



MARQUETTE UNIVERSITY

(E.I.N. 39-0806251)

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

June 30, 2021

(With Independent Auditors' Reports Thereon)

MARQUETTE UNIVERSITY

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KPMG LLP
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Independent Auditors' Report

The Board of Trustees
Marquette University:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Marquette University, which comprise the consolidated statement of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated 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 year then ended in accordance with U.S. generally accepted accounting principles.



Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Supplementary Schedule of Financial Responsibility Data, as of and for the year ended June 30, 2021, is presented for purposes of additional analysis as required by the US Department of Education, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Schedule of Financial Responsibility Data is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2021, except as to note 17, which is as of February 18, 2022, on our consideration of Marquette University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Marquette University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Marquette University's internal control over financial reporting and compliance.

KPMG LLP

Milwaukee, Wisconsin

September 9, 2021, except as to note 17 and our report on the Supplementary Schedule of Financial Responsibility Data, which is as of February 18, 2022

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)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
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	<u>433,573</u>	<u>102,145</u>	<u>535,718</u>
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	<u>429,524</u>	<u>—</u>	<u>429,524</u>
Operating income	<u>4,049</u>	<u>102,145</u>	<u>106,194</u>
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	<u>19,992</u>	<u>145,980</u>	<u>165,972</u>
Change in net assets	24,041	248,125	272,166
Net assets, beginning of year	<u>407,836</u>	<u>735,614</u>	<u>1,143,450</u>
Net assets, end of year	<u>\$ 431,877</u>	<u>983,739</u>	<u>1,415,616</u>

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

MARQUETTE UNIVERSITY

Consolidated Statements of Cash Flows

Years ended June 30, 2021 and 2020

(Dollars in thousands)

	<u>2021</u>	<u>2020</u>
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	<u>40,145</u>	<u>15,011</u>
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	<u>(178,714)</u>	<u>(23,887)</u>
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	<u>38,610</u>	<u>186,896</u>
Net (decrease) increase in cash, cash equivalents and restricted cash	(99,959)	178,020
Cash, cash equivalents and restricted cash, beginning of year	<u>211,224</u>	<u>33,204</u>
Cash, cash equivalents and restricted cash, end of year	\$ <u><u>111,265</u></u>	\$ <u><u>211,224</u></u>
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.

MARQUETTE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

(1) Summary of Significant Accounting Policies

(a) Organization

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

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

(b) Basis of Presentation

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

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

(i) Without Donor Restrictions

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

(ii) With Donor Restrictions

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

(c) Use of Estimates

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

(d) Cash and Cash Equivalents

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

MARQUETTE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

(e) Pledges Receivable

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

(f) Student Accounts and Loans Receivable, Net

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

	<u>2021</u>	<u>2020</u>
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	<u>3,649</u>	<u>3,367</u>
Subtotal	46,884	47,451
Less allowances for doubtful accounts	<u>(3,373)</u>	<u>(3,413)</u>
Student accounts and loans receivable, net	<u>\$ 43,511</u>	<u>44,038</u>

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

(g) Investments

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

MARQUETTE UNIVERSITY
Notes to Consolidated Financial Statements
June 30, 2021 and 2020
(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:

	<u>2021</u>	<u>2020</u>
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	<u>(622,322)</u>	<u>(583,468)</u>
Property, buildings, and equipment, net	<u>\$ 626,527</u>	<u>640,969</u>

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

	<u>2021</u>	<u>2020</u>
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	<u>11,248</u>	<u>6,943</u>
Total construction in progress	<u>\$ 34,827</u>	<u>20,500</u>

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.

MARQUETTE UNIVERSITY
Notes to Consolidated Financial Statements
June 30, 2021 and 2020
(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.

	<u>Balance at June 30, 2020</u>	<u>Revenue recognized</u>	<u>Cash received in advance of performance</u>	<u>Accounts receivable for summer courses</u>	<u>Balance at June 30, 2021</u>
\$	9,737	9,737	8,807	464	9,271
	<u>Balance at June 30, 2019</u>	<u>Revenue recognized</u>	<u>Cash received in advance of performance</u>	<u>Accounts receivable for summer courses</u>	<u>Balance at June 30, 2020</u>
\$	8,575	8,575	9,250	487	9,737

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.

MARQUETTE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

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.

MARQUETTE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

(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.

MARQUETTE UNIVERSITY
Notes to Consolidated Financial Statements
June 30, 2021 and 2020
(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	<u>34,574</u>
Total financial assets available within one year	318,542
Liquidity resources:	
Bank line of credit	<u>50,000</u>
Total financial assets and liquid resources available within one year	<u>\$ 368,542</u>

MARQUETTE UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(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:

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

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

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

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.

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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.

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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.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
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	<u>1,071,998</u>	<u>460,976</u>	<u>1,559</u>	<u>—</u>
Total assets measured at fair value on recurring basis	<u>\$ 1,183,263</u>	<u>572,241</u>	<u>1,559</u>	<u>—</u>
Liabilities:				
Recurring:				
Payables under securities lending agreement	\$ —	—	—	—
Total liabilities measured at fair value on recurring basis	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>

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Certain investment companies and partnerships in which the university has invested have imposed restriction as to the frequency at which the university might redeem, in part or whole, its investment. Redemption frequencies can vary based on several criteria, including the liquidity of an investment company's underlying investments or initial investment lockup periods. Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2021, are as follows:

<u>Fiscal year ended June 30, 2021</u>	<u>Net assets value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
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	<u>22,136</u>	<u>15,954</u>	Illiquid	
	<u>\$ 609,463</u>	<u>82,678</u>		

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The following table presents the university's financial instruments at fair value as of June 30, 2020. The categorization of financial instruments within the hierarchy is based on price transparency and does not necessarily correspond to the perceived risk of the instruments.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
June 30, 2020:				
Assets:				
Recurring:				
Cash and cash equivalents	\$ 211,224	211,224	—	—
Investments:				
Money funds and other	19,573	19,573	—	—
Federal, state, and local agency securities	694	—	694	—
Nongovernment bonds and notes	266	—	266	—
Asset and mortgage-backed securities	318	—	318	—
Foreign bonds and notes	125	—	125	—
Common and preferred stocks	51,698	51,698	—	—
Mutual funds – bonds	66,773	66,773	—	—
Mutual funds – equity	101,459	101,459	—	—
Receivables under securities lending agreement	9,430	—	9,430	—
Investments measured at net asset value	<u>461,487</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total investments	<u>711,823</u>	<u>239,503</u>	<u>10,833</u>	<u>—</u>
Total assets measured at fair value on recurring basis	<u>\$ 923,047</u>	<u>450,727</u>	<u>10,833</u>	<u>—</u>
Liabilities:				
Recurring:				
Payables under securities lending agreement	<u>\$ 9,512</u>	<u>—</u>	<u>9,512</u>	<u>—</u>
Total liabilities measured at fair value on recurring basis	<u>\$ 9,512</u>	<u>—</u>	<u>9,512</u>	<u>—</u>

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

<u>Fiscal year ended June 30, 2020</u>	<u>Net assets value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
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	<u>18,076</u>	<u>20,902</u>	Illiquid	
	<u>\$ 461,487</u>	<u>71,196</u>		

(4) Endowment

(a) Interpretation of Relevant Law Governing Endowments

The State of Wisconsin enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) on July 20, 2009. This law provides, among other things, expanded spending flexibility by allowing, subject to a standard of prudence, the university to spend from an endowment fund without regard to the book value of the corpus. The university classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. Also included in net assets with donor restrictions is accumulated appreciation on endowment funds which are available for expenditure in a manner consistent with the standard of prudence established by UPMIFA.

(b) Underwater Endowment Funds

From time to time, the value of assets associated with a permanently restricted fund may fall below the historical cost. Deficiencies of this nature are reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market conditions that occurred after the investment of endowed contributions and from appropriations to certain programs. As of June 30, 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.

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(c) Endowment Spending Policy

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

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

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

(d) Endowment Investment Policy

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

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

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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:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
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	<u>27,472</u>	<u>150,848</u>	<u>178,320</u>
Total investment return	34,272	178,975	213,247
Appropriation of endowment assets for expenditure	(6,800)	(27,773)	(34,573)
Contributions	<u>5,772</u>	<u>28,748</u>	<u>34,520</u>
Endowment net assets, end of year	\$ <u><u>151,782</u></u>	<u><u>777,217</u></u>	<u><u>928,999</u></u>

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

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
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	<u>(6,757)</u>	<u>(17,605)</u>	<u>(24,362)</u>
Total investment return	(767)	6,473	5,706
Appropriation of endowment assets for expenditure	(5,990)	(23,920)	(29,910)
Contributions	<u>1,935</u>	<u>32,598</u>	<u>34,533</u>
Endowment net assets, end of year	\$ <u><u>118,538</u></u>	<u><u>597,267</u></u>	<u><u>715,805</u></u>

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

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

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

The university is the beneficiary of trusts that, in accordance with the decedent's instructions, are managed and maintained by separate trustees not affiliated with the university. The university receives distributions from the trusts. The fair value of the trusts was \$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:

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

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In addition, the university has received certain conditional promises to give that are in the form of revocable trusts, bequests and pledges. As of June 30, 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		<u>47</u>
Total lease costs	\$	<u>1,868</u>

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 %

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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		<u>13,109</u>
Operating lease liabilities – undiscounted		21,953
Impact of present value discount		<u>3,959</u>
Operating lease liabilities	\$	<u><u>17,994</u></u>

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		<u>12,030</u>
Total future commitments	\$	<u><u>18,785</u></u>

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(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.

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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.

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

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.

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

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.

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(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:

	<u>2021</u>	<u>2020</u>
Without donor restrictions:		
Board designated endowments	\$ 151,782	118,538
Other net assets without donor restrictions	<u>280,095</u>	<u>289,298</u>
Total without donor restrictions	<u>431,877</u>	<u>407,836</u>
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	<u>16,978</u>	<u>6,848</u>
Total net assets with time and purpose restrictions	<u>454,119</u>	<u>236,946</u>
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	<u>1,270</u>	<u>2,289</u>
Total net assets with permanent restrictions	<u>529,620</u>	<u>498,668</u>
Total with donor restrictions	<u>983,739</u>	<u>735,614</u>
Total net assets	<u>\$ 1,415,616</u>	<u>1,143,450</u>

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(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

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	2020					
	<u>Compensation</u>	<u>Supplies, repairs, utilities and other</u>	<u>Interest</u>	<u>Depreciation</u>	<u>Operations and maintenance</u>	<u>Total</u>
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	\$ <u>274,139</u>	<u>117,535</u>	<u>8,498</u>	<u>41,243</u>	<u>—</u>	<u>441,415</u>

(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:

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

(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.

(17) Financial Responsibility Standards

The university participates in federal Title IV student financial assistance programs, which require it to meet standards of financial responsibility based on criteria determined by the U.S. Department of Education (ED), as set forth in 34 CFR Subpart 668.171. The criteria for private institutions includes the annual calculation by ED of a financial responsibility composite score, as further outlined in 34 CFR Subpart 668.172, using audited consolidated financial statements submitted through ED's eZ-Audit system. The composite score has been and will continue to be based on three ratios: Primary Reserve, Equity, and Net

MARQUETTE UNIVERSITY
Notes to Consolidated Financial Statements
June 30, 2021 and 2020
(Dollars in thousands)

Income. Inputs to these ratios as of and for the year ended June 30, 2021 are bolded below and include (a) elements directly from the accompanying consolidated financial statements and related other notes to the consolidated financial statements, as well as (b) certain other financial data. Additional financial information, which is not bolded, has also been presented to facilitate understanding and reconciliation of such data elements to the accompanying consolidated financial statements and related other notes.

Data element	Direct input to ratio	Amount
(a) Property, buildings, and equipment, net: pre-implementation	Primary reserve	\$ 167,440
Property, buildings, and equipment, net: post-implementation	Primary reserve	48,389
Property, buildings, and equipment, net: post-implementation without outstanding debt for original purchase	Primary reserve	375,871
Construction in progress (note 1(h))	Primary reserve	<u>34,827</u>
Total property, buildings, and equipment, net (consolidated statement of financial position)	N/A	<u>\$ 626,527</u>
(b) Long-term debt, net: pre-implementation	Primary reserve	\$ 167,440
Long-term debt, net: post-implementation	Primary reserve	48,389
Long-term debt, net: non-qualified post-implementation	N/A	<u>148,509</u>
Total notes and bonds payable, net (consolidated statement of financial position)	NA	<u>\$ 364,338</u>

Total long-term debt consists of (1) pre-implementation debt, defined as the amounts reported in the last consolidated financial statements Marquette University submitted to the ED prior to July 1, 2020 (Marquette University's consolidated financial statements for the fiscal year ended June 30, 2019), less any payments or other reductions after June 30, 2019, and not to exceed property, buildings, and equipment, net; and (2) post-implementation debt, defined as debt used to obtain property, buildings, and equipment, net, after the fiscal year ended June 30, 2019, less any payments or other reductions. Total notes and bonds payable, net as of June 30, 2021, described in note 8 to the 2021 consolidated financial statements, is classified as pre-implementation debt, except for Revenue Bonds Series 2019, Taxable Fixed Rate Bonds Series 2020, and Other long-term payables. Details of the Long-term debt, net: post-implementation are included in the table below:

Long-term debt, net: post- implementation	As of June 30, 2021	Issue date	Years to original maturity
Revenue Bonds, Series 2019, including unamortized premium; used to fund various capital projects, including the law school building, residence hall renovation, and physician assistant building	\$ 48,389	September 17, 2019	12

MARQUETTE UNIVERSITY

Supplementary Schedule of Financial Responsibility Data

As of and for the year ended June 30, 2021

(In thousands of dollars)

Data element	Source of data element in consolidated financial statements or related notes to consolidated financial statements	Amount used as ratio input
Primary reserve ratio:		
Numerator: expendable net assets:		
Net assets without donor restrictions	Consolidated statement of financial position	\$ 431,877
Net assets with donor restrictions	Consolidated statement of financial position	983,739
Post-retirement benefits payable	Note 1(p)	4,869
Long-term debt, net pre-implementation	Note 17	167,440
Long-term debt, net post-implementation	Note 17	48,389
Total net assets with permanent restrictions	Note 12	529,620
Life income and annuity funds with permanent donor restrictions	Note 12	1,270
Property, buildings and equipment: net pre-implementation	Note 17	167,440
Property, buildings and equipment: net post-implementation	Note 17	48,389
Property, buildings and equipment: net post-implementation without outstanding debt for original purchases	Note 17	375,871
Construction in progress	Note 1(h)	34,827
Denominator: total expenses and losses without donor restrictions:		
Total operating expenses without donor restrictions	Consolidated statement of activities	\$ 429,524
Other, net nonoperating activities without donor restrictions	Consolidated statement of activities	6,850
Equity ratio:		
Numerator: modified net assets:		
Net assets without donor restrictions	Consolidated statement of financial position	\$ 431,877
Net assets with donor restrictions	Consolidated statement of financial position	983,739
Property, buildings and equipment: eBooks and other intangibles	Note 1(h)	27,127
Denominator: modified assets:		
Total assets	Consolidated statement of financial position	\$ 1,967,198
Property, buildings and equipment: eBooks and other intangibles	Note 1(h)	27,127
Net income ratio:		
Numerator: change in net assets without donor restrictions:		
Change in net assets without donor restrictions	Consolidated statement of activities	\$ 24,401
Denominator: total revenue and gains without donor restrictions:		
Total operating revenues without donor restriction	Consolidated statement of activities	\$ 433,573

See accompanying independent auditors' report.

MARQUETTE UNIVERSITY
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2021

Federal grantor/Program title	Federal CFDA Number	Pass through entity name	Pass through entity identifying number	Federal expenditures			Passed through to subrecipient	Marquette University cost share
				Direct awards	Pass through awards	Total		
Major Federal Programs:								
Student Financial Aid Programs:								
U.S. Department of Education:								
Federal Supplemental Educational Opportunity Grants	84.007			\$ 1,949,188	—	1,949,188	—	649,730
Federal Work-Study Program	84.033			1,160,791	—	1,160,791	—	484,083
Perkins - Federal Capital Contributed	84.038			18,615,231	—	18,615,231	—	—
Federal Pell Grant Program	84.063			7,405,625	—	7,405,625	—	—
Federal Direct Loans	84.268			120,622,230	—	120,622,230	—	—
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	Wisconsin Department of Public Instruction	None	—	16,654	16,654	—	—
Iraq and Afghanistan Service Grant (IASG)	84.408			5,983	—	5,983	—	—
Total				149,759,048	16,654	149,775,702	—	1,133,813
U.S. Department of Health and Human Services:								
Nurse Faculty Loan Program (NFLP)	93.264			385,006	—	385,006	—	(3,794)
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342			10,398,189	—	10,398,189	—	—
Nursing Student Loans	93.364			3,357,210	—	3,357,210	—	—
Nursing Faculty Loan Program (NFLP) - ARRA	93.408			1,891	—	1,891	—	—
Scholarships for Health Professions from Disadvantaged Backgrounds	93.925			629,580	—	629,580	—	—
Total				14,771,876	—	14,771,876	—	(3,794)
Total Student Financial Aid Programs								
				164,530,924	16,654	164,547,578	—	1,130,019
Covid-19 – Education Stabilization Fund:								
Higher Education Emergency Relief Fund - Student Portion	84.425E			3,323,368	—	3,323,368	—	—
Higher Education Emergency Relief Fund - Institutional Portion	84.425F			6,428,953	—	6,428,953	—	—
Total COVID-19 Education Stabilization Fund				9,752,321	—	9,752,321	—	—
Research and Development Programs:								
U.S. Department of Agriculture:								
Agricultural Research Basic and Applied Research	10.001			60,489	—	60,489	—	—
National Institute of Food and Agriculture:								
Agriculture and Food Research Initiative (AFRI)	10.310			87,496	—	87,496	33,856	—
Total U.S. Department of Commerce				147,985	—	147,985	33,856	—
U.S. Department of Commerce:								
Measurement and Engineering Research and Standards	11.609			111,718	—	111,718	—	—
Total U.S. Department of Commerce				111,718	—	111,718	—	—
U.S. Department of Defense:								
Military Medical Research and Development	12.420	Indiana University	IN4385300MU	—	3,846	3,846	—	—
Air Force Defense Research Sciences Program	12.800	Oceanit Laboratories, Inc.	N6833519C0068	215,974	8,477	224,451	—	—
Other Department of Defense awards	12.RD	Solar Roadways	00047046-01-01	—	25,924	25,924	—	—
Other Department of Defense awards	12.RD	Advanced Technology International	2021-316	—	7,045	7,045	—	16,739
Total U.S. Department of Defense				215,974	45,292	261,266	—	16,739
U.S. Department of Justice:								
Services for Trafficking Victims	16.320	United Migrant Opportunity Services/UMOS, Inc	2019-VT-BX-0102	—	17,409	17,409	—	—
Total U.S. Department of Justice				—	17,409	17,409	—	—

MARQUETTE UNIVERSITY
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2021

Federal grantor/Program title	Federal CFDA Number	Pass through entity name	Pass through entity identifying number	Federal expenditures			Passed through to subrecipient	Marquette University cost share
				Direct awards	Pass through awards	Total		
U.S. Department of Transportation: Pipeline Safety Research Competitive Academic: Agreement Program (CAAP)	20.724	The University of Akron	04540-MU	\$ —	21,308	21,308	—	—
Total U.S. Department of Transportation				—	21,308	21,308	—	—
U.S. National Aeronautics and Space Administration (NASA): Science	43.001			64,551	—	64,551	—	—
Education	43.008	Wisconsin Space Grant Consortium	RIP201.1, HEI20_9.0, IIP20_2.0, HEI21_2.0, RIP21_5.0	—	29,784	29,784	—	22,447
Total NASA				64,551	29,784	94,335	—	22,447
U.S. National Science Foundation: Engineering Grants	47.041			587,776	—	587,776	—	75,432
Mathematical and Physical Sciences	47.049	University of Wisconsin-Madison	0000000301	622,401	106,010	728,411	94,040	—
Geosciences	47.050			53,837	—	53,837	—	—
Computer and Information Science and Engineering	47.070	University of New Mexico	6633030-87CA	1,402,962	73,440	1,476,402	—	292,040
Computer and Information Science and Engineering	47.070	Virginia Polytechnic Institute and State University	479590	—	40,000	40,000	—	—
Biological Sciences	47.074			400,678	—	400,678	—	25,703
Social, Behavioral, and Economic Sciences	47.075	Michigan State University	RC108871MU	2,680	35,809	38,489	—	—
Education and Human Resources	47.076			654,632	—	654,632	—	—
Office of International Science and Engineering	47.079			75,308	—	75,308	—	—
Total U.S. National Science Foundation				3,800,274	255,259	4,055,533	94,040	393,175
U.S. Department of Veterans Affairs: Other Veterans Affairs grant	64.RD	Zablocki VA Medical Center	695D17023, 695D07014	—	27,990	27,990	—	—
Total U.S. Department of Veterans Affairs				—	27,990	27,990	—	—
U.S. Department of Energy: Office of Science Financial Assistance Program	81.049			134,605	—	134,605	—	—
Conservation Research and Development	81.086			124,277	—	124,277	6,517	66,204
Advanced Research Projects Agency - Energy	81.135	Oak Ridge National Laboratory	640016571	350,433	27,781	378,214	73,440	13,636
Other Research	81.RD	Sandia National laboratories	1995285	—	100,983	100,983	—	—
Other Research	81.RD	Oak Ridge National Laboratory	4,000,185,772	—	47,884	47,884	—	—
Other Research	81.RD	Storedgeal LLC	STORA12021-331	—	24,733	24,733	—	—
Total U.S. Department of Energy				609,315	201,381	810,696	79,957	79,840
U.S. Department of Education: Education Innovation and Research (formerly Investing in Innovation (I3) Fund)	84.411	Sacred Heart University	19-030A	—	55,969	55,969	—	—
Total U.S. Department of Education				—	55,969	55,969	—	—
U.S. Department of Health and Human Services: Oral Diseases and Disorders Research	93.121			905,876	—	905,876	176,534	—
Community Programs to Improve Minority Health Grant Program	93.137			268,041	—	268,041	31,956	—
Research Related to Deafness and Communication Disorders	93.173			67,277	—	67,277	21,323	—

MARQUETTE UNIVERSITY
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2021

Federal grantor/Program title	Federal CFDA Number	Pass through entity name	Pass through entity identifying number	Federal expenditures			Passed through to subrecipient	Marquette University cost share
				Direct awards	Pass through awards	Total		
U.S. Department of Health and Human Services:								
Mental Health Research Grants	93.242	Virginia Polytechnic Institute and State University	412595-19E22	\$ 300,085	29,372	329,457	48,329	—
Drug Abuse Research Programs	93.279	Medical College of Wisconsin	6186709	533,336	30,112	563,448	4,948	—
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286			896,832	—	896,832	371,977	—
Trans-NIH Research Support	93.310	Purdue University	11000760-011	—	84,547	84,547	—	—
National Center for Advancing Translational Sciences	93.350	Medical College of Wisconsin	6129378, 6178519	—	204,306	204,306	—	—
Head Start Disaster Recovery	93.356	Medical College of Wisconsin	2UL1TR001436-06	—	181,775	181,775	—	—
Nursing Research	93.361	Medical College of Wisconsin	1K23NR017652	—	10,800	10,800	—	—
Cancer Cause and Prevention Research	93.393	University of Wisconsin-Milwaukee	183405352	—	4,340	4,340	—	—
Cancer Cause and Prevention Research	93.393	Medical College of Wisconsin	6168109	—	57,330	57,330	—	—
ACL National Institute on Disability, Independent Living, and Rehabilitation Research	93.433	University of Wisconsin - Milwaukee	193405402, 213405481, 213405488	61,541	46,400	107,941	30,887	—
ACL National Institute on Disability, Independent Living, and Rehabilitation Research	93.433	Rehabilitation Institute of Chicago	5353	—	20,224	20,224	286,463	—
Cardiovascular Disease Research	93.837			706,480	—	706,480	7,954	67,797
Lung Diseases Research	93.838	University of Pittsburgh	AWD00000490-13777-1	374,184	9,141	383,325	—	—
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	Baylor College of Medicine	102009807; 7000000784	—	84,310	84,310	—	—
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	University of Connecticut	UCHC7137901340	—	5,061	5,061	—	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847			50,665	—	50,665	—	—
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Medical College of Wisconsin	R01NS110856	895,978	3,338	899,316	127,154	71,206
Biomedical Research and Research Training	93.859	Stony Brook University	7769411385602	1,151,499	6,141	1,157,640	45,853	85,977
Biomedical Research and Research Training	93.859	Concordia University	R152015MU001	—	52,547	52,547	—	—
Biomedical Research and Research Training	93.859	University of Texas	GF0018-1	—	32,955	32,955	—	—
Child Health and Human Development Extramural Research	93.865	Medical College of Wisconsin	5R01HD091302-02, 1R21HD105021-01	509,026	52,216	561,242	198,677	—
Aging Research	93.866	University of Maryland	55786-Z0081202	494,518	36,119	530,637	4,253	—
Aging Research	93.866	Cleveland Clinic	2R01AG022304-11	—	33,584	33,584	—	—
Vision Research	93.867	Translational Imaging Innovations, Inc	1R43EY031278-01	—	37,436	37,436	—	—
Total U.S. Department of Health and Human Services				7,215,338	1,022,054	8,237,392	1,356,308	224,980
U.S. Department of Homeland Security Science and Technology Scientific Leadership Awards	97.061	Northeastern University	505126-78053	—	52,646	52,646	—	—
Other Research	97.RD	Northeastern University	505178-78051	—	24,106	24,106	—	—
Total U.S. Department of Homeland Security				—	76,752	76,752	—	—
Total Research and Development Programs				12,165,155	1,753,198	13,918,353	1,564,161	737,181
U.S. Department of Treasury:								
Covid-19 – Coronavirus Relief Fund	21.019	State of Wisconsin	NONE	—	5,130,318	5,130,318	—	—
Total Major Federal Program				186,448,400	6,900,170	193,348,570	1,564,161	1,867,200
Non-Major Federal Programs								
Other Federal Awards:								
U.S. Department of Defense:								
ROTC Language and Culture Training Grants	12.357	Institute of International Education	PG01801MARQ25PG0051P02; PG01801MARQ25PG0051P03	—	207,929	207,929	—	—
Total U.S. Department of Defense				—	207,929	207,929	—	—

MARQUETTE UNIVERSITY
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2021

Federal grantor/Program title	Federal CFDA Number	Pass through entity name	Pass through entity identifying number	Federal expenditures			Passed through to subrecipient	Marquette University cost share
				Direct awards	Pass through awards	Total		
U.S. Department of Housing and Urban Development: Other Program	14.UNK			\$ 318,555	—	318,555	306,436	—
Total NASA				318,555	—	318,555	306,436	—
U.S. National Aeronautics and Space Administration (NASA): Education	43.008	Wisconsin Space Grant Consortium	OPP21_5.0, HEI20_5.0	—	10,228	10,228	—	15,328
Total NASA				—	10,228	10,228	—	15,328
National Endowment for the Arts & Humanities (NEH): National Leadership Grants	45.312	Institute of Museum and Library Services	LG-94-17-0261-17	—	5,947	5,947	—	24,248
Total NEH				—	5,947	5,947	—	24,248
U.S. Department of Education: TRIO Cluster:								
TRIO – Student Support Services	84.042A			442,348	—	442,348	—	64,044
TRIO – Talent Search	84.044A			245,040	—	245,040	—	—
TRIO – Upward Bound	84.047A			774,572	—	774,572	—	18,341
TRIO – Upward Bound Math and Sciences	84.047M			414,517	—	414,517	—	1,261
TRIO – McNair Post-Baccalaureate Achievement	84.217A			233,945	—	233,945	—	54,381
Total TRIO Cluster				2,110,422	—	2,110,422	—	138,027
Rehabilitation Long-Term Training	84.129			167,987	—	167,987	—	5,935
Graduate Assistance in Areas of National Need	84.200			396,383	—	396,383	—	110,312
Total U.S. Department of Education				2,674,792	—	2,674,792	—	254,274
U.S. Department of Health and Human Services: Injury Prevention and Control Research and State and Community Based Programs	93.136	State of Wisconsin	435100-G21-307744-190 X, 44706	—	3,853	3,853	—	—
Nursing Workforce Diversity	93.178			853,028	—	853,028	—	—
Mental Health Research Grants	93.242	University of Pittsburgh	CNVA0049415(128103-2)	—	11,125	11,125	—	—
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	Penfield Children's Inc	1U79SM063056	—	18,130	18,130	—	—
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286			18,036	—	18,036	—	17,502
Geriatric Education Centers	93.969			73,555	—	73,555	—	—
Total U.S. Department of Health and Human Services				944,619	33,108	977,727	—	17,502
Corporation for National and Community Service (CNCS): AmeriCorps	94.006			88,296	—	88,296	8,625	40,391
Total Corporation for National and Community Service				88,296	—	88,296	8,625	40,391
Total Other Federal Awards				4,026,262	257,212	4,283,474	315,061	351,743
Total Non-major Federal Programs				4,026,262	257,212	4,283,474	315,061	351,743
Total Federal Awards Expended				\$ 190,474,662	7,157,382	197,632,044	1,879,222	2,218,943

See accompanying notes to schedules of expenditures of federal and state awards

MARQUETTE UNIVERSITY
Schedule of Expenditures of State Awards
For the year ended June 30, 2021

State grantor/Program title	State ID Number	Pass through entity name	Pass through entity identifying number	Federal expenditures			Passed through to subrecipient	Marquette University cost share
				Direct awards	Pass through awards	Total		
Student Financial Aid Programs:								
State of Wisconsin Higher Education Aids Board:								
Wisconsin Tuition Grant	235.101			\$ 3,705,095	—	3,705,095	—	—
Tuition Capitation Contract – Marquette Dental School	235.103			1,724,335	—	1,724,335	—	—
Minority Undergraduate Retention Grant	235.107			63,620	—	63,620	—	—
Academic Excellence Scholarship	235.109			118,681	—	118,681	—	118,694
Talent Incentive Program Grant	235.114			264,350	—	264,350	—	—
WI Nursing Loan	235.117			9,000	—	9,000	—	—
Indian Student Assistance Grant	235.132			4,400	—	4,400	—	—
Wisconsin Veterans Grant	235.xxx			20,000	—	20,000	—	20,000
Total Student Financial Aid Programs				5,909,481	—	5,909,481	—	138,694
Other State Programs:								
Wisconsin Department of Health Services:								
Dental Sealant	435.151	Children's Health Alliance of Wisconsin	NONE	—	—	—	—	485
Marquette University Dental Services	435.151710			2,373,765	—	2,373,765	—	—
Dental Services	435.151720			53,804	—	53,804	—	—
Total WI Department of Health Services				2,427,569	—	2,427,569	—	485
Wisconsin Arts Board								
Total Wisconsin Arts Board	xxx.xxx			5,770	—	5,770	—	—
Wisconsin Department of Public Instruction								
Total WI Department of Public Instruction	xxx.xxx			5,198	—	5,198	—	—
Total Other State Programs				2,438,537	—	2,438,537	—	485
Total State Awards Expended				\$ 8,348,018	—	8,348,018	—	139,179

See accompanying notes to schedules of expenditures of federal and state awards

MARQUETTE UNIVERSITY

Notes to Schedules of Expenditures of Federal and State Awards

Year ended June 30, 2021

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards and schedule of expenditures of state awards (the schedules) include the federal and state awards received by Marquette University (the University) under programs of the federal government and the State of Wisconsin for the fiscal year ended June 30, 2021.

The schedule of expenditures of federal awards includes all grants, contracts, and similar agreements entered into directly between the University and agencies and departments of the federal government, and all subawards to the University by nonfederal organizations pursuant to federal grants, contracts, and similar agreements. The information in the schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the University. Compliance testing of all direct and material compliance requirements, as described in the Compliance Supplement, was performed for the federal grant programs noted below:

Research and Development Cluster – includes awards for research and development activities at the University sponsored by various agencies of the federal government.

Student Financial Aid Cluster – includes certain awards to provide financial assistance to students, primarily under the Federal Pell Grant (Pell), Federal Supplemental Educational Opportunity Grants (FSEOG), Federal Direct Loan (FDL), and Federal Work Study (FWS) programs of the U.S. Department of Education. Under the Perkins Loan Program Extension Act of 2015, no Perkins Loan disbursement could be made to the graduate students after June 30, 2017 and undergraduate students after June 30, 2018. The administrative cost allowance charged to the Perkins Loan Program is based on disbursements, and no disbursements occurred during the year ended June 30, 2021. The University also receives other federal assistance from the U.S. Department of Health and Human Services and the U.S. Department of Education for certain other grant and loan programs.

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

COVID-19 – Coronavirus Relief Fund – The Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) includes awards distributed to institutions of higher education in order to prevent, prepare for, and respond to coronavirus through the Higher Education Emergency Relief Fund (HEERF II). The CRRSAA requires that an institution receiving funding under provide the “same amount” in financial aid grants to students from the new CRRSAA funds that it was required or which it would have been required to provide under its original CARES Act Student Aid Portion award.

In accordance with the criteria set forth in the State of Wisconsin State Single Audit Guidelines, the Academic Excellence Scholarship, Talent Incentive Program Grant and the Marquette University Dental Services Grant were considered major state programs for the year ended June 30, 2021.

MARQUETTE UNIVERSITY

Notes to Schedules of Expenditures of Federal and State Awards

Year ended June 30, 2021

(2) Summary of Significant Accounting Policies

The schedules are prepared on the accrual basis of accounting. Expenditures are recognized as incurred. The University's cost share amounts presented as a separate column within the schedules represents the University's matching portion related to those programs and such amounts are not included in the federal and state expenditures in the schedules. Negative amounts shown on the schedules represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

(3) Indirect Costs

The University has a predetermined indirect cost rate that has been negotiated with the Department of Health and Human Services. The predetermined rate was based on prior University financial information. Approximately \$3.6 million of indirect costs were reimbursed to the University for the year ended June 30, 2021. The base rates for on- and off-campus research of modified total direct costs are listed below:

Type	Effective period		Rate percentage	Locations	Applicable to
	From	To			
Predetermined	07/01/19	06/30/22	53.0	on campus	Instruction
Predetermined	07/01/19	06/30/22	53.0	on campus	Organized Research
Predetermined	07/01/18	06/30/22	24.0	off campus	All Programs

(4) Federal Student Loan Programs

The federal student loan programs listed below are administered directly by Marquette University, and balances and transactions relating to these programs are included in Marquette University's financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the schedules. The balance of loans outstanding at June 30, 2021 consists of:

Agency/Program	Federal CFDA number	Balance of loans outstanding
U.S. Department of Education:		
Perkins	84.037	\$ 14,336,416
U.S. Department of Health and Human Services:		
Health Profession Student Loans, including Primary Care Loans and Loans for Disadvantaged Students	93.342	8,616,939
Nursing Student Loans	93.364	2,957,239
Nurse Faculty Loan Program	93.264	300,572
Total		\$ <u>26,211,166</u>

MARQUETTE UNIVERSITY

Notes to Schedules of Expenditures of Federal and State Awards

Year ended June 30, 2021

The University is responsible only for the performance of certain administrative duties with respect to the Federal Direct Loan program, and accordingly, these loans are not included in its financial statements. It is not practical to determine the balance of loans outstanding to students and former students of the University under the direct loan program.

(5) Settlement of Wisconsin Department of Health Services (DHS) Cost Reimbursement Awards

The University's settlement of DHS cost reimbursement awards presented in the Schedule of Expenditures of State Awards for the year ended June 30, 2021 are summarized as follows:

DHS identification Number: (CARS Profile)		151710	151720
Award Amount	\$	2,373,765	53,806
Award period		07/01/20-06/30/21	07/01/20-06/30/21
Period of award within audit period		<u>07/01/20-06/30/21</u>	<u>07/01/20-06/30/21</u>
A. Expenditures reported to DHS for payment	\$	2,373,765	53,804
B. Actual allowable cost of award		—	—
Program Expenses			
1. Salaries and Wages	\$	1,562,263	44,724
2. Other expenses		<u>811,502</u>	<u>9,080</u>
Total Program expenses		2,373,765	53,804
C. <i>Less Program revenue and other offsets (identify in notes)</i>		<u>—</u>	<u>—</u>
D. Total allowable Costs	\$	<u><u>2,373,765</u></u>	<u><u>53,804</u></u>



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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
Marquette University:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Marquette University, which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 9, 2021, except as to note 17, which is as of February 18, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Marquette University's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Marquette University's internal control. Accordingly, we do not express an opinion on the effectiveness of Marquette University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marquette University's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Marquette University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Marquette University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Milwaukee, Wisconsin

September 9, 2021, except as to note 17, which is as of February 18, 2022



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**Independent Auditors' Report on Compliance for Each Major Federal Program and State Program;
Report on Internal Control Over Compliance; Report on Schedule of Expenditures of Federal Awards
Required by the Uniform Guidance; and Report on Schedule of Expenditures of State Awards as
Required by the State Single Audit Guidelines**

The Board of Trustees
Marquette University:

Report on Compliance for Each Major Federal and State Program

We have audited Marquette University's compliance with the types of compliance requirements described in the *OMB Compliance Supplement and the State Single Audit Guidelines for Wisconsin* that could have a direct and material effect on each of Marquette University's major federal and state programs for the year ended June 30, 2021. Marquette University's major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal and state statutes, regulations, and the terms and conditions of its federal and state awards applicable to its federal and state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Marquette University's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the *State Single Audit Guidelines for Wisconsin*. Those standards, the Uniform Guidance and the *State Single Audit Guidelines for Wisconsin*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about Marquette University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of Marquette University's compliance.

Opinion on Each Major Federal and State Program

In our opinion, Marquette University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and State programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of Marquette University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Marquette University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine



the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and the *State Single Audit Guidelines for Wisconsin*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Marquette University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and the *State Single Audit Guidelines*. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance and Report on Schedule of Expenditures of State Awards as Required by the State Single Audit Guidelines

We have audited the consolidated financial statements of Marquette University as of and for the years ended June 30, 2021 and 2020, and have issued our report thereon dated September 9, 2021, except as to note 17, which is as of February 18, 2022, which contained an unmodified opinion on those consolidated financial statements as a whole. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and accompanying schedule of expenditures of state awards is presented for purposes of additional analysis as required by the *State Single Audit Guidelines* and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and the schedule of expenditures of state awards are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Milwaukee, Wisconsin
February 18, 2022

MARQUETTE UNIVERSITY
Schedule of Findings and Questioned Costs
Year ended June 30, 2021

(1) Summary of Auditors' Results

- a. Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- b. Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
 - Material weaknesses: **No**
 - Significant deficiencies: **None Reported**
- c. Noncompliance material to the financial statements: **No**
- d. Internal control deficiencies over major programs disclosed by the audit:
 - Material weaknesses: **No**
 - Significant deficiencies: **None Reported**
- e. Type of report issued on compliance for major programs: **Unmodified**
- f. Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**
- g. Major programs:
 - Federal programs:*
 - Student Financial Aid Cluster – various CFDA numbers
 - Research and Development Cluster – various CFDA numbers
 - COVID-19 Education Stabilization Fund –
 - COVID-19 Higher Education Emergency Relief Fund – Student Portion CFDA number 84.425E
 - COVID-19 Higher Education Emergency Relief Fund – Institutional Portion CFDA number 84.425F
 - COVID-19 Coronavirus Relief Fund – CFDA number 21.019
 - State programs:*
 - Academic Excellence Scholarship – State ID number 235.109
 - Marquette University Dental Services – State ID number 435.151710
 - Talent Incentive Program Grant – State ID number 235.114
- h. Dollar threshold used to distinguish between Type A and Type B programs: *Federal Awards* – **\$3,000,000**; *State Awards* – **\$250,000**.
- i. Auditee qualified as a low-risk auditee: Federal: **No**; State: **Yes**

MARQUETTE UNIVERSITY
Schedule of Findings and Questioned Costs
Year ended June 30, 2021

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None

(3) Findings and Questioned Costs Relating to Federal Awards

None

(4) Findings and Questioned Costs Relating to State Awards

None

(5) Other Issues

- A. Does the auditors' report or notes to the financial statements include disclosure with regard to substantial doubt as to the auditees' ability to continue as a going concern? **No**
- B. Does the audit report show audit issues (i.e., material noncompliance, nonmaterial noncompliance, questioned costs, material weakness, significant deficiencies, management letter comment, excess revenue, or excess reserve) related to grants/contracts with funding agencies that require audits to be in accordance with State Single Audit Guidelines: **No**
- C. Was a management letter or other document conveying audit comments issued as the result of this audit? **No**
- D. Date of report: February 18, 2022