difficult staffing and operating decisions were made beginning in FY13 in an effort to reduce the university's expense structure.

Key Steps to Marquette's CFI Improvement:

1. Tactically plan to stabilize and steadily expand student enrollment.
2. Safeguard cash reserves and investments to minimize risk and maximize return.
3. Monitor that expenditures are providing value for our students and support the concept of a return on their investment.
4. Maintain a long term approach to debt management in order to responsibly grow the capital structure of the university.
5. Ensure that savings occur from operations in order to fund new program development, renovation and new construction borrowing costs, technology, and growing general operating costs.



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Ask a Question?

What does this trend indicate?
Cash balances for all three pools have improved since FY2012. Having a healthy cash balance ensures that Marquette has the ability to meet its financial obligations.

Cash Investments

September Results

The cash management balance for the month totaled $122.2 million, down from the previous month's total of $143.9 million. Relative to September 2013, the cash investment balance is ahead by $33.2 million. Of the $122.2 million balance, $30.9 million is reserved for the strategic fund, $9.5 million is reserved for the Jesuit building and $3.9 million is reserved for real estate property acquisitions. The annualized yield for the cash management investment was 0.49%, which outperformed the weighted index benchmark by 43 basis points.

What comprises Marquette's cash investments?

Operating Funds, Restricted Funds, Strategic Funds.

How is Marquette's cash invested?

Investments are made according to the university's Short-Term Investment Guideline. Cash surpluses are laddered out with maturities occurring at the end of each month. This process provides a constant source of cash flow to meet Marquette's liquidity needs.

What are the concerns for cash investments?

Three main concerns for the cash investments are:
Market Risk – investments are diversified to minimize risk.
Liquidity – investments must be readily convertible to cash.
Interest Rate – a low interest rate environment can negatively impact investment income.

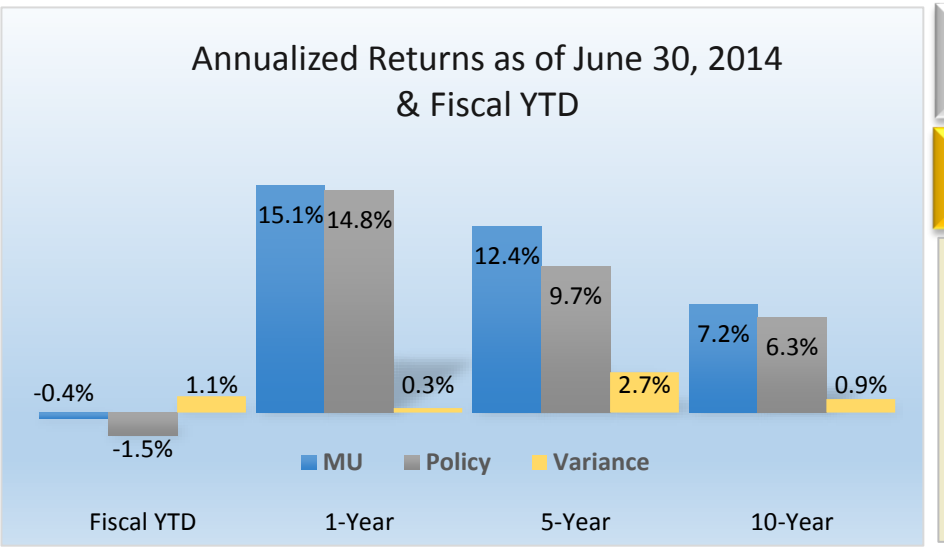
What internal influences affect Marquette's cash investments?

The type of cash investment, time to maturity, and return on investment (yield) are dictated by the specific demand and usage of the cash. Cash needed to fund operational expenses, strategic initiatives or other priorities such as construction projections all may require different investment instruments. Monthly operational expenses such as payroll, utilities, supplies, etc. demand a highly liquid investment such as a money market instruments that generally sacrifice yield for security. Strategic initiatives usually have a longer time horizon that allow for investments with slightly greater risk, longer duration and less liquidity, but generate higher yields. Other types of cash demands such as construction projects that have known timelines and specific drawdown requirements may use investment instruments that allow “laddering” or staggering of the maturity periods.

What are Marquette's cash investment goals?

1. Preservation of principal – ensure the safety of cash being invested.
2. To fund the university's liquidity needs – provide cash flow for the university.
3. Yield – generate investment income for the university.

For more information, visit the Treasury Office by clicking here.



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Ask a Question?

What does this trend indicate?
The active investment returns of the endowment have outperformed the passive allocation of the benchmark for all time periods.

Endowment

September Results

The monthly return of -1.1% represents an outperformance of 1.0% when compared to the -2.1% return of the Approved Policy Index (API). Public Equity, Real Assets, and Fixed Income managers outperformed their respective benchmarks while the Hedge Fund allocation underperformed.

What is an endowment?

The Marquette endowment represents financial donations given to the university that are restricted for a specific purpose and invested with an intent of providing a perpetual stream of financial support. The purpose of the endowment is to enhance fiscal stability and strengthen the mission of the university.

How is Marquette's endowment used?

Annual spendable funds are broadly disbursed to support student scholarships, academic programs, and the general operations of the university.

How is Marquette's endowment managed and protected?

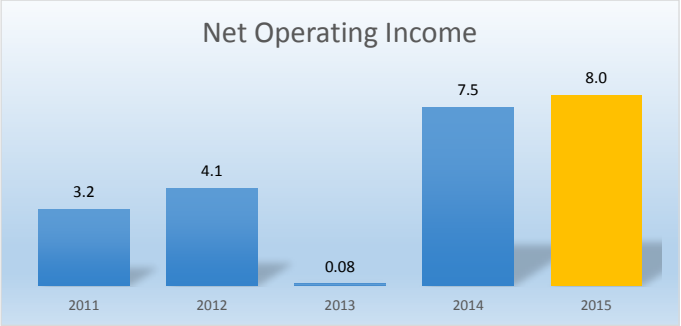
The Endowment Office attempts to partner with highest quality external investment managers in a manner that is consistent with the Board of Trustee approved Investment Policy.

What internal operations influence the success and growth of the endowment?

The three key variables that influence the endowment are:

1) Donor Gifts
2) Investment Returns
3) Spendable Income

For more Information, visit the endowment office web page by clicking here.



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Ask a Question?

What does this trend indicate?
The current trend indicates that the university is becoming more financially solvent by maintaining it's contingency commitment, generating positive bottom lines and strategically using its scarce

Operating Budget

September Results

Projected revenues of $361.1 million with corresponding expenses of $344.5 million are expected to provide an operating incom e of $8.0 million for fiscal year 2015 (FY15). Projected revenues are $1.8 million higher than the budget. Net tuition revenues o f $263.4 million are over budget by $2.2 million, due essentially to a larger freshman class. All other revenue categories are expect ed to be collectively under budget by $3.9 million, due primarily to declines in contributions and government and private grants.

Total compensation is projected to be $224.4 million, which is $4.1 million lower than budget due essentially to vacant lines and fringe benefits. Operating expenditures are projected to reach $126.7 million for FY15 compared to the budget of $135.0 milli on. Lower spending can be attributed to maintaining the university's contingency fund of $8.0 million.

The "Budget" column is the revised budget, which is $2.5 million higher in revenues and expenses than the Board approved permanent budget. These increases include budgets for: gift accounts, summer international study programs, nursing clinic operations, and the Nurse Midwifery Clinic. The other changes are not included in the permanent budget because these gifts an d programs are temporary in nature.

What comprises the operating budget?

The university operates within a unrestricted operating budget that is annually approved by the Board of Trustees. For fiscal year 2015 the budget will be $358.8 million and is comprised of revenues and expenses, which are further detailed within this repo rt.

FY15 Revenues

Tuition and fees, along with room and board are some of the major sources of revenue for the university. Net tuition revenue accounts for 72.7% of the university's unrestricted revenue with room and board attributing 12.2%. The total of these two rev enue components is 84.9%, and well depicts the dependence the university places on enrollment to support its annual operations.

The remaining sources of university unrestricted revenue is 15.1%, these sources include contributions, endowment income used in operations, sales by educational departments, and other auxiliary (*services to students, faculty, and staff such as AMU and Parking)* activities.

FY15 Expenses

Compensation
Compensation is the largest expense category for the university with a total budget of $224.6 million or 62.6% of operational expenses. Within compensation are two categories: salary and fringe benefits. The salary budget is $170.2 million or 47.4% of operating expenditures and the fringe benefit budget is $54.5 million or 15.2%.

Discretionary Expenses
The discretionary operating budget deals with the general day-to-day activities and expenses of the university. For the discretionary operating budget, $57.0 million is allocated among the units. Discretionary budgets of the university account for about 15.9% percent of the total expense budget. This expense category includes, but is not limited to, supplies, travel, telephone, prof essional fees and advertising.

Non-discretionary Expenses
The non-discretionary operating budget deals with the contractual obligations of the university. The non-discretionary expenditure budget is $77.1 million, 21.5% has been allocated. This expense category includes, but is not limited to, contract maintenanc e, utilities, insurance, interest, and depreciation.

Contingency
For FY15, the university will have an $8.0 million contingency fund. These funds are not allowed to be spent and are intended for future strategic efforts and plans.

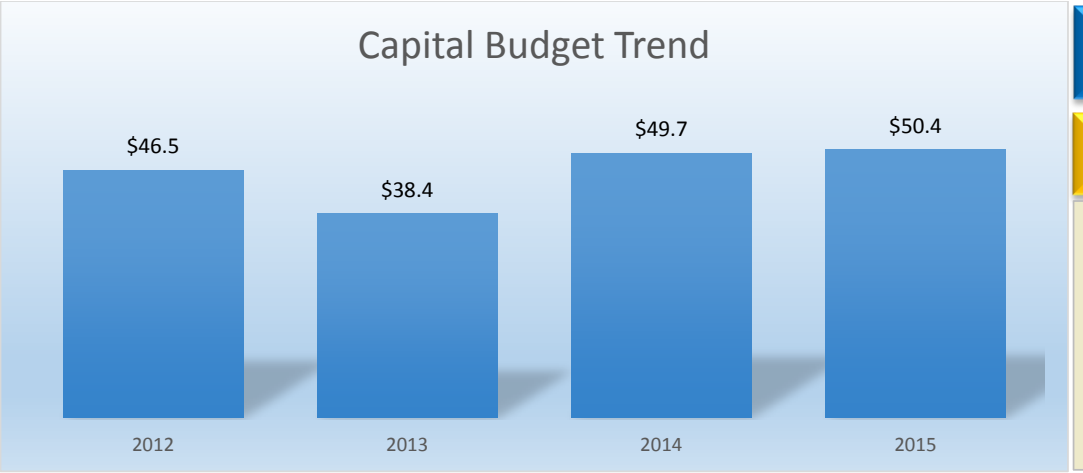
Is Marquette's budget fiscally healthy?

Overall, the university's financial situation is stable, but there is a strong dependency on net tuition revenue generated by enrollments to balance the budget. The university needs to diversify its revenue streams by increasing gift contributions, investment income, grants, endowment income, and other income sources.

What are the budget's major triggers?

There are two major "triggers" that currently have a strong impact on the university's operations: enrollment and employee he alth care. As the university is highly dependent on net tuition revenue to run its operations, any decline in enrollment will have ramifications on revenue and will need to be offset in expense reductions. Part of the university's compensation package is h ealth care. Health care costs continue to rise and catastrophic participant health care events can drive those costs higher at any time in the fiscal year.

For more information, visit the Budget Office web page by clicking here.



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Ask a Question?

What does this trend indicate?
This trend indicates that the university continues to maintain and improve its inventory of fixed assets.

Capital Budget

Fiscal Year 2015, September Results

Year-to-date capital expenditures for the university are $16.2 million compared to a budget of $50.4 million. Proposed new commitments and facility projects include work or repairs in: façades, electrical transformers, roofing, elevators, security camera replacement, as well as other projects totaling $3.2 million. Major project expenditures include renovations to the historic core (Sensenbrenner, Marquette, and Johnston Hall) and are at $3.0 million; the Dental School expansion has expensed $0.1 million. Technology upgrades (smart classrooms, MFS upgrade, and voice over IP) have expensed $0.8 million. Other nonrecurring capital items are at $0.3 million. Prior commitment capital items which include principle payments and books and periodicals have expensed $8.1 and $0.7 million respectfully.

What is a capital expense?

Capital expenditures are expenses used by the university to acquire or upgrade physical assets such as equipment, property, or buildings. Any one of these assets with a life longer than the accounting year are considered a capital expense. In the case when a capital expenditure constitutes a major financial decision, $1.0 million or more, the expenditure must be approved by the Board of Trustees in the annual budget approval process.

What comprises Marquette's FY16 capital budget?

The total university capital budget, approved by the Board of Trustees for fiscal year 2016 is $50.4 million. The university's fiscal year 2016 capital budget is composed of unrestricted funds of $27.7 million and restricted funds of $22.7 million. The breakdown is as follows:

A). $24.2 million or 48.1% for improvements to, or new construction of, academic facilities, a Jesuit Residence, classrooms, and faculty and administrative facilities.

B) $18.1 million or 36.0% to satisfy the university's prior commitments such as principal payments, library books, academic start-up, and other expansion projects started in the prior year.

C) $6.9 million or 13.6% to purchase equipment, and improve existing academic and student facilities, and provide technology upgrades.

D) $1.2 million or 2.3% for student and campus safety initiatives.

For more information on Capital Budgeting, click here.