



THE MEDICAL COLLEGE OF WISCONSIN, INC.

(E.I.N.: 390806261)

Audit Reports in Accordance with
Government Auditing Standards and
Uniform Guidance

June 30, 2019

(With Independent Auditors' Report Thereon)

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Table of Contents

| | Page |
|---|-------------|
| Independent Auditors' Report | 1 |
| Consolidated Statements of Financial Position | 3 |
| Consolidated Statements of Activities | 4 |
| Consolidated Statements of Cash Flows | 6 |
| Notes to Consolidated Financial Statements | 7 |
| Schedule of Expenditures of Federal and State Awards | 49 |
| Notes to Schedule of Expenditures of Federal and State Awards | 53 |
| Schedule of Findings and Questioned Costs | 57 |
| 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 <i>Government Auditing Standards</i> | 59 |
| Independent Auditors' Report on Compliance for Each Major Federal and State Program and Report on Internal Control over Compliance Required by the Uniform Guidance | 61 |



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

Independent Auditors' Report

The Board of Trustees
The Medical College of Wisconsin, Inc.:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Medical College of Wisconsin, Inc. (MCW), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 The Medical College of Wisconsin, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Emphasis of Matters

As discussed in note 2(r) to the financial statements, in 2019, MCW adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, and ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to these matters.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis, as required by Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the *State Single Audit Guidelines for Wisconsin*, 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 schedule of expenditures of federal and state awards 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 October 9, 2019 on our consideration of The Medical College of Wisconsin, Inc.'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 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 The Medical College of Wisconsin, Inc.'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 The Medical College of Wisconsin, Inc.'s internal control over financial reporting and compliance.

KPMG LLP

Milwaukee, Wisconsin
October 9, 2019

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Consolidated Statements of Financial Position

June 30, 2019 and 2018

(In thousands)

| Assets | 2019 | 2018 |
|--|---------------------|------------------|
| Cash and cash equivalents | \$ 102,139 | 50,807 |
| Deposits with bond trustees | 23,568 | 775 |
| Investments, at fair value | 1,734,142 | 1,710,578 |
| Receivables: | | |
| Patient accounts, net | 51,565 | 52,710 |
| Other accounts, net | 61,273 | 49,463 |
| Grants and contracts, net | 27,733 | 23,669 |
| Contributions, net | 53,489 | 33,695 |
| Student loans, net | 16,849 | 17,015 |
| Notes receivable from Children's Specialty Group | 34,119 | 31,528 |
| Total receivables | 245,028 | 208,080 |
| Prepaid expenses and other assets | 80,502 | 76,100 |
| Land, buildings, and equipment, net | 291,189 | 297,904 |
| Total assets | \$ <u>2,476,568</u> | <u>2,344,244</u> |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Accounts payable | \$ 113,060 | 109,142 |
| Accrued payroll and related liabilities | 140,191 | 105,168 |
| Deferred revenue | 14,787 | 24,200 |
| Estimated liability for unpaid professional liability claims | 10,285 | 10,271 |
| Long-term debt | 327,270 | 284,277 |
| Interest rate swap | 14,978 | 10,867 |
| Other liabilities | 24,162 | 22,733 |
| Total liabilities | 644,733 | 566,658 |
| Net assets: | | |
| Without donor restrictions | 1,119,844 | 1,081,116 |
| With donor restrictions | 711,991 | 696,470 |
| Total net assets | 1,831,835 | 1,777,586 |
| Total liabilities and net assets | \$ <u>2,476,568</u> | <u>2,344,244</u> |

See accompanying notes to consolidated financial statements.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Consolidated Statements of Activities

Years ended June 30, 2019 and 2018

(In thousands)

| | <u>2019</u> | <u>2018</u> |
|--|------------------|------------------|
| Net assets without donor restrictions: | | |
| Revenues: | | |
| Patient services | \$ 420,020 | 410,657 |
| Children's Specialty Group contract fees | 238,495 | 232,911 |
| Clinical services contract fees | 82,991 | 87,209 |
| Affiliate hospital contracts | 143,656 | 126,194 |
| Children's Research Institute contract fees | 8,986 | 8,733 |
| Grants and contracts | 133,178 | 120,287 |
| Facilities and administrative cost recovery on grants and contracts | 34,803 | 30,450 |
| Tuition and fees | 54,870 | 50,675 |
| Endowment spendable income | 12,019 | 6,584 |
| Other investment income | 13,229 | 11,949 |
| Contributions | 11,503 | 3,560 |
| State of Wisconsin appropriation | 4,690 | 4,685 |
| Other | 15,321 | 16,069 |
| Total revenues | <u>1,173,761</u> | <u>1,109,963</u> |
| Net assets released from donor restrictions | <u>31,308</u> | <u>33,897</u> |
| Total revenues and net assets released from donor restrictions | <u>1,205,069</u> | <u>1,143,860</u> |
| Expenses: | | |
| Faculty salaries | 456,161 | 433,551 |
| Staff salaries | 297,427 | 289,228 |
| Fringe benefits | 143,671 | 132,689 |
| Services, supplies, and other | 151,875 | 136,842 |
| Rent and occupancy | 41,111 | 39,865 |
| Subcontracts | 31,710 | 30,862 |
| Depreciation and amortization | 35,804 | 32,178 |
| Interest on indebtedness | 10,451 | 8,311 |
| Total expenses | <u>1,168,210</u> | <u>1,103,526</u> |
| Revenues in excess of expenses before nonoperating gains and losses | <u>36,859</u> | <u>40,334</u> |
| Nonoperating gains and losses: | | |
| Realized gain on investments, net | 15,818 | 53,471 |
| Unrealized loss on investments, net | (7,964) | (5,649) |
| Endowment income earned over spendable income under the total return concept | (8,729) | (3,732) |
| Gain (loss) on sale of land, buildings, and equipment | 7,274 | (513) |
| Unrealized (loss) gain on interest rate swap | (4,111) | 3,833 |
| Other (losses) gains, net | (419) | 759 |
| Nonoperating gains, net | <u>1,869</u> | <u>48,169</u> |
| Increase in net assets without donor restrictions | <u>38,728</u> | <u>88,503</u> |

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Consolidated Statements of Activities

Years ended June 30, 2019 and 2018

(In thousands)

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|------------------|
| Net assets with donor restrictions: | | |
| Contributions | \$ 31,404 | 13,479 |
| Investment income, net | 7,329 | 6,719 |
| Realized gain on investments, net | 19,765 | 24,856 |
| Unrealized (loss) gain on investments, net | (11,635) | 12,116 |
| Net assets released from donor restrictions | (31,308) | (33,897) |
| Change in fair value of charitable trusts | (34) | 273 |
| Increase in net assets with donor restrictions | <u>15,521</u> | <u>23,546</u> |
| Increase in net assets | <u>54,249</u> | <u>112,049</u> |
| Net assets at beginning of year | <u>1,777,586</u> | <u>1,665,537</u> |
| Net assets at end of year | <u>\$ 1,831,835</u> | <u>1,777,586</u> |

See accompanying notes to consolidated financial statements.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2019 and 2018

(In thousands)

| | <u>2019</u> | <u>2018</u> |
|---|-------------------|------------------|
| Cash flows from operating activities: | | |
| Increase in net assets | \$ 54,249 | 112,049 |
| Adjustments: | | |
| Depreciation and amortization | 35,804 | 32,178 |
| Contributions restricted for long-term investment | (6,123) | (6,577) |
| (Gain) loss on sale of land, buildings, and equipment | (7,274) | 513 |
| Gain on investments in affiliates, net | (5,293) | (5,536) |
| Realized and unrealized gain on investments, net | (15,984) | (84,794) |
| Unrealized loss (gain) on interest rate swap | 4,111 | (3,833) |
| Increase in receivables | (36,948) | (7,768) |
| Increase in prepaid expenses and other assets | (2,133) | (2,152) |
| Decrease (increase) in beneficial interest in charitable trusts | 114 | (75) |
| Increase (decrease) in accounts payable and accrued payroll and related liabilities | 38,307 | (8,054) |
| (Decrease) increase in deferred revenue | (9,413) | 4,670 |
| Increase (decrease) in estimated liability for unpaid professional liability claims | 14 | (1,901) |
| Increase (decrease) in refundable advance for U.S. government-sponsored loan funds | 284 | (503) |
| Increase in other liabilities | 308 | 1,068 |
| | <u>50,023</u> | <u>29,285</u> |
| Net cash provided by operating activities | | |
| Cash flows from investing activities: | | |
| Purchases of marketable securities | (320,198) | (446,477) |
| Proceeds from sales and maturities of marketable investments | 280,518 | 449,950 |
| Purchases of non-marketable securities | (106,425) | (180,997) |
| Proceeds from sales and maturities of non-marketable investments | 139,160 | 163,707 |
| Purchases of funds held in deposits with bond trustees | (106,075) | (66,675) |
| Proceeds from sales of deposits with bond trustees | 83,282 | 118,939 |
| Capital expenditures | (32,778) | (89,478) |
| Proceeds from sale of land, buildings, and equipment | 8,662 | 43 |
| Capital contributions to investments in joint ventures | (395) | (5,472) |
| Distributions from investments in joint ventures | 2,011 | 1,927 |
| | <u>(52,238)</u> | <u>(54,533)</u> |
| Net cash used in investing activities | | |
| Cash flows from financing activities: | | |
| Restricted contributions and investment income | 6,123 | 6,577 |
| Proceeds from long-term debt | 55,000 | — |
| Repayments of long-term debt | (10,886) | (8,663) |
| Other | 3,310 | — |
| | <u>53,547</u> | <u>(2,086)</u> |
| Net cash provided (used) by financing activities | | |
| Net increase (decrease) in cash and cash equivalents | 51,332 | (27,334) |
| Cash and cash equivalents at beginning of year | <u>50,807</u> | <u>78,141</u> |
| Cash and cash equivalents at end of year | \$ <u>102,139</u> | \$ <u>50,807</u> |
| Supplemental data: | | |
| Cash paid for interest (net of amounts capitalized of \$724 and \$1,746 in 2019 and 2018, respectively) | \$ 11,182 | 9,139 |
| Noncash change in receivable from Children's Specialty Group | 2,591 | 3,708 |
| Noncash purchase of equipment acquired with capital lease obligation | 3,502 | — |

See accompanying notes to consolidated financial statements.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

(1) Organization

The Medical College of Wisconsin, Inc. (MCW) is a private, freestanding medical college that includes 7 basic science departments, 21 clinical departments, and 12 centers and institutes, and offers medical and graduate degrees. MCW performs research and maintains multi-specialty clinical programs in which faculty and staff physicians provide medical care. MCW also has affiliations with a number of hospitals in which MCW's faculty and staff physicians provide services to patients, education to medical students, and training to residents (graduate medical education). MCW's Medical College Physicians Practice Plan sets forth the provisions under which faculty and staff physicians provide professional services to patients and provides for the allocation of all fees generated from such services. As of June 30, 2019, MCW had 1,014 practicing faculty and staff physicians. Medical education activities are performed at or near MCW's main campus in Milwaukee, Wisconsin or at regional campuses located in Green Bay and Central Wisconsin.

In May 2015, the Board of Trustees approved the formation of a School of Pharmacy. The school will focus on high-end, consultative care, particularly for acute, primary and preventative needs, and matriculated students in fiscal year 2018.

The consolidated financial statements include the accounts of the various academic and administrative divisions, the Professional Liability Insurance Program and the Blue and Green I Condominium, Inc. The Professional Liability Insurance Program was created as a grantor trust to self-insure risks related to medical malpractice liability. The Blue and Green I Condominium, Inc. was established as a nonstock, nonprofit corporation to operate a jointly used research facility. MCW accounts for its investment in the Blue and Green I Condominium, Inc. on a cost basis. All significant intercompany balances and transactions have been eliminated in consolidation.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements are prepared on the accrual basis of accounting. The statements follow U.S. generally accepted accounting principles (U.S. GAAP) applicable to the not-for-profit industry, which are included in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*.

MCW prepares its consolidated financial statements to focus on the organization as a whole and to present net assets and revenues, expenses, gains, and losses classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or by actions of MCW to fulfill the donor restrictions. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that the resources be maintained in perpetuity. Donor-imposed restrictions are released when the restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose has been fulfilled, or both.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor-imposed restrictions. The MCW Board of Trustees has designated a portion of net assets without donor restrictions as funds designated to function as endowments (funds functioning as endowments).

Revenues are reported as increases in net assets without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions occur when the donor-stipulated purpose has been fulfilled, the funds have been appropriated in accordance with MCW's endowment fund spending policy, or the stipulated time period has elapsed and are reported as net assets released from donor restrictions.

(b) Patient Services Revenue and Patient Accounts Receivable, Net

MCW faculty and staff physicians provide services to patients under agreements MCW has with third-party payors, patients, and others. The revenue related to patient services is recorded as patient services revenue as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total charges. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and MCW does not believe it is required to provide additional goods or services to the patient.

The transaction price of performance obligations is based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to self-pay patients in accordance with policies and/or implicit price concessions provided to self-pay patients. Estimates of contractual adjustments and discounts are based on contractual agreements, discount policies and historical experience. The estimate of implicit price concessions is based on historical collection experience with self-pay patients. Subsequent changes to the estimate of the transaction price are recorded as adjustments to patient service revenue in the period of the change.

Patient accounts receivable represent an estimate of net realizable amounts from third-party payors, self-pay patients, and others for unpaid professional fees for patient services. The estimate is based upon contract terms, discount policies and historical payment experience.

(c) Grants and Contracts Revenue and Deferred Revenue

Grant and contract awards are recognized as revenue in the period in which expenses are incurred for cost-reimbursed agreements. Amounts received under these grants and contracts but not spent are recorded as deferred revenue. Other contract revenue is recognized as revenue in the period in which it is earned.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

(d) Contributions Revenue and Contributions Receivable, Net

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized as revenue until the conditions that represent a barrier are overcome and MCW is entitled to the assets promised. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Contributions to be received after one year are discounted using a discount rate consistent with the general principles of present value measurement. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of the fund-raising activity.

Contributions that impose restrictions that are met in the same fiscal year as the contributions are received are included in revenues of net assets without donor restrictions.

Contributions of land, building, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with such donor stipulations are reported as an increase in net assets with donor restrictions until the long-lived assets are placed into service.

(e) Revenues in Excess of Expenses

Revenues in excess of expenses in the consolidated statements of activities reflect all transactions increasing or decreasing net assets without donor restrictions except realized and unrealized gains and losses on investments, loss on the sale of land, buildings, and equipment, the difference between net appreciation and the amount expended for funds designated by the Board of Trustees to function as endowments, unrealized gains and losses on interest rate swap and other gains and losses.

(f) Split Interest Agreements with Donors

MCW's split interest agreements with donors consist of irrevocable charitable gift annuities and charitable trusts. Charitable gift annuity investments are recorded at fair value (see note 2(i)) and are included in investments. Charitable gift annuity liabilities are recorded at the present value of the estimated future payments to be made to the donors and are included in accounts payable. The liabilities are valued using the actuarial life expectancy tables and the discount rates published by the Internal Revenue Service (IRS). Contribution revenue is recognized at the date annuity agreements are established for the amount of the assets transferred less the amount of the present value of the estimated future payments to be made to the donors at the time of the gift.

MCW is the beneficiary of several charitable trusts (the Trusts), including charitable remainder trusts, charitable lead trusts and charitable perpetual trusts. The Trusts consist of funds invested and administered outside of MCW in which MCW has the irrevocable right to receive a portion of the Trusts' assets in accordance with the Trusts' agreements. The fair value of MCW's beneficial interest in the Trusts is included in prepaid expenses and other assets and is accounted for as net assets with donor restrictions in the consolidated statements of financial position. The adjustments to the Trusts' fair values are recognized as a change in net assets with donor restrictions in the consolidated statements of activities.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

(g) *Unreimbursed and Partially Reimbursed Care*

MCW has a policy of providing health care services without charge, or at amounts less than established rates, to patients who are unable to pay and who meet certain eligibility criteria established in MCW's community care policy. Because MCW does not pursue collection of amounts determined to qualify as community care, the amounts are not reported as revenue. The estimated direct and indirect costs incurred by MCW to provide services under MCW's community care policy during fiscal years 2019 and 2018 were \$2,684 and \$4,130, respectively. The estimated cost of these community care services was determined using a ratio of cost to gross charges and applying that ratio to the gross charges associated with providing care to these patients for the period. Gross charges associated with providing care to these patients includes only the related charges for those patients who are financially unable to pay and qualify under MCW's community care policy and who do not otherwise qualify for reimbursement from a governmental program.

MCW is a supplier under the Medicare and Title XIX Wisconsin Medical Assistance (Medicaid) programs. Under these programs, MCW is legally bound to accept the amount determined by the Medicare carrier or the State of Wisconsin as payment in full for each patient's charges. Amounts received by MCW from the Medicare and Medicaid programs are subject to audit by governmental agencies.

(h) *Cash and Cash Equivalents*

Cash and cash equivalents include bank depository account balances and money market funds not held by external investment managers.

MCW maintains its cash in bank deposit accounts, which exceed federally insured limits. MCW monitors cash balances along with the financial condition of the financial institutions to minimize this potential risk.

(i) *Investments*

Investments are comprised of money market funds held by external investment managers, marketable debt and equity securities, bond and equity mutual funds, commingled bond and equity funds, other equity securities, guaranteed investment contracts, and accrued interest and dividends thereon and are reported at fair value. Realized gains and losses on the sale of investments are calculated on the basis of specific identification of the securities sold. Investment management fees and service charges are netted against investment income for financial reporting purposes.

Other investment income included in revenue consists of income on unrestricted investments. Endowment spendable income included in revenue consists of the amount expended from net appreciation appropriated for expenditure (spendable income) from pooled endowment funds. The difference between the net appreciation and the amount expended is reported as a nonoperating gain or loss for funds designated by the Board of Trustees to function as endowments and as a change in net assets with donor restrictions for donor-restricted endowment funds.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that these changes could materially affect the amounts reported in the consolidated statements of financial position and the consolidated statements of activities.

(j) Deposits with Bond Trustees

Deposits held by bond trustees consist of investments restricted for debt service and future capital expenditures. These funds are invested in highly liquid securities. Project fund proceeds are not released to MCW until expenditures related to the specific purpose of the bond trust indenture are incurred.

(k) Student Loans Receivable, Net

MCW receives awards to make loans to eligible students under certain federal student loan programs. The Department of Education's Direct Loan program consists of federally guaranteed loans directly issued to the students of MCW. MCW is responsible only for the performance of certain administrative duties with respect to the Direct Loan Program and therefore these loans are not included in MCW's consolidated financial statements. The Perkins and the Primary Care Student Loan Programs are administered directly by MCW and the balances and transactions relating to these programs are included in MCW's consolidated financial statements. Graduate, Pharmacy, and Master of Science in Anesthesia students are only eligible for the Direct Loan Program. Medical students are eligible for all federal loan programs. Under the Perkins Loan Program Extension Act of 2015, no new Perkins Loans were made to MCW medical students after June 30, 2017. In addition, MCW also makes student loans to eligible medical students from funds received from philanthropic and other sources. Loans may be used for tuition, books, fees and living expenses.

(l) Land, Buildings, and Equipment, Net

Investments in land, buildings, and equipment (including software licenses) are recorded at cost if purchased or at appraised value if donated. Assets are depreciated using the straight-line method over their estimated useful lives. The net interest cost incurred on borrowed funds during the period of major construction or renovation is capitalized as a component of the cost of acquiring those assets in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 835-20, *Capitalization of Interest*. Capitalized interest is included as part of the cost of construction and renovation projects and is amortized over the estimated useful life of the related assets.

When MCW commits to the disposal or abandonment of land, buildings, and equipment, or when such assets are determined to be impaired, the assets are written off or down to the net realizable value.

MCW periodically assesses its ability to recover long-lived assets (including land, buildings, and equipment) when there are indications of potential impairment based on estimated undiscounted future cash flows. Management considers such factors as current results, trends, and future prospects, in addition to other economic factors, in determining the impairment of an asset. Management believes MCW's long-lived assets are not impaired at June 30, 2019 and 2018.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

(m) Refundable Advances for U.S. Government-Sponsored Loan Funds

Funds provided by the U.S. government under the Federal Perkins Student Loan Program and Federal Primary Care Loan Program are loaned to qualified students. Receipts of principal and interest payments through the Federal Primary Care Loan Program are used to finance future loans to students. Under the Perkins Loan Program Extension Act of 2015, no Perkins Loan disbursements of any kind can be made to graduate students after June 30, 2017; receipts of principal and interest payments through the Federal Perkins Student Loan Program are retained until the government issues Excess Cash Return notices. Funds provided by the U.S. government and earnings thereon are ultimately refundable to the government and, therefore, are presented as a liability and are included in other liabilities on the consolidated statements of financial position.

(n) Deferred Financing Expenses

Costs incurred related to the issuance of long-term debt and the original issue discount or premium, included in long-term debt, are deferred and amortized over the term of the debt using the effective interest rate method.

(o) Derivative Instruments

MCW entered into an interest rate-related derivative instrument (interest rate swap) to manage interest rate exposure on its variable rate revenue bonds. The fair value of the interest rate swap is reported on the consolidated statements of financial position. MCW does not apply hedge accounting to derivative instruments, and therefore, any change in the interest rate swap value is recognized as a gain or loss in the consolidated statements of activities. The net cash received or paid under the terms of the interest rate swap agreement over its term is recorded as a component of interest expense.

(p) Income Taxes

MCW has received a determination letter from the IRS indicating that it is a tax-exempt organization as provided in Section 501(c)(3) of the Internal Revenue Code, and it is exempt from federal and state income taxes, except for taxes pertaining to unrelated business income and certain provisions of the Tax Cuts and Jobs Act of 2017. A provision for income taxes of \$664 and \$411 is included in services, supplies and other expenses and \$419 and \$0 is included in other nonoperating gains and losses in the consolidated statement of activities in fiscal year 2019 and 2018, respectively.

MCW applies the standards for accounting for uncertainty in income taxes contained in FASB ASC Topic 740, *Income Taxes* (ASC Topic 740). ASC Topic 740 addresses the determination of how tax benefits resulting from tax positions taken or expected to be taken on a tax return should be recorded in the financial statements. Under ASC Topic 740, the tax benefit from an uncertain tax position is recognized if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. MCW does not have a liability for unrecognized tax benefits as of June 30, 2019 and 2018.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

(q) Use of Estimates

The presentation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, the disclosures of contingencies at the date of the consolidated financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates. Changes in prior year estimates are accounted for within the consolidated statements of activities in the current year.

(r) New Accounting Pronouncements

MCW adopted ASC 606, *Revenue from Contracts with Customers*, in fiscal year 2019 using a full retrospective approach. The standard requires an entity to recognize revenue when the entity transfers control of promised goods and services to the customer. Revenue is recognized in an amount that reflects the consideration an entity expects to receive in exchange for those goods and services. An entity is also required to disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The adoption of ASC 606 resulted in changes to the presentation and disclosure of revenue related to uninsured or underinsured patients. Prior to the adoption of ASC 606, MCW presented a separate provision for bad debts related to self-pay patients, which includes co-pays and deductibles owed by patients with insurance. Under ASC 606, the estimated uncollectible amounts due from these patients are considered a direct reduction to patient services revenue and, correspondingly, result in a material reduction in the amounts presented separately as provision for bad debts. As such the fiscal year 2018 provision for bad debts of \$21,704 has been reclassified and presented as a reduction to patient services revenue for fiscal year 2019 presentation. MCW also assessed the impact of the new standard on various reimbursement programs that represent variable consideration and concluded that accounting for these programs under the new standard is substantially consistent with the historical accounting practices. ASC 606 did not materially impact the financial position changes in its net assets, or cash flows of MCW and there was no cumulative effect of a change in accounting principle recorded related to the adoption.

MCW adopted ASC 958, *Not-for-Profit Entities (ASC 958)*, effective July 1, 2018 with retroactive application. ASC 958 changed the way a not-for-profit entity (NFP) classifies and presents net assets on the face of the financial statements and presents information in the financial statements and notes about the NFP's liquidity, financial performance, and cash flows. The amendment changed the way MCW reports classes of net assets, from the previously required three classes to two. As a result of this adoption, fiscal year 2018 temporarily restricted net assets of \$290,200 and permanently restricted net assets of \$406,270 have been combined for presentation in fiscal year 2019 as net assets with donor restrictions. The standard did not have a material effect on the consolidated financial statements, other than the additional disclosure required by the standard.

MCW adopted ASC 605 Topic 958, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, effective July 1, 2018. The standard requires an entity to recognize contributions immediately and classify them as either net assets with donor restrictions or net assets without donor restrictions. Conditional contributions are not recognized initially until the restrictions to

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

entitlement are overcome. The adoption of the standard did not have a material effect on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which supersedes FASB ASC Topic 840, *Leases*, and requires lessees to recognize most leases on the statement of financial position and disclose additional qualitative and quantitative information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as either finance or operating leases, which will impact the expense recognition of such leases over the lease term. The ASU also modifies the lease classification criteria for lessors and eliminates some of the real estate leasing guidance previously applied for certain leasing transactions. The adoption of this ASU will be effective for MCW for the year ending June 30, 2020 and mandates a modified transition method. As of July 1, 2019, MCW recorded a ROU asset of approximately \$100,000 and a long-term lease obligation of \$95,000 on the consolidated statement of financial position as part of the adoption.

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash* (ASU 2016-18), a consensus of the FASB Emerging Issues Task Force. ASU 2016-18 requires an entity to include amounts generally described as restricted cash and restricted cash equivalents, along with cash and cash equivalents when reconciling beginning and ending balances on the statement of cash flows. ASU 2016-18 will be effective for MCW for the year ending June 30, 2020. MCW is in the process of evaluating the impact of this new standard.

(s) Reclassification

Certain amounts in the 2018 consolidated financial statements have been reclassified to conform to the 2019 presentation.

(3) Related-Party Transactions

MCW is located on the Milwaukee Regional Medical Center Campus, along with Froedtert Health, Inc. (Froedtert Memorial Lutheran Hospital, Inc. and related entities collectively referred to as Froedtert), Children's Hospital and Health System, Inc. (Children's Hospital of Wisconsin, Inc. and related entities collectively referred to as Children's), and several other health care providers. The following is a summary of the transactions with these and other related parties.

(a) Froedtert Health, Inc.

MCW contracts with Froedtert to receive payment for faculty and staff physician services at hospital and clinic sites. During 2019 and 2018, MCW recognized affiliate hospital contract revenue of approximately \$120,617 and \$105,779, respectively, for clinical management, graduate medical education, and other program support services provided to Froedtert. The outstanding balance of the accounts receivable from Froedtert at June 30, 2019 and 2018 is \$37,134 and \$19,337, respectively.

Many faculty and staff physicians render professional medical services to patients at Froedtert. MCW leases space from Froedtert for certain services provided at its facilities. Rent paid to Froedtert by MCW is \$4,490 and \$4,480 in 2019 and 2018, respectively. Other direct costs for equipment, supplies,

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

and general services related to professional medical services at Froedtert are incurred by MCW directly. MCW also leases clinical space to Froedtert under operating leases. Rental income received from Froedtert by MCW is \$2,832 and \$2,529 in 2019 and 2018, respectively.

On March 7, 2019, MCW sold its interest in a two-floor condominium unit located within Froedtert Memorial Lutheran Hospital to Froedtert for \$8,650.

On January 30, 2013, MCW entered into a definitive agreement with Froedtert to form a joint clinical practice group effective July 1, 2013 named Froedtert & The Medical College of Wisconsin Community Physicians (FH-MCW Community Physicians). FH-MCW Community Physicians combines many of the community-based practices of Froedtert and MCW's Medical College Physicians. MCW has a 50% interest in the governance of the entity, but Froedtert is the sole financial member. MCW receives payments for MCW faculty and staff physicians leased to and performing services on behalf of FH-MCW Community Physicians. Additionally, FH-MCW Community Physicians contracts with MCW to perform billing services for its clinic-based sites. During 2019 and 2018, MCW recognized \$75,864 and \$71,613, respectively, of FH-MCW Community Physician contract fees related to these services. The outstanding balance of accounts receivable from FH-MCW Community Physicians as of June 30, 2019 and 2018 is \$15,053 and \$18,626, respectively. MCW also collects patient services revenue for certain specialty services provided by FH-MCW Community Physicians providers performing services on behalf of MCW. These collections, net of assessments, are remitted to FH-MCW Community Physicians and in 2019 and 2018, \$8,905 and \$9,611, respectively, was recorded in services, supplies, and other expense. The outstanding balance of accounts payable to FH-MCW Community Physicians as of June 30, 2019 and 2018 is \$1,707 and \$1,809, respectively.

(b) Children's Hospital and Health System, Inc.

MCW entered into an Operations Agreement with Children's to form Children's Specialty Group, Inc. (CSG), a provider of pediatric specialty health care services, on July 1, 2000. MCW and Children's are the two members of CSG (see note 4(a)). Effective July 1, 2011, MCW and Children's agreed to amend the CSG Operations Agreement. Under the revised agreement, CSG distributes a percentage of its patient services revenues to MCW and any CSG revenues and gains in excess of expenses and losses are retained by CSG for program development. In 2019 and 2018, approximately 7% of CSG's patient services revenues were distributed to MCW.

MCW's revenues include \$238,495 and \$232,911 for the years ended June 30, 2019 and 2018, respectively, for certain physician services, leased equipment, and supplies purchased by CSG.

The pediatric practice patient accounts receivable at June 30, 2000 of approximately \$10,243 was transferred to CSG effective July 1, 2000 in exchange for a revolving note receivable. In 2012, MCW loaned an additional \$5,000 to CSG for clinical practice development in exchange for a note receivable. The notes receivable from CSG do not bear interest and become due in their entirety upon the dissolution of CSG and are included in notes receivable from Children's Specialty Group on the consolidated statement of financial position.

MCW leases space from Children's for certain administrative purposes. Rent paid to Children's by MCW is \$4,353 and \$4,337 in 2019 and 2018, respectively.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

(c) Other Related Parties

MCW is a member of the Milwaukee Regional Medical Center (MRMC), a consortium of six health care institutions located on the Milwaukee Regional Medical Center Campus. On March 31, 2016, MCW entered into an agreement with the Milwaukee Regional Medical Center Thermal Services, Inc. (MRMC Thermal), a subsidiary of MRMC, to obtain all of MCW's chilled water and steam service from MRMC Thermal for a period of 30 years. Under the agreement, MCW must make specified minimum payments regardless of the amount of actual chilled water and steam service used. The minimum payment is based on MRMC Thermal's fixed costs associated with owning, operating and maintaining the utility plant and is updated periodically. In 2019 and 2018, MCW purchased \$6,385 and \$6,213, respectively, of chilled water and steam service from MRMC Thermal.

On April 4, 2019, MCW provided a financial guarantee to a financial institution for a borrowing of MRMC. The guarantee requires MCW to reimburse the financial institution if MRMC fails to make principal or interest payments when due in accordance with the terms of their borrowing. The guarantee expires when the obligations of MRMC are satisfied. The maximum amount payable under this guarantee is \$10,000. As of June 30, 2019, it is not probable that any amount will be payable under the arrangement and a liability is not recorded within the consolidated statements of financial position.

Members of MCW's Board of Trustees may serve in management roles for corporations that provide goods or services to MCW, causing these corporations to be related parties. In 2019 and 2018, MCW purchased from these related parties \$334 and \$392, respectively, of employee benefit services; \$4,633 and \$727, respectively, of subcontract and contractual fees; \$0 and \$553, respectively, of legal services; and \$312 and \$909, respectively, of building services equipment. Significant purchases of goods and services from related parties are reviewed to ensure such transactions are competitively priced as compared to other goods and services available in the market place.

(4) Joint Ventures

MCW is a member of several joint ventures where MCW owns 50% or less of the joint venture and does not control or significantly influence the joint venture's operating and financial policies. MCW accounts for its investment in these joint ventures using the equity method of accounting.

(a) Significant Joint Ventures

CSG is a joint venture with Children's. Each member has a 50% ownership interest. The purpose of the joint venture is to provide pediatric specialty health care services that contribute to the members' shared missions. MCW provides certain management and administrative services to CSG under an Operations Agreement (see footnote 3(b)). MCW did not make any capital contributions during fiscal years 2019 and 2018. MCW's share of CSG's gains for fiscal years 2019 and 2018 of \$4,052 and \$4,795, respectively, is recorded in other revenue. CSG has total assets of \$121,380 and \$110,686 and net assets of \$87,261 and \$79,158 at June 30, 2019 and 2018, respectively. MCW's investment in CSG is approximately \$43,631 and \$39,579 as of June 30, 2019 and 2018, respectively, and is included in the prepaid expenses and other assets on the consolidated statements of financial position.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

Drexel Town Square Surgery Center, LLC (Drexel) is a joint venture with Froedtert. MCW has a 49% ownership interest. The purpose of Drexel is to expand the availability and accessibility of ambulatory surgery services and related healthcare services to residents in Froedtert's and MCW's service area and surrounding areas. MCW made capital contributions of \$0 and \$4,755 during fiscal years 2019 and 2018, respectively. MCW's share of Drexel's losses for fiscal year 2019 and 2018 of \$1,164 and \$961, respectively, is recorded in other revenue. MCW's investment in Drexel is approximately \$2,630 and \$3,794 as of June 30, 2019 and 2018, respectively, and is included in the prepaid expenses and other assets on the consolidated statement of financial position.

(b) Other Joint Ventures

MCW's investment in other joint ventures accounted for using the equity method of accounting include:

| | Ownership percentage | |
|---|----------------------|--------|
| | 2019 | 2018 |
| APM Wisconsin MSO LLC | 49.0 % | 49.0 % |
| Froedtert & The Medical College of Wisconsin Network, LLC | 50.0 | 50.0 |
| Children's Health Network of Wisconsin, LLC | 50.0 | 50.0 |
| FMHL MCW Real Estate Ventures, LLC | 50.0 | 50.0 |
| Froedtert Surgery Center, LLC | 30.0 | 30.0 |
| Fresenius Medical Care Midwest Dialysis, LLC | 10.0 | 10.0 |
| Wisconsin Renal Care Group, LLC | 10.0 | 10.0 |
| Integrated Health Network, LLC | 12.5 | 12.5 |

MCW received capital distributions of \$2,011 and \$1,927 as of June 30, 2019 and 2018, respectively. MCW made capital contributions to other joint ventures of \$395 and \$717 in fiscal years 2019 and 2018. MCW's share of gains in other joint ventures for fiscal years 2019 and 2018 of \$2,480 and \$1,702, respectively, is recorded in other revenue. MCW's investment in other joint ventures is approximately \$18,408 and \$17,544 as of June 30, 2019 and 2018, respectively, and is included in the prepaid expenses and other assets on the consolidated statements of financial position.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

(5) Investments

Cost and fair value of investments as of June 30, 2019 and 2018 are summarized below:

| | 2019 | | 2018 | |
|--|---------------------|------------------|------------------|------------------|
| | Cost | Fair value | Cost | Fair value |
| Money market funds | \$ 5,220 | 5,220 | 2,633 | 2,633 |
| Accrued investment income | 500 | 500 | 401 | 401 |
| U.S. government obligations | 85,032 | 85,105 | 85,844 | 83,850 |
| State and municipal bonds | 25 | 25 | 25 | 25 |
| Asset – and mortgage-backed securities | 1,520 | 1,379 | 1,820 | 1,729 |
| Bond mutual funds | 263,413 | 266,625 | 230,418 | 222,339 |
| Equity mutual funds | 68,567 | 139,671 | 59,529 | 130,088 |
| Commingled bond funds | 184,400 | 177,142 | 178,458 | 167,775 |
| Commingled equity funds | 559,079 | 702,286 | 535,996 | 708,119 |
| Equity securities | 15,510 | 20,313 | 13,823 | 18,998 |
| Other equity securities | 255,051 | 333,500 | 285,852 | 371,889 |
| Guaranteed investment contracts | 2,376 | 2,376 | 2,732 | 2,732 |
| Total | \$ 1,440,693 | 1,734,142 | 1,397,531 | 1,710,578 |

Mortgage-backed securities are comprised of widely traded tranches of principal and interest strips in the form of collateralized mortgage obligations and real estate mortgage investment conduits. Other asset-backed securities are comprised of principal and interest strips derived from underlying receivables.

Commingled bond funds are comprised of domestic and foreign investment grade or below investment grade public and private issue debt and debt-like securities. MCW also invests in commingled equity funds that are comprised of domestic and foreign equity and equity-like securities.

Other equity securities are comprised of ownership interests in limited partnerships and limited companies. MCW owns less than 10% of each limited partnership or limited company. Other equity securities also include an investment fund engaged in the business of originating or acquiring mortgage loans, all secured by deeds of trust and mortgages on real estate in the United States.

Guaranteed investment contracts are comprised of fixed annuities issued by insurance companies.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

MCW's return on investments as reported in the consolidated financial statements for the years ended June 30, 2019 and 2018 is summarized below:

| | Year ended June 30, 2019 | | |
|--|---------------------------------------|------------------------------------|-----------------|
| | Without donor restrictions | With donor restrictions | Total |
| Endowment spendable income | \$ 12,019 | 2,522 | 14,541 |
| Endowment investment income required to be reinvested | — | 4,440 | 4,440 |
| Endowment income earned over spendable income under the total return concept | <u>(8,729)</u> | <u>246</u> | <u>(8,483)</u> |
| Interest and dividends, net of fees, on pooled endowments | 3,290 | 7,208 | 10,498 |
| Other investment income | <u>13,229</u> | <u>121</u> | <u>13,350</u> |
| Total interest and dividends, net of fees | 16,519 | 7,329 | 23,848 |
| Realized gain on investments, net | 15,818 | 19,765 | 35,583 |
| Unrealized loss on investments, net | <u>(7,964)</u> | <u>(11,635)</u> | <u>(19,599)</u> |
| | <u>\$ 24,373</u> | <u>15,459</u> | <u>39,832</u> |

| | Year ended June 30, 2018 | | |
|--|---------------------------------------|------------------------------------|----------------|
| | Without donor restrictions | With donor restrictions | Total |
| Endowment spendable income | \$ 6,584 | 2,255 | 8,839 |
| Endowment investment income required to be reinvested | — | 4,129 | 4,129 |
| Endowment income earned over spendable income under the total return concept | <u>(3,732)</u> | <u>239</u> | <u>(3,493)</u> |
| Interest and dividends, net of fees, on pooled endowments | 2,852 | 6,623 | 9,475 |

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

| | Year ended June 30, 2018 | | |
|--|-------------------------------|----------------------------|---------|
| | Without donor restrictions | With donor restrictions | Total |
| Other investment income | \$ 11,949 | 96 | 12,045 |
| Total interest and dividends, net of fees | 14,801 | 6,719 | 21,520 |
| Realized gain on investments, net | 53,471 | 24,856 | 78,327 |
| Unrealized (loss) gain on investments, net | (5,649) | 12,116 | 6,467 |
| | \$ 62,623 | 43,691 | 106,314 |

Investment management and custodial fees incurred in 2019 and 2018 were \$5,787 and \$5,613, respectively.

(6) Fair Value Measurements

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

- Level 1 inputs are quoted prices (unadjusted) that are observable in active markets for identical assets or liabilities that MCW has the ability to access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities or quoted prices in markets that are not active, that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs, where there is little or no market data, requiring MCW to develop its own assumptions of fair value for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following section describes the valuation methodologies used for financial assets and liabilities measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used. There were no changes in valuation methodologies used for the fiscal year ended June 30, 2019 and 2018.

Cash and cash equivalents: The fair value of cash and cash equivalents is based on observable market quotation prices provided by the custodial financial institutions at the reporting date.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

Deposits with bond trustees: The fair value of the money market funds on deposit with bond trustees is based on observable market quotation prices. The fair value of fixed maturity securities on deposit with bond trustees is based on prices provided by each bond trustee financial institution using a variety of pricing sources. Each bond trustee financial institution designates specific pricing services or indices for each sector of the market based on the pricing service's expertise.

Investments: The fair value of investments is based on valuations provided by external investment managers and the custodial financial institutions. Valuations of investments in Level 1, which include money market instruments, accrued investment income, bond and equity mutual funds, and equity securities, are provided by the custodial financial institutions based on observable market quotation prices. Valuations of certain investments in Level 2, which include accrued investment income, U.S. government obligations, state and municipal bonds, corporate bonds, and asset-backed and mortgage-backed securities, are provided by the custodial financial institutions based on observable inputs other than quoted prices, such as pricing services or indices. Valuations of investments in Level 3, which are comprised of guaranteed investment contracts with an insurance company, are valued at the contract value which represents the accumulated contributions and interest credited to the contracts, less any withdrawals. Contract value approximates fair value. Investments with valuations classified as Level 1 through 3 are considered marketable securities.

MCW applies the measurement provisions of FASB ASC Topic 820 related to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and commingled equity and bond funds. ASC Topic 820 allows MCW to estimate the fair value of an investment using the net asset value per share of the investment as a practical expedient, if that net asset value per share is determined in accordance with ASC Topic 946, *Financial Services-Investment Companies*. Investments in commingled bond and equity funds and other equity securities with a fair value of \$1,212,928 and \$1,247,783 were estimated using the net asset value per share, as a practical expedient, provided by external investment managers as of June 30, 2019 and 2018, respectively. Investments with fair values using the net asset value per share as a practical expedient are considered non-marketable securities. Changes in market conditions and the economic environment may impact the net asset value of the funds and consequently the fair value of MCW's interest in the funds.

The investment strategy of the commingled bond funds is to achieve favorable income-oriented returns from diversified portfolios of domestic and foreign investment grade or below investment grade public and private issue debt and debt-like securities. The investment strategy of the commingled equity funds is to seek investment results that achieve or exceed major market indices. Derivative instruments may be used in these funds in an attempt to hedge existing long and short positions in order to maximize returns and minimize risk.

The primary investment objective for the other equity securities is to achieve a higher than average rate of return relative to the level of risk assumed by pursuing trading strategies that are based primarily upon convertible hedging (based on equities, bonds, and related derivative instruments); directional, relative value and event-driven hedging; long/short debt and equity trading; and among others, risk arbitrage.

Contributions receivable, net: The fair value of net contributions receivable is based on future estimated cash flows, discounted to present value.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

Beneficial interest in charitable trusts: The fair value of the beneficial interest in charitable trusts is based on the future contractual payments considering the life expectancy of beneficiaries, discounted to present value.

Deferred compensation: The fair value of the deferred compensation liability is based on the fair value of its underlying investments which are included in the investment values described above, as the deferred compensation liability is fully funded. The deferred compensation liability is included in accrued payroll and related liabilities in the consolidated statements of financial position.

Interest rate swap: The fair value of the interest rate swap is determined using pricing models developed based on the London Interbank Offered Rate (LIBOR) swap rate and other observable and unobservable market data. The value is determined after considering the potential impact of collateralization agreements and is adjusted to reflect the nonperformance risk of both the counterparty and MCW.

The following tables present assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2019 and 2018:

| | June 30, 2019 | | | |
|--|----------------------|----------------|----------------|----------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Cash and cash equivalents | \$ 102,139 | 102,139 | — | — |
| Deposits with bond trustees | 23,568 | 23,568 | — | — |
| Investments: | | | | |
| Money market funds | 5,220 | 5,220 | — | — |
| Accrued investment income | 500 | 319 | 181 | — |
| U.S. government obligations | 85,105 | — | 85,105 | — |
| State and municipal bonds | 25 | — | 25 | — |
| Asset – and mortgage-backed securities | 1,379 | — | 1,379 | — |
| Bond mutual funds | 266,625 | 266,625 | — | — |
| Equity mutual funds | 139,671 | 139,671 | — | — |
| Equity securities | 20,313 | 20,313 | — | — |
| Guaranteed investment contracts | 2,376 | — | — | 2,376 |
| Subtotal | 521,214 | 432,148 | 86,690 | 2,376 |
| Investments measured at net asset value | 1,212,928 | | | |
| Total investments | 1,734,142 | | | |
| Contributions receivable, net | 53,489 | — | — | 53,489 |
| Beneficial interest in charitable trusts | 4,212 | — | — | 4,212 |
| Total assets | \$ 1,917,550 | 557,855 | 86,690 | 60,077 |

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

| June 30, 2019 | | | | |
|--|------------------------|-----------------------------|------------------------------------|---------------------------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Liabilities: | | | | |
| Deferred compensation | \$ 5,744 | 3,368 | — | 2,376 |
| Interest rate swap | 14,978 | — | — | 14,978 |
| Total liabilities | \$ 20,722 | 3,368 | — | 17,354 |
| | | | | |
| Investments measured at net asset value | Net asset value | Unfunded commitments | Redemption frequency | Redemption notice period |
| Commingled bond funds | \$ 177,142 | | Monthly | 10–45 days |
| Commingled equity funds | 702,286 | | Monthly, quarterly, annually | 4–180 days |
| Other equity securities | 333,500 | 45,563 | Monthly, quarterly, annually | 30–180 days |
| Total investments measured at net asset value | \$ 1,212,928 | | | |

| June 30, 2018 | | | | |
|---------------------------------------|----------------|----------------|----------------|----------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Cash and cash equivalents | \$ 50,807 | 50,807 | — | — |
| Deposits with bond trustees | 775 | 775 | — | — |
| Investments | | | | |
| Money market funds | 2,633 | 2,633 | — | — |
| Accrued investment income | 401 | 213 | 188 | — |
| U.S. government obligations | 83,850 | — | 83,850 | — |
| State and municipal bonds | 25 | — | 25 | — |
| Asset- and mortgage-backed securities | 1,729 | — | 1,729 | — |
| Bond mutual funds | 222,339 | 222,339 | — | — |
| Equity mutual funds | 130,088 | 130,088 | — | — |
| Equity securities | 18,998 | 18,998 | — | — |
| Guaranteed investment contracts | 2,732 | — | — | 2,732 |
| Subtotal | 462,795 | 374,271 | 85,792 | 2,732 |

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

| | | June 30, 2018 | | | |
|--|----|-------------------------|-----------------------------|------------------------------------|---------------------------------|
| | | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Investments measured at net asset value | \$ | <u>1,247,783</u> | | | |
| Total investments | | 1,710,578 | | | |
| Contributions receivable, net | | 33,695 | — | — | 33,695 |
| Beneficial interest in charitable trusts | | <u>4,326</u> | <u>—</u> | <u>—</u> | <u>4,326</u> |
| Total assets | \$ | <u><u>1,800,181</u></u> | <u><u>425,853</u></u> | <u><u>85,792</u></u> | <u><u>40,753</u></u> |
| Liabilities: | | | | | |
| Deferred compensation | \$ | 5,723 | 2,991 | — | 2,732 |
| Interest rate swap | | <u>10,867</u> | <u>—</u> | <u>—</u> | <u>10,867</u> |
| Total liabilities | \$ | <u><u>16,590</u></u> | <u><u>2,991</u></u> | <u><u>—</u></u> | <u><u>13,599</u></u> |
| Investments measured at net asset value | | Net asset value | Unfunded commitments | Redemption frequency | Redemption notice period |
| Commingled bond funds | \$ | 167,775 | — | Monthly | 10–45 days |
| Commingled equity funds | | 708,119 | — | Monthly, quarterly, annually | 4–180 days |
| Other equity securities | | 371,889 | 42,904 | Monthly, quarterly, annually | 30–180 days |
| Total investments measured at net asset value | \$ | <u><u>1,247,783</u></u> | | | |

Other equity securities include investments of \$64,511 and \$47,094 as of June 30, 2019 and 2018, respectively, in private equity or private real assets which are investments in limited partnerships that invest in private equity, distressed investments, secured fixed rate or adjustable rate senior loans, unsecured fixed rate or adjustable rate loans, subordinated debt obligations, equity securities of U.S. and Canadian companies, oil and gas properties, timberland and real estate, metals and mining, and power plants and renewable energy sources. These investments cannot be redeemed but instead are distributed as the underlying assets are liquidated. The timing of liquidation cannot be reasonably estimated.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

The following tables present MCW's activity for all Level 3 assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs, as defined in ASC Topic 820 for the years ended June 30, 2019 and 2018.

| | Assets | | | Liabilities | |
|---------------------------------------|---------------------------------|-------------------------------|--|--------------------|-----------------------|
| | Guaranteed investment contracts | Contributions receivable, net | Beneficial interest in charitable trusts | Interest rate swap | Deferred compensation |
| Balance as of July 1, 2018 | \$ 2,732 | 33,695 | 4,326 | 10,867 | 2,732 |
| Purchases | — | 33,717 | — | — | — |
| Sales | — | — | — | — | — |
| Net realized loss | — | — | (42) | — | — |
| Net change in unrealized appreciation | (356) | (13,923) | (72) | 4,111 | (356) |
| Balance as of June 30, 2019 | <u>\$ 2,376</u> | <u>53,489</u> | <u>4,212</u> | <u>14,978</u> | <u>2,376</u> |

The amount of total losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held as of June 30, 2019

| | | | | | |
|----|-------|---|---|-------|-------|
| \$ | (356) | — | — | 4,111 | (356) |
|----|-------|---|---|-------|-------|

| | Assets | | | Liabilities | |
|---------------------------------------|---------------------------------|-------------------------------|--|--------------------|-----------------------|
| | Guaranteed investment contracts | Contributions receivable, net | Beneficial interest in charitable trusts | Interest rate swap | Deferred compensation |
| Balance as of July 1, 2017 | \$ 2,781 | 36,476 | 4,251 | 14,700 | 2,781 |
| Purchases | — | 228 | — | — | — |
| Sales | — | — | — | — | — |
| Net realized loss | — | — | (173) | — | — |
| Net change in unrealized appreciation | (49) | (3,009) | 248 | (3,833) | (49) |
| Balance as of June 30, 2018 | <u>\$ 2,732</u> | <u>33,695</u> | <u>4,326</u> | <u>10,867</u> | <u>2,732</u> |

The amount of total losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held as of June 30, 2018

| | | | | | |
|----|------|---|---|---------|------|
| \$ | (49) | — | — | (3,833) | (49) |
|----|------|---|---|---------|------|

There are no transfers in or out of Level 3 for the years ended June 30, 2019 and 2018.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

(7) Endowment Net Asset Classification

MCW's endowment is comprised of approximately 500 individual funds established for the following purposes:

- Provide funding of activities that support the missions of instruction, research, patient care and community engagement.
- Provide a revenue source for endowed purposes such as scholarships, student loans, professorships, and program enhancements.
- Provide a revenue source for capital requirements.
- Provide a revenue source for initiatives of the Advancing a Healthier Wisconsin Program.
- Provide a revenue source for programs, activities, contingencies and other purposes as the Board of Trustees may consider appropriate.

The endowment includes both donor-restricted endowment funds and funds functioning as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds functioning as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The Board of Trustees of MCW has interpreted the Wisconsin enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing MCW to appropriate for expenditure or accumulate so much of an endowment fund as MCW determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure in accordance with the MCW Endowment Fund Spending Policy adopted by the Board of Trustees. As a result of this interpretation, the original gift of value a donor-restricted endowment fund is classified as donor-restricted in perpetuity. The remaining portion of the donor-restricted endowment fund is classified as donor-restricted until those amounts are appropriated for expenditure by MCW in a manner consistent with the standard of prudence prescribed by UPMIFA and the donor-restrictions have been satisfied. See note 2(a) for further information on net asset classification.

In accordance with UPMIFA, MCW considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the funds.
- The purposes of MCW and the donor-restricted endowment funds.
- General economic conditions.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of MCW.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

- The investment policy of MCW.

(b) Return Objectives and Risk Parameters

MCW has adopted investment and spending policies for endowment assets with the objective of appropriating as much of the net appreciation as is prudent and consistent with overall investment objectives, while protecting the original gift value of the endowment assets. Under the investment policy approved by the Board of Trustees, the long-term investment objective for the endowment assets is to earn on average a real (inflation adjusted) annual rate of return and to provide a return for appropriation of not less than the total annual appropriation rate under the endowment fund spending policy.

The investment goal of MCW is to preserve the purchasing power of its investments, while providing a level of investment return and liquidity that funds its purposes within a reasonable and prudent level of risk.

(c) Strategies Employed for Achieving Objectives

MCW seeks to define its investment policy through control of asset mix and measurement of results utilizing widely recognized market benchmarks. Investment decisions are made with a long-term time horizon. The investment portfolio is well diversified among fixed income instruments, domestic and international equities, and other equity securities.

(d) Spending Policy and Relationship of Investment Objectives to Spending Policy

The Board of Trustees approved an endowment fund spending policy in which the spendable income from pooled endowment investments is based on the total return concept. With the total return concept, spendable income is supported by the net appreciation of the endowment investments.

Funds are considered appropriated for expenditure when the spendable income is expended for the use and purpose for which the fund was established.

The spendable income rate is calculated as the product of the quarterly appropriation rate and the market value of the endowment investments. The quarterly appropriation rate is calculated as one-quarter of the current spending rate of 5.00% applied to the average market value per share for the preceding twenty quarters as of the end of the quarter ending three months prior to the beginning of the present quarter. The quarterly appropriation rate cannot exceed the maximum spending rate of 5.25% calculated as an effective rate based on the endowment fund market value at the beginning of the present quarter. This spending policy is consistent with MCW's investment objective to earn a real rate of return to provide for an appropriation of net appreciation that is prudent, while protecting the original gift value of the endowment assets.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

(e) Net Asset Composition by Type of Fund

Composition of endowment assets by net asset class (excluding pledges receivable of \$10,380 and \$7,830 respectively) as of June 30, 2019 and 2018 in total and by type is summarized below:

| | 2019 | | |
|---|---------------------------------------|------------------------------------|-----------------------|
| | Without donor restrictions | With donor restrictions | Total |
| Donor-restricted endowments: | | | |
| Advancing a Healthier Wisconsin | | | |
| Perpetual in nature | \$ — | 288,689 | 288,689 |
| Restricted by time or purpose | — | 167,766 | 167,766 |
| Other endowments | | | |
| Perpetual in nature | — | 102,331 | 102,331 |
| Restricted by time or purpose | — | 61,758 | 61,758 |
| Endowments designated by the Board of Trustees | <u>317,626</u> | <u>—</u> | <u>317,626</u> |
| Total | \$ <u><u>317,626</u></u> | <u><u>620,544</u></u> | <u><u>938,170</u></u> |

| | 2018 | | |
|---|---------------------------------------|------------------------------------|-----------------------|
| | Without donor restrictions | With donor restrictions | Total |
| Donor-restricted endowments: | | | |
| Advancing a Healthier Wisconsin | | | |
| Perpetual in nature | \$ — | 288,689 | 288,689 |
| Restricted by time or purpose | — | 174,918 | 174,918 |
| Other endowments | | | |
| Perpetual in nature | — | 96,404 | 96,404 |
| Restricted by time or purpose | — | 63,338 | 63,338 |
| Endowments designated by the Board of Trustees | <u>307,249</u> | <u>—</u> | <u>307,249</u> |
| Total | \$ <u><u>307,249</u></u> | <u><u>623,349</u></u> | <u><u>930,598</u></u> |

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

(f) Changes in Endowment Net Assets

Rollforwards of the beginning and ending balances of endowments by net asset class for the years ended June 30, 2019 and 2018 are as follows:

| | 2019 | | |
|-----------------------------------|---------------------------------------|------------------------------------|-----------------------|
| | Without donor restrictions | With donor restrictions | Total |
| Interest and dividend income | \$ 3,536 | 6,962 | 10,498 |
| Realized gain on investments | 10,035 | 19,765 | 29,800 |
| Unrealized loss on investments | <u>(6,099)</u> | <u>(11,635)</u> | <u>(17,734)</u> |
| Total investment return | 7,472 | 15,092 | 22,564 |
| Contributions | 13,695 | 5,927 | 19,622 |
| Expenditures | <u>(10,790)</u> | <u>(23,824)</u> | <u>(34,614)</u> |
| Total change in endowments | 10,377 | (2,805) | 7,572 |
| Net assets, beginning of year | <u>307,249</u> | <u>623,349</u> | <u>930,598</u> |
| Net assets, end of year | <u><u>\$ 317,626</u></u> | <u><u>620,544</u></u> | <u><u>938,170</u></u> |

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

| | 2018 | | Total |
|-----------------------------------|---------------------------------------|------------------------------------|--------------|
| | Without donor restrictions | With donor restrictions | |
| Interest and dividend income | \$ 2,852 | 6,623 | 9,475 |
| Realized gain on investments | 11,840 | 24,856 | 36,696 |
| Unrealized gain on investments | 5,765 | 12,116 | 17,881 |
| Total investment return | 20,457 | 43,595 | 64,052 |
| Contributions | 16,357 | 3,665 | 20,022 |
| Expenditures | (6,857) | (21,781) | (28,638) |
| Total change in endowments | 29,957 | 25,479 | 55,436 |
| Net assets, beginning of year | 277,292 | 597,870 | 875,162 |
| Net assets, end of year | \$ 307,249 | 623,349 | 930,598 |

(g) Endowments with Fair Value Less Than Original Gift Value

Periodically, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Board of Trustees (pursuant to UPMIFA) requires MCW to retain to preserve the fair value of the original gift in perpetuity. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. For MCW, donor-restricted endowment funds with deficiencies had with an original gift value of \$949, a current fair value of \$938, and a deficiency of \$11 as of June 30, 2019. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

(8) Patient Services Revenue and Patient Accounts Receivable, Net

Patient services revenue, net of explicit contractual allowances, discounts and implicit price concessions, by major payor source for the years ended June 30, 2019 and 2018 is as follows:

| | <u>2019</u> | <u>2018</u> |
|--------------------------|-------------------|----------------|
| Commercial/managed care | \$ 274,174 | 272,823 |
| Self-pay patients | 39,442 | 34,960 |
| Medicaid | 26,079 | 25,253 |
| Medicare | 71,967 | 67,901 |
| Other | <u>8,358</u> | <u>9,720</u> |
| Patient services revenue | \$ <u>420,020</u> | <u>410,657</u> |

MCW grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of net receivables from self-pay patients and third-party payors at June 30, 2019 and 2018 is as follows:

| | <u>2019</u> | <u>2018</u> |
|----------------------------------|------------------|---------------|
| Commercial/managed care | \$ 26,958 | 29,808 |
| Self-pay patients | 12,846 | 11,515 |
| Medicaid | 2,185 | 2,076 |
| Medicare | 6,075 | 6,902 |
| Other | <u>3,501</u> | <u>2,409</u> |
| Patient accounts receivable, net | \$ <u>51,565</u> | <u>52,710</u> |

The contractual maturity of these accounts receivables is less than one year. MCW considers its patient accounts receivable, net of contractual allowances, discounts, and implicit price concessions, to be fully collectable and no allowance for doubtful accounts has been established.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

(9) Other Accounts Receivable, Net

Other accounts receivable at June 30, 2019 and 2018 consist of the following:

| | <u>2019</u> | <u>2018</u> |
|---------------------------------|-------------------------|----------------------|
| Affiliated hospitals | \$ 39,073 | 17,345 |
| Other | <u>22,543</u> | <u>33,001</u> |
| Other accounts receivable | 61,616 | 50,346 |
| Allowance for doubtful accounts | <u>(343)</u> | <u>(883)</u> |
| Other accounts receivable, net | \$ <u><u>61,273</u></u> | <u><u>49,463</u></u> |

MCW has affiliations with a number of hospitals in which MCW faculty and staff physicians provide clinical management services, graduate medical education and other program services. In consideration for these services, the affiliated hospitals compensate MCW for salary and fringe benefit costs on a monthly basis.

The contractual maturity of these accounts receivables is less than one year. An allowance for doubtful accounts for affiliate and other accounts receivable is established based upon an annual review of the collectability of the underlying accounts receivable utilizing the accounts receivable aging and the historical loss rates on affiliates and other accounts receivable.

(10) Grants and Contracts Receivable, Net

Grants and contracts receivable at June 30, 2019 and 2018 consist of the following:

| | <u>2019</u> | <u>2018</u> |
|--------------------------------------|-------------------------|----------------------|
| Grants and contracts | \$ 27,860 | 23,786 |
| Allowance for doubtful accounts | <u>(127)</u> | <u>(117)</u> |
| Grants and contracts receivable, net | \$ <u><u>27,733</u></u> | <u><u>23,669</u></u> |

The contractual maturity of these accounts receivables is less than one year. An allowance for doubtful accounts for grants and contracts receivable is established based upon an annual review of the collectability of the underlying receivables utilizing the grants and contracts receivable aging and the historical loss rates on grants and contracts receivable.

Unexpended research and training awards committed to MCW by federal sponsoring agencies were approximately \$96,140 and \$77,670 at June 30, 2019 and 2018, respectively; other committed awards were approximately \$20,356 and \$16,250 at June 30, 2019 and 2018, respectively. These awards are not recognized as assets, but will be recognized as revenue as expenses are incurred by MCW in accordance with the related agreements.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

(11) Contributions Receivable, Net

Net contributions receivable consists primarily of donor pledges and is summarized as follows at June 30, 2019 and 2018:

| | <u>2019</u> | <u>2018</u> |
|---|------------------|----------------|
| Total contributions receivable | \$ 57,425 | 35,335 |
| Allowance for uncollectible contributions | (834) | (573) |
| Adjustment to present value | <u>(3,102)</u> | <u>(1,067)</u> |
| Contributions receivable, net | \$ <u>53,489</u> | <u>33,695</u> |

The discount rates used to adjust the contributions receivable to present value range from 3.62% to 0.45% at June 30, 2019 and 2018. Contributions receivable at June 30, 2019 are expected to be collected in future fiscal years as follows:

| | |
|-----------------|------------------|
| 2020 | \$ 11,730 |
| 2021 | 12,472 |
| 2022 | 9,606 |
| 2023 | 9,419 |
| 2024 | 5,106 |
| 2025 and beyond | <u>9,092</u> |
| Total | \$ <u>57,425</u> |

(12) Student Loans Receivable, Net

Student loans receivable at June 30, 2019 and 2018 consist of the following loan funds:

| | <u>2019</u> | <u>2018</u> |
|-----------------------------------|------------------|---------------|
| Federal Primary Care Loan Program | \$ 5,057 | 4,825 |
| Federal Perkins Loan Program | 3,982 | 4,921 |
| MCW loans | <u>7,980</u> | <u>7,440</u> |
| Students loans receivable | 17,019 | 17,186 |
| Allowance for loan loss | <u>(170)</u> | <u>(171)</u> |
| Student loans receivable, net | \$ <u>16,849</u> | <u>17,015</u> |

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

Although there are multiple funding sources for student loans, MCW's student loans receivable is generated through the extension of credit to students to fund educational costs, and therefore, all such loans receivable are considered part of the same portfolio. Student loans receivable are initially measured at cost, which approximates fair value, and MCW assesses and monitors risk and performance of the entire portfolio.

An allowance for loan loss in student loans receivable is established based upon an annual review of the collectability of the underlying student loans utilizing the loans receivable aging and the historical loss rates on loans. The allowance represents management's estimate of the amount of student loans receivable for which a loss is probable. Actual losses are charged against the allowance. The allowance for loan loss is increased through charges to expense (provision) and recoveries of loans previously charged to the allowance.

The credit risk profiles of the student loans receivable are based on payment activity as of June 30, 2019 and 2018. Loans are considered nonperforming if they are more than 2 years past due and there has been no activity in the past 6 months. The following table details the credit risk profiles:

| | <u>2019</u> | <u>2018</u> |
|--------------------------------|------------------|---------------|
| Student loans receivable: | | |
| Performing | \$ 16,864 | 17,028 |
| Nonperforming | <u>155</u> | <u>158</u> |
| Total student loans receivable | <u>\$ 17,019</u> | <u>17,186</u> |

The following table provides an analysis of current student loans receivable, including amounts for students in school, in grace and not past due and also the aging of the past due student loans receivable as of June 30, 2019 and 2018:

| | | <u>< 270 Days past due</u> | <u>270 Days– 2 Years past due</u> | <u>2–5 Years past due</u> | <u>> 5 Years past due</u> | <u>Total past due</u> | <u>Current</u> |
|---------------|----|---------------------------------------|---|-------------------------------|----------------------------------|---------------------------|----------------|
| June 30, 2019 | \$ | 380 | 84 | 13 | 142 | 619 | 16,400 |
| June 30, 2018 | | 515 | 76 | 10 | 147 | 748 | 16,438 |

The recorded investment in student loans receivable for which an impairment has been recognized is \$619 and \$748 at June 30, 2019 and 2018, respectively. The related allowance for loan loss is \$170 and \$171 at June 30, 2019 and 2018, respectively. The average recorded investment in impaired student loans receivable is \$684 and \$956 during fiscal years 2019 and 2018, respectively. Interest income recognized on student loans receivable is \$386 and \$370 during fiscal years 2019 and 2018, respectively. There are no sales of student loans receivable for the years ended June 30, 2019 and 2018.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

(13) Land, Buildings, and Equipment, Net

Land, buildings, and equipment is comprised of the following at June 30, 2019 and 2018:

| | 2019 | 2018 |
|---|-------------|-------------|
| Land, buildings, and improvements | \$ 427,037 | 427,281 |
| Equipment and furnishings | 264,185 | 250,886 |
| Library books | 951 | 951 |
| Construction in progress | 18,382 | 14,891 |
| | 710,555 | 694,009 |
| Accumulated depreciation and amortization | (419,366) | (396,105) |
| Land, buildings, and equipment, net | \$ 291,189 | 297,904 |

At June 30, 2019 and 2018, construction in progress includes capitalized interest of \$134 and \$0, respectively.

MCW is a party to construction contracts that exist for various building renovation and grounds improvement projects. As of June 30, 2019, MCW's outstanding contractual commitments on these contracts approximates \$15,791.

(14) Leases

MCW leases land and buildings for clinical, academic, and administrative purposes under operating leases. Rent expense is \$21,253 and \$20,761 in 2019 and 2018, respectively.

Future minimum lease payments under operating leases that have initial noncancelable terms in excess of one year at June 30, 2019 are as follows:

| | |
|------------------------------|------------|
| 2020 | \$ 17,468 |
| 2021 | 14,963 |
| 2022 | 12,306 |
| 2023 | 12,099 |
| 2024 | 12,048 |
| 2025 and beyond | 76,416 |
| Total minimum lease payments | \$ 145,300 |

MCW also is a lessor of buildings for clinical and academic purposes under operating leases. Rental income is \$2,849 and \$2,569 in 2019 and 2018, respectively.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

Future minimum rental income under leases that have initial noncancelable terms in excess of one year at June 30, 2019 is as follows:

| | | |
|-----------------|----|--------------|
| 2020 | \$ | 976 |
| 2021 | | 976 |
| 2022 | | 867 |
| 2023 | | 852 |
| 2024 | | 852 |
| 2025 and beyond | | <u>1,432</u> |
| Total | \$ | <u>5,955</u> |

MCW entered into a land lease agreement with Milwaukee County on September 13, 1974 for 7.47845 acres of land in the City of Wauwatosa. The lease term is 100 years. The initial rental payment of \$0.050 for the period of May 1, 1975 to April 30, 2025 was paid in advance. On May 1, 2025, the rental payment will increase to a mutually agreed-upon amount or 10% of the fair market value of the land. The resulting rental payment will be due monthly, in advance, until April 30, 2075. Additional buildings and building improvements may be constructed by MCW on the land. The lease has been subsequently modified and currently provides 17.0008 acres.

MCW entered into a second land lease agreement with Milwaukee County on September 13, 1974 for 0.28158 acres of land in the City of Wauwatosa. The lease initial term is 45 years with two additional 25 year renewal option periods. The initial rental payment of \$0.045 for the period of September 14, 1974 to September 13, 2019 was paid in advance. The lease was amended on February 22, 1996 and the initial term was extended until February 21, 2041. After the initial term, the rental payment will increase to a mutually agreed-upon amount or 10% of the fair market value of the land. The resulting rental payment will be due monthly, in advance, until February 21, 2091. Additional buildings and building improvements may be constructed by MCW on the land.

MCW entered into a third land lease agreement with Milwaukee County on November 11, 2004 for 15.6792 acres of land in the City of Wauwatosa. The lease term is 70 years and 6 months. The initial rental payment was approximately \$88 for the period November 1, 2004 to October 31, 2005, and the rent escalates at 1.5% per year through April 30, 2025. As of May 1, 2025, the base rent shall be adjusted by a current market rent adjustment determined by Milwaukee County or by a defined appraisal process. The land shall be used for facilities that support the operation of a comprehensive educational and research facility, including a parking facility. The lease has a single 50-year renewal option.

On June 14, 2018, MCW entered into an Option Agreement with Milwaukee County granting MCW the right to acquire the land under these leases. The Option Agreement expires 180 days after execution but can be extended for two additional six-month periods. Under the Option Agreement, MCW would be required to make installment payments through September 2074 as consideration for the purchase in amounts similar to MCW's current lease payment schedules with Milwaukee County. MCW is required to provide a security interest to Milwaukee County to secure the outstanding installment payments. In fiscal year 2019, MCW

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

executed its option to acquire the land from Milwaukee County. The sale is expected to close in fiscal year 2020.

Rental expense for leases with scheduled fixed or determinable rent increases in future years are accounted for on an accrual basis.

(15) Professional Liability Insurance Program

MCW is required to participate in the Injured Patients and Families Compensation Fund of the State of Wisconsin (the Fund). MCW is also required to insure for claim losses up to \$1,000 per claim for each physician and \$3,000 in the aggregate per year for each physician for professional liability claims. Losses with respect to malpractice risks in excess of these amounts are covered by the Fund.

MCW established a trust, The Medical College of Wisconsin, Inc. Professional Liability Insurance Program (the Program), to cover malpractice claims below the levels covered by the Fund. Actuarially determined amounts are contributed to the Program to provide for the estimated cost of self-insured claims and meet State of Wisconsin requirements. The Program's independent actuary has estimated the unpaid claims liability of the Program, including claims handling and legal expenses.

During fiscal years 2019 and 2018, MCW made contributions to the Program in the amounts of \$750 and \$1,250, respectively. The Program has net assets without donor restrictions of \$10,147 and \$9,892 as of June 30, 2019 and 2018, respectively.

Investments held in trust for the Program, as reported in investments at fair value on the consolidated statements of financial position, are \$20,476 and \$20,206 as of June 30, 2019 and 2018, respectively.

(16) Long-Term Debt

Long-term debt consists of the following at June 30, 2019 and 2018:

| | <u>2019</u> | <u>2018</u> |
|--|-------------|-------------|
| Tax-exempt fixed rate WHEFA Revenue Bonds | | |
| Series 2008 A, with mandatory sinking fund serial bond maturities due annually through 2021 and term bond maturities due in 2029 and 2036. The effective interest rate is 5.15% and 5.13% at June 30, 2019 and 2018, respectively. Interest is payable semiannually. | \$ 5,890 | 6,675 |
| Tax-exempt variable rate WHEFA Revenue Bonds | | |
| Series 2008 B, with mandatory sinking fund serial bond maturities due annually 2025 through 2034. Interest is payable monthly at rates reset on a daily basis (1.93% and 1.49% at June 30, 2019 and 2018, respectively). | 67,500 | 67,500 |

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|----------------|
| Tax-exempt fixed rate WHEFA Revenue Bonds Series 2010, with mandatory sinking fund serial bond maturities due annually through 2021. The effective interest rate is 5.00% at June 30, 2019 and 2018. Interest is payable semiannually. | \$ 3,510 | 5,145 |
| Tax-exempt fixed rate WHEFA Revenue Bonds Series 2014 A, with principal payments due annually through 2025. Interest is payable monthly at 2.21%. | 11,610 | 13,375 |
| Tax-exempt fixed rate WHEFA Revenue Bonds Series 2014 B, with principal payments due annually through 2027. Interest is payable monthly at 2.36%. | 13,065 | 13,285 |
| Tax-exempt fixed rate WHEFA Revenue Bonds Series 2016, with mandatory sinking fund serial bond maturities due annually through 2036 and term bond maturities due in 2041 and 2046. The effective interest rate is 4.50% and 4.49% at June 30, 2019 and 2018 respectively. | 151,240 | 153,550 |
| Tax-exempt fixed rate WHEFA Revenue Bonds Series 2018, with principal payments due annually through 2033. Interest is payable monthly at 3.05%. | 55,000 | — |
| Taxable variable rate term loan, with principal payments due annually through 2021. Interest is payable monthly at rates reset on a monthly basis (3.18% and 2.75% at June 30, 2019 and 2018, respectively). | 4,585 | 6,785 |
| Taxable variable rate revolving loan, due November 2018. Interest is payable monthly at rates reset on a monthly basis (2.55% at June 30, 2018). | — | 1,971 |
| Notes payable, with simple interest at 8% per annum. The notes are payable from net revenues of the Office of Technology Development Division of Marketing and Licensing prior to March 1, 2016 and from a specified, declining percentage of gross revenues thereafter. All repayment rights expire on March 1, 2021. | 1,495 | 1,495 |
| Total long-term debt before unamortized premium and discount and issuance costs | 313,895 | 269,781 |
| Unamortized discount and premium (net) on Series 2008 A | (174) | (187) |
| Unamortized premium on Series 2010 | 29 | 69 |
| Unamortized discount and premium (net) on Series 2016 | 15,708 | 16,824 |
| Unamortized issuance costs | (2,188) | (2,210) |
| Total long-term debt | \$ <u>327,270</u> | <u>284,277</u> |

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

The revenue bonds, taxable loans and related credit agreements were issued under the Master Trust Indenture and are collateralized by a pledge of certain revenues of MCW, as well as by certain of its land, buildings, and equipment. The borrowing agreements contain continuing disclosure requirements and various covenants and restrictions, including a requirement that MCW maintain a minimum debt service coverage ratio, a minimum number of days of unrestricted cash on hand, and a maximum debt to capitalization ratio.

The aggregate scheduled maturities of long-term debt for each of the five years subsequent to June 30, 2019 and thereafter are as follows:

| | | |
|-----------------|----|----------------|
| 2020 | \$ | 8,700 |
| 2021 | | 10,240 |
| 2022 | | 10,300 |
| 2023 | | 10,650 |
| 2024 | | 11,015 |
| 2025 and beyond | | <u>262,990</u> |
| Total | \$ | <u>313,895</u> |

All or part of the Series 2008 A, 2008 B, 2014 A, 2014 B, 2016 and 2018 bonds may be redeemed at par plus accrued and unpaid interest, if any, to the date of redemption, as set forth below:

- The Series 2008 A bonds maturing on or after December 1, 2019 may be redeemed beginning on December 1, 2018.
- The Series 2008 B bonds are continuously callable.
- The Series 2014 A bonds may be redeemed at any time, subject to prepayment premium provisions.
- A portion of the Series 2014 B bonds up to \$6,000 may be redeemed at any time. The remaining Series 2014 B bonds may be redeemed at any time subject to prepayment premium provisions.
- The Series 2016 bonds may be redeemed beginning on November 1, 2026. A portion of the Series 2016 bonds may be redeemed prior to November 1, 2026, subject to prepayment premium provisions.
- The Series 2018 bonds may be redeemed at any time, subject to a make-whole provision.

(a) WHEFA Revenue Bond Series 2008

The Series 2008 A bonds, totaling \$83,400, were issued on July 30, 2008 to (i) refund the WHEFA Revenue Bond Series 2004 B1 bonds which had been issued to refund the WHEFA Revenue Bond Series 1993, and to fund construction of a Biomedical Research Facility, certain additional capital projects and a parking structure, (ii) to fund the construction of research capital projects at the Biomedical Research Facility and certain additional capital projects, and (iii) to fund a debt service reserve fund. Certain of the Series 2008 A bonds were advance-refunded by the WHEFA Revenue Bond Series 2016. A portion of the proceeds from the Series 2016 bonds, along with \$7,332 released

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

from the Series 2008 A debt service reserve fund, was placed in an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds through December 3, 2018. As a result, a portion of the Series 2008 A bond issue is considered to be legally defeased and the liability for the refunded bonds was derecognized. At June 30, 2019, the remaining balance of the debt service reserve fund is \$773.

The Series 2008 B bonds, totaling \$67,500, were issued on September 4, 2008 to refund the outstanding WHEFA Revenue Bonds Series 2004 B2 which had been issued to fund construction of a Biomedical Research Facility, certain additional capital projects and a parking structure.

Concurrent with the issuance of the Series 2008 B bonds, MCW entered into a Credit Agreement with a financial institution under which the financial institution issued a renewable direct pay letter of credit. On August 1, 2018, the Credit Agreement was amended and restated and the letter of credit was extended to September 15, 2023. The \$68,277 letter of credit is available to secure the Series 2008 B bonds and to make payments (liquidity drawings) in the event that any Series 2008 B bonds are subject to an optional or mandatory tender and are not remarketed. A mandatory tender would occur if the letter of credit is not renewed or replaced by the second business day prior to its expiration date. If any liquidity drawings are made, the outstanding drawings will automatically convert to a drawing loan. Payments of outstanding principal and interest under the drawing loan would be due in quarterly principal and monthly interest installments, commencing on the first business day of the respective quarter or month after the conversion. The outstanding principal balance of any such drawing loan would bear interest at the base rate plus up to 200 basis points based on the length of the loan. The base rate is calculated as the greater of i) Prime Rate plus 100 basis points, ii) Federal Funds Rate plus 200 basis points or iii) seven percent. The unpaid principal and accrued interest on the drawing loan would be due three years after the date of the initial liquidity drawing. As of June 30, 2019, there were no outstanding liquidity drawings or drawing loans under the Credit Agreement.

(b) WHEFA Revenue Bond Series 2010

The Series 2010 bonds, totaling \$27,745, were issued on November 24, 2010 to refund the WHEFA Revenue Bond Series 1996 and Series 1997 bonds, which had been issued to fund the construction and equipping of a health research center, an obstetrical unit, a medical office building and certain other capital projects. The Series 2010 term bond maturing on December 1, 2026 was advance-refunded by the WHEFA Revenue Bond Series 2014 B. Approximately \$13,744 of the net proceeds from the sale of the Series 2014 B bonds were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded term bond through December 1, 2015. As a result, the Series 2010 term bond is considered to be legally defeased and the liability for this bond was derecognized.

(c) WHEFA Revenue Bond Series 2014

The Series 2014 A bonds, totaling \$18,450, were issued on December 16, 2014 to refund the WHEFA Revenue Bond Series 2004 A which had been issued to refund the WHEFA Revenue Bond Series 1993 and to fund the construction of a Biomedical Research Facility, certain additional capital projects and a parking structure. The Series 2014 B bonds, totaling \$13,930, were issued on

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

December 16, 2014 to advance refund the Series 2010 term bond. The Series 2014 A and 2014 B bonds were issued as direct placements with a financial institution.

(d) WHEFA Revenue Bond Series 2016

The Series 2016 bonds, totaling \$157,805, were issued on May 11, 2016 to advance-refund a portion of the Series 2008 A bonds, to fund the construction and equipping of a professional office building, and to fund renovations to existing facilities to integrate the new building and to accommodate the operations of a new School of Pharmacy.

(e) WHEFA Revenue Bond Series 2018

The Series 2018 bonds, totaling \$55,000, were issued on September 6, 2018 to fund the equipping of a professional office building, renovations and equipping of an existing basic science building, renovation and equipping of other existing educational facilities and expansion and equipping of an educational facility located in central Wisconsin. The Series 2018 bonds were issued as a direct placement with a financial institution.

(f) Taxable Loans

On November 1, 2013, MCW entered into a Loan Agreement with a financial institution under which a taxable term loan and a taxable revolving loan were made to MCW by the financial institution. The term loan is for \$16,000 and was used to redeem the WHEFA Revenue Bond Series 1990 B and to finance technology-related capital expenditures. The revolving loan was for \$20,000 and used for working capital expenditures related to the regional campuses in Green Bay and Central Wisconsin.

(g) Derivative Instruments

Variable interest rate debt obligations expose MCW to variability in interest payments due to changes in interest rates. Management believes that it is prudent to limit the variability of a portion of its interest payments. To meet this objective, management utilizes an interest rate swap agreement to manage fluctuations in cash flows resulting from interest rate risk. The interest rate swap changes the variable rate cash flow exposure on the debt obligations to fixed cash flows. Under the terms of the interest rate swap, MCW receives variable interest rate payments and makes fixed interest rate payments monthly to the counterparty, thereby creating the equivalent of fixed rate debt. The net difference between the amounts received from and paid to the counterparty is recorded as interest expense.

MCW entered into an interest rate swap agreement for the WHEFA Revenue Bond Series 2004 variable rate debt in October 2004. Effective September 15, 2008, MCW revised the original interest rate swap agreement to conform with the principal amount and amortization schedule of the Series 2008 B bonds. The revised interest rate swap agreement has a notional amount of \$67,500, a fixed payment rate of 3.558% and a variable counterparty payment of 68% of the 30-day LIBOR. Consistent with the reset schedule of the 2008 B bonds, the interest rate swap has a weekly reset with monthly payments due to or from MCW on the first business day of the month. The revised interest rate swap agreement expires December 1, 2033. The provisions set forth in the interest rate swap agreement require MCW to provide investment securities as collateral if the interest rate swap market value falls below a specified threshold. Investment securities with a fair value of \$532 and \$0 were provided as collateral as of June 30, 2019 and 2018, respectively.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

By using derivative financial instruments to hedge exposure to changes in interest rates, MCW exposes itself to nonperformance risk and market risk. Nonperformance risk refers to the risk that the obligation will not be fulfilled. Credit risk, a measure of nonperformance risk, is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes MCW, which creates credit risk for MCW. When the fair value of a derivative contract is negative, MCW owes the counterparty, and therefore, it does not possess credit risk. MCW minimized the credit risk in derivative instruments by entering into a transaction with a high-quality counterparty. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with the interest rate swap agreement is managed by limiting the types and degree of market risk that may be undertaken.

(17) Net Assets

Certain net assets are designated for specific purposes by the Board of Trustees of MCW; however the net assets are without donor restriction and can be used for any institutional purposes by MCW. The designations at June 30, 2019 and 2018 are as follows:

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|------------------|
| Designated to function as endowment funds to support the following purposes: | | |
| Research | \$ 22,305 | 22,700 |
| Professorships | 2,301 | 2,140 |
| Undesignated | <u>293,020</u> | <u>282,409</u> |
| | 317,626 | 307,249 |
| Designated for the professional liability insurance program | 10,148 | 9,892 |
| Undesignated | <u>792,070</u> | <u>763,975</u> |
| | <u>\$ 1,119,844</u> | <u>1,081,116</u> |

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

Net assets with donor restrictions that are restricted for time, purpose or both at June 30, 2019 and 2018 are as follows:

| | <u>2019</u> | <u>2018</u> |
|---|-------------------|----------------|
| Endowments subject to spending policy and appropriation, to support the following purposes (including net accumulated earnings of \$228,671 and 236,492, respectively): | | |
| Advancing a Healthier Wisconsin | \$ 456,455 | 463,607 |
| Research | 50,929 | 51,289 |
| Professorships | 30,937 | 30,268 |
| Scholarships | 32,011 | 31,563 |
| Education | 5,888 | 5,194 |
| Community engagement | 3,367 | 3,413 |
| Student loans | 1,154 | 1,176 |
| Other | <u>39,803</u> | <u>36,839</u> |
| | <u>620,544</u> | <u>623,349</u> |
| Time implied pledges to support the following purposes: | | |
| Research | 31,047 | 5,024 |
| Professorships | 4,376 | 2,263 |
| Scholarships | 642 | 613 |
| Education | 14,603 | 20,482 |
| Capital projects | 590 | 695 |
| Community engagement | 503 | 623 |
| Student loans | 43 | 41 |
| Other | <u>1,685</u> | <u>3,954</u> |
| | <u>53,489</u> | <u>33,695</u> |
| Gifts subject to expenditure to support the following purposes: | | |
| Capital projects | 24,048 | 25,553 |
| Student loans | <u>9,036</u> | <u>8,841</u> |
| | 33,084 | 34,394 |
| Charitable gifts, including trusts, non-trusts, annuities, and life insurance that will provide proceeds in the future | <u>4,874</u> | <u>5,032</u> |
| | <u>\$ 711,991</u> | <u>696,470</u> |

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

(a) *Advancing a Healthier Wisconsin*

In March 2004, MCW received marketable securities from The Wisconsin United for Health Foundation, Inc. (WUHF) having an original fair value of approximately \$303,347. In December 2007, WUHF distributed additional marketable securities to MCW having an original fair value of \$15,229. These assets are referred to as Advancing a Healthier Wisconsin funds (AHW funds) and are classified as net assets with donor restrictions. The AHW funds are proceeds of the conversion of Blue Cross and Blue Shield United of Wisconsin (BCBSUW) from a nonprofit company to a for-profit stock company, as approved by the Wisconsin Commissioner of Insurance in the Findings of Fact, Conclusions of Law, and Order (the Order) issued March 28, 2000. The AHW funds are under the oversight of the MCW Consortium on Public and Community Health, Inc. (the MCW Consortium) and are restricted pursuant to terms of a grant agreement between WUHF and MCW. MCW is entitled to appoint eight of the nine board members of the MCW Consortium (four of whom shall represent MCW).

Pursuant to the grant agreement, the Advancing a Healthier Wisconsin program dedicates 65% of the spendable funds for research and education initiatives and 35% for community initiatives. The funding allocation remains unless it is changed by the affirmative vote of two-thirds of the MCW Consortium. The MCW Consortium evaluates the allocation percentages as part of its annual review process. The AHW funds cannot be used to supplant support otherwise available, expended directly or indirectly for land or buildings, or committed as collateral without the approval of two-thirds of all members of the MCW Consortium.

In fiscal year 2020, WUHF distributed additional marketable securities to MCW having an original fair value of \$1,789.

(b) *State of Wisconsin Construction and Equipment Grants*

On November 17, 2004, the Wisconsin State Building Commission approved the release of a \$25,000 grant to MCW to aid in the construction of a Biomedical Research Facility. On March 31, 2005, MCW entered into a Grant and Land Use Restriction Agreement with the State of Wisconsin Department of Administration to formalize the terms for receipt of these funds. The grant agreement provided support for 28.4% of the eligible construction expenses for the facility, conditioned upon receipt of a requisition documenting that such expenditures had been incurred. As of June 30, 2007, MCW had recognized a contribution with donor restriction for the entire \$25,000 related to the construction grant. The Biomedical Research Facility was placed into service during fiscal year 2007, and MCW began releasing the restriction on the contribution over the 40-year estimated life of the facility. As of June 30, 2019, \$17,325 remains classified as net assets with donor restriction.

The Grant and Land Use Restriction Agreement places a restriction on the facility, requiring that it be continuously used as a research and medical education center to conduct biomedical research, create new technologies, train students in the substance and methodology of biomedical research, and provide support to individuals and organizations in the state who are engaged in biomedical research and technological innovation consistent with the tax-exempt charitable missions of MCW. MCW has a potential future liability to repay the funds if the facility should cease to be used for its required purpose. Currently, it is not probable that this circumstance will occur, and a liability is not recorded.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

On November 9, 2010, MCW entered into an Amendment to the 2005 Grant and Land Use Restriction Agreement that authorizes an additional \$10,000 to support the construction and installation of biomedical research magnetic resonance imaging equipment at MCW, under terms and conditions similar to the original agreement, portions of the project were completed and placed into service starting in fiscal year 2012, and MCW began releasing the donor restriction on the contribution over the estimated life of the related assets. As of June 30, 2019, \$2,888 remains classified as net assets with donor restrictions.

On August 6, 2014, the Wisconsin State Building Commission approved the release of a \$5,384 grant to MCW to aid in the remodel, development, and renovation of two community medical education facilities in northeast Wisconsin and central Wisconsin. On December 22, 2015, MCW entered into a Grant Agreement, a Use Restriction Easement, and a Security Agreement with the State of Wisconsin Department of Administration to formalize the terms for receipt of these funds. The Grant Agreement provided support for reimbursement of 50% of capital expenditures associated with the development of the two community medical education programs. During the years ended June 30, 2019 and 2018, MCW recognized a contribution with donor restriction of \$359 and \$123, respectively, related to this grant. Portions of the project were completed and placed into service starting in fiscal year 2012, and MCW began releasing the restriction on the contribution over the estimated life of the grant restrictions. As of June 30, 2019, \$3,051 remains classified as net assets with donor restrictions.

(18) Employee Benefit Plans

MCW sponsors a Section 403(b) defined contribution retirement Plan (the Plan). Employees are eligible to voluntarily participate in the Plan immediately upon hire. Voluntary contributions are made solely through participant payroll withholdings (up to the IRS annual limit) and are not matched by MCW. Upon completing two years of services and attaining the age of 21 participants must contribute 6% of their pretax annual compensation (mandatory participation), and can voluntarily contribute more (up to the IRS annual limit). Upon mandatory participation, MCW makes matching contributions equal to 8% (up to the IRS annual limit) of the participant's compensation. Participants are immediately vested in their contributions, MCW's matching contributions and earnings thereon. The contributions made by MCW and recognized as expense were approximately \$39,654 and \$37,294, respectively, for the years ended June 30, 2019 and 2018.

On June 24, 2016, MCW established a Section 457(f) defined contribution retirement plan for certain eligible employees. Contributions to the plan remain solely the property of MCW. Eligible participants vest in their contributions for a plan year on the last day of the third plan year for each plan year they are a participant. Distributions are made to the eligible participants in single, lump sum payment when contributions become vested. MCW previously provided deferred compensation and Section 457 defined contribution plans to several key employees. As of June 30, 2016, contributions to these plans have ended. Assets related to the deferred compensation and defined contribution benefits of \$5,698 and \$5,682 at June 30, 2019 and 2018, respectively, are reflected in cash and cash equivalents and investments at fair value. Accrued benefits totaling approximately \$5,744 and \$5,723 at June 30, 2019 and 2018, respectively, are reflected in accrued payroll and related liabilities.

MCW is self-insured for health and dental benefits provided to active employees. A portion of the health care services is provided to employees by faculty and staff physicians. MCW paid health and dental benefit

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

claims, net of employee contributions, of \$54,746 and \$1,801, respectively, during the year ended June 30, 2019 and \$49,931 and \$1,512, respectively, during the year ended June 30, 2018.

(19) Functional Expenses

Expenses classified by both nature and function for the year ended June 30, 2019 and by function for the year ended June 30, 2018 are as follows:

| | Program activities | | | | Supporting activities | | Total expenses |
|-------------------------------|--------------------|----------------|----------------|----------------------|-----------------------|--------------|------------------|
| | PatientCare | Research | Education | Community engagement | Institutional support | Fundraising | |
| Faculty salaries | \$ 352,127 | 58,731 | 38,586 | 2,768 | 3,508 | 441 | 456,161 |
| Staff salaries | 149,070 | 77,925 | 20,730 | 2,942 | 44,045 | 2,715 | 297,427 |
| Fringe benefits | 88,233 | 29,717 | 11,281 | 1,280 | 12,469 | 691 | 143,671 |
| Services, supplies and other | 64,156 | 37,728 | 18,184 | 1,452 | 27,789 | 2,566 | 151,875 |
| Rent and occupancy | 17,115 | 11,898 | 5,206 | 228 | 6,510 | 154 | 41,111 |
| Subcontracts | — | 25,479 | 2,134 | 4,097 | — | — | 31,710 |
| Depreciation and amortization | 9,001 | 14,836 | 3,595 | 260 | 7,984 | 128 | 35,804 |
| Interest on indebtedness | 3,862 | 4,485 | 976 | 26 | 1,102 | — | 10,451 |
| 2019 Total expenses | \$ <u>683,564</u> | <u>260,799</u> | <u>100,692</u> | <u>13,053</u> | <u>103,407</u> | <u>6,695</u> | <u>1,168,210</u> |
| 2018 Total expenses | \$ 657,353 | 239,354 | 88,280 | 12,588 | 99,387 | 6,564 | 1,103,526 |

Patient care expenses relate to all clinical and clinical support activities including those that are performed in the presence of residents and medical students. Research expenses pertain to all basic, translational, and clinical research and development activities that are externally sponsored or internally funded. Education expenses include credit and noncredit programs for medical students, graduate students, residents, post-doctoral fellows, student trainees and continuing medical education participants. Community Engagement expenses include partnerships with public and private organizations to enhance learning, research, patient care and the health of the community.

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses are allocated on a reasonable basis that is consistently applied. Faculty salaries, staff salaries and fringe benefits are allocated to program and supporting activities on the basis of estimates of time and effort. Interest expense and costs related to the operation and maintenance of physical plant, including depreciation of buildings and equipment, are allocated to program and supporting activities on a square-footage basis based on estimates of functional use of the related space. Administrative and managerial costs that support more than one program activity are allocated among the program activities based on the percentage of each program's total expenses in relation to the total expenses for all programs. All other expenses are directly related to their attributed function.

(20) Availability of Resources

MCW holds cash balances to maintain daily cash requirements. To efficiently manage liquidity and capital, MCW continually determines the necessary amount of cash and cash equivalents to hold in cash and money market funds to meet operational needs.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

Financial assets expected to be available within one year of June 30, 2019 for general expenditure are as follows:

| | | |
|--|----|-------------------------|
| Cash and cash equivalents | \$ | 102,139 |
| Investments, at fair value | | 1,734,142 |
| Receivables: | | |
| Patient accounts, net | | 51,565 |
| Other accounts, net | | 61,273 |
| Contributions, net | | <u>53,489</u> |
| Financial assets at June 30, 2019 | | 2,002,608 |
| Less financial assets unavailable for general expenditure within one year due to: | | |
| Restrictions: | | |
| Endowments, net of funds to be appropriated for expenditure within one year | | 522,185 |
| Funds functioning as endowments, net of funds to be appropriated for expenditure within one year | | 260,009 |
| Restricted investments | | 30,727 |
| Pledges receivable, net of amounts to be received within one year | | 41,759 |
| Liquidity: | | |
| Unrestricted investments with liquidity horizons greater than one year | | <u>31,552</u> |
| Financial assets available to meet cash needs for general expenditure within one year | \$ | <u><u>1,116,376</u></u> |

MCW intends to spend from its funds functioning as endowments only those amounts appropriated for general expenditure as part of its appropriation process. However, the underlying investments have sufficient liquidity and could be made available for general expenditure with approval of the Board of Trustees.

(21) Commitments and Contingent Liabilities

Amounts received and expended by MCW under various federal and state programs are subject to audit by governmental agencies. In the opinion of management, audit adjustments, if any, will not have a significant effect on the consolidated financial position of MCW.

MCW periodically conducts internal investigations into deviations from approved research protocols reported to its Institutional Review Board. The investigations are conducted pursuant to MCW's Procedures for Addressing Scientific Misconduct and the model Procedures for Responding to Allegations of Scientific Misconduct issued by the United States Office of Research Integrity. The results of investigations, which have identified potential unallowable costs, are reported by MCW to the Food and Drug Administration and the Office of Human Research Protection. Management is unable to assess the outcome of any pending agency reviews, but it is the opinion of management that these matters will not have a material adverse effect on the consolidated financial statements of MCW.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(In thousands)

MCW is a party to various other legal and regulatory actions arising in the ordinary course of its operations. While it is not feasible to predict the ultimate outcome of these actions, it is the opinion of management that the resolution of these matters will not have a material adverse effect on the consolidated financial statements of MCW.

(22) Business Risks and Uncertainties

The Affordable Care Act includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursements of health care providers, and the legal obligations of health insurers, providers, and employers. These provisions are slated to take effect at specified times over the next decade. The law also contains stronger anti-fraud enforcement provisions and provides additional funding for enforcement activity.

MCW continues to closely monitor the status and impact of these provisions.

(23) Subsequent Events

In connection with the preparation of the financial statements and in accordance with FASB ASC Topic 855, *Subsequent Events*, MCW evaluated subsequent events after the consolidated statement of financial position date of June 30, 2019 through October 9, 2019, which was the date the consolidated financial statements were available to be issued.

No significant subsequent events were identified other than those previously disclosed.

THE MEDICAL COLLEGE OF WISCONSIN, INC.
Schedule of Expenditures of Federal and State Awards
Year ended June 30, 2019

| Federal grantor/pass-through grantor/cluster title | Federal CFDA number | Pass-through entity identifying number | Passed through to subrecipients | Total federal expenditures |
|---|---------------------|--|---------------------------------|----------------------------|
| Major federal program: | | | | |
| Student Financial Assistance Cluster (notes 3 and 5): | | | | |
| U.S. Department of Education: | | | | |
| Federal Perkins Loan Program | 84.038 | — | \$ — | 4,878,753 |
| Federal Direct Loan Program | 84.268 | — | — | 43,197,179 |
| Total U.S. Department of Education | | | — | 48,075,932 |
| U.S. Department of Health and Human Services: | | | | |
| Federal Primary Care Loans | 93.342 | — | — | 5,960,013 |
| Total Student Financial Assistance Cluster | | | — | 54,035,945 |
| Total major federal program | | | — | 54,035,945 |
| Nonmajor federal programs: | | | | |
| Research and Development Cluster: | | | | |
| U.S. Department of Defense: | | | | |
| Department of the Army | 12.420 | — | 118,956 | 2,459,250 |
| Department of the Army | 12.431 | — | — | 5,556 |
| CFD Research Corporation | 12.RD | 20160327 | — | 27,209 |
| Children's Hospital of Boston | 12.RD | TEAMMATE-002 | — | 5,828 |
| Indiana University | 12.RD | Various | 150,222 | 1,023,887 |
| InnoVital Systems, Inc. | 12.RD | S208-03-WI-01 | — | 14,885 |
| National Trauma Institute | 12.RD | NTI-CLOTT17-06 | — | 19,703 |
| Neuren Pharmaceuticals | 12.RD | CSA-1145-29 | — | 19,346 |
| Regents of the University of California, San Francisco | 12.RD | Various | — | 330,785 |
| Southwest Research Institute | 12.RD | L99043RI | — | 190,099 |
| University of Colorado at Denver | 12.RD | FY18.794.019 | — | 10,514 |
| Prevent Biometrics, Inc. | 12.RD | N/A | — | 63,686 |
| Total Department of the Army | 12.RD | — | 269,178 | 4,170,748 |
| Department of the Navy: | | | | |
| Johns Hopkins University | 12.RD | Various | — | 2,019,878 |
| L-3 Applied Technologies Inc | 12.RD | 82SC17001 | — | 60,491 |
| National Marrow Donor Program | 12.RD | Various | — | 369,028 |
| University of Pittsburgh | 12.RD | 0043845-12 | — | 41,163 |
| Total Department of the Navy | 12.RD | — | — | 2,490,560 |
| Total U.S. Department of Defense | 12.RD | — | 269,178 | 6,661,308 |
| U.S. Department of Justice: | | | | |
| Office of Justice Programs: | | | | |
| Michigan State University | 16.RD | RC105656 MCW | — | 39,095 |
| State of Wisconsin | 16.RD | Various | — | 66,373 |
| Total Office of Justice Programs | 16.RD | — | 13,686 | 319,023 |
| Office on Violence Against Women: | | | | |
| State of Wisconsin | 16.RD | 2016-GT-01-12480 | — | 34,634 |
| Total U.S. Department of Justice | 16.RD | — | 13,686 | 353,657 |
| U.S. Department of Transportation: | | | | |
| Federal Aviation Administration | 20.108 | — | — | 157,900 |
| National Highway Traffic Safety Administration (NHTSA) | 20.DOT | — | — | 1,039,905 |
| Total U.S. Department of Transportation | 20.RD | — | — | 1,197,805 |
| National Aeronautics and Space Administration | 43.003 | — | 18,199 | 286,422 |
| National Endowment for the Humanities | 45.162 | — | — | 62,803 |
| National Science Foundation | 47.049 | — | — | 109,135 |
| National Science Foundation | 47.074 | — | — | 208,655 |
| Total National Science Foundation | 47.RD | — | — | 317,790 |
| U.S. Department of Veterans Affairs: | | | | |
| Wisconsin Corporation for Biomedical Research | 64.VA | — | — | 1,089,812 |
| | 64.RD | PO Number 19-17 | — | 17,144 |
| Total U.S. Department of Veterans Affairs | 64.RD | — | — | 1,106,956 |
| U.S. Department of Health and Human Services: | | | | |
| Agency for Healthcare Research and Quality: | | | | |
| Mayo Clinic Rochester | 93.RD | MED-230704-01, PO 66109532 | — | 3,683 |
| University of Wisconsin-Madison | 93.RD | 842K203 | — | 29,930 |
| Total Agency for Healthcare Research and Quality | 93.RD | — | — | 33,613 |
| Centers for Disease Control and Prevention: | | | | |
| Eastern Virginia Medical School | 93.RD | S270141-28 | — | 1,610 |
| Northwestern University | 93.RD | 60043933 MCW | — | 50,229 |
| State of Wisconsin | 93.RD | Various | 1,583 | 310,495 |
| University of Kansas Medical Center Research Institute Inc. | 93.RD | Z9L00010 | — | 10,417 |
| Total Centers for Disease Control and Prevention | 93.RD | — | 1,583 | 502,532 |
| Administration for Community Living: | | | | |
| Marquette University | 93.RD | 71170-001-05 | — | 63,140 |
| Medical University of South Carolina | 93.RD | MUSC18-112-8D604 | — | 24,906 |
| Total Administration for Community Living | 93.RD | — | — | 88,046 |

THE MEDICAL COLLEGE OF WISCONSIN, INC.
Schedule of Expenditures of Federal and State Awards
Year ended June 30, 2019

| Federal grantor/pass-through grantor/cluster title | Federal CFDA number | Pass-through entity identifying number | Passed through to subrecipients | Total federal expenditures |
|---|---------------------|--|---------------------------------|----------------------------|
| Food and Drug Administration: | | | | |
| New York Medical College | 93.RD | Various | \$ — | 13,288 |
| University of Colorado at Denver | 93.RD | FY19.827.002 | — | 2,501 |
| Total Food and Drug Administration | 93.RD | — | — | 15,789 |
| Health Resources and Services Administration (HRSA) | 93.HRSA | — | 2,185,005 | 4,150,550 |
| Health Resources and Services Administration (HRSA) | 93.127 | — | 194,860 | 345,340 |
| Health Resources and Services Administration (HRSA) | 93.186 | — | 102,878 | 512,882 |
| Children's Hospital of Wisconsin | 93.RD | 4,500,002.633 | — | 82,775 |
| Cincinnati Children's Hospital Medical Center | 93.RD | Various | — | 165,464 |
| Immune Deficiency Foundation | 93.RD | MCW1800.868 | — | 24,797 |
| Total Health Resources and Services Administration (HRSA) | 93.RD | — | 2,482,743 | 5,281,808 |
| Indian Health Service: | | | | |
| Great Lakes Inter-Tribal Council, Inc. | 93.RD | U261IHS0089-01-01 | — | 10,672 |
| National Institutes of Health (NIH) | 93.NIH | — | 131,302 | 1,039,157 |
| National Institutes of Health (NIH) | 93.113 | — | 84,973 | 720,206 |
| National Institutes of Health (NIH) | 93.121 | — | — | 154,064 |
| National Institutes of Health (NIH) | 93.173 | — | — | 628,365 |
| National Institutes of Health (NIH) | 93.242 | — | 123,894 | 2,754,240 |
| National Institutes of Health (NIH) | 93.279 | — | 188,526 | 1,543,784 |
| National Institutes of Health (NIH) | 93.286 | — | 2,947 | 717,587 |
| National Institutes of Health (NIH) | 93.307 | — | 238,708 | 1,006,753 |
| National Institutes of Health (NIH) | 93.310 | — | — | 362,579 |
| National Institutes of Health (NIH) | 93.350 | — | 809,282 | 4,130,349 |
| National Institutes of Health (NIH) | 93.351 | — | — | 886,959 |
| National Institutes of Health (NIH) | 93.353 | — | 353,035 | 1,667,349 |
| National Institutes of Health (NIH) | 93.361 | — | 186,137 | 962,134 |
| National Institutes of Health (NIH) | 93.393 | — | 441,641 | 3,276,323 |
| National Institutes of Health (NIH) | 93.394 | — | 228,149 | 1,982,725 |
| National Institutes of Health (NIH) | 93.395 | — | 2,566,797 | 5,182,651 |
| National Institutes of Health (NIH) | 93.396 | — | 9,311 | 2,618,224 |
| National Institutes of Health (NIH) | 93.398 | — | — | 169,993 |
| National Institutes of Health (NIH) | 93.837 | — | 758,297 | 18,607,868 |
| National Institutes of Health (NIH) | 93.838 | — | — | 1,198,776 |
| National Institutes of Health (NIH) | 93.839 | — | 5,347,900 | 9,281,637 |
| National Institutes of Health (NIH) | 93.846 | — | 200,969 | 743,137 |
| National Institutes of Health (NIH) | 93.847 | — | 1,200,307 | 6,714,790 |
| National Institutes of Health (NIH) | 93.853 | — | 656,730 | 4,089,091 |
| National Institutes of Health (NIH) | 93.855 | — | 1,657,118 | 7,820,502 |
| National Institutes of Health (NIH) | 93.859 | — | 86,322 | 5,721,871 |
| National Institutes of Health (NIH) | 93.865 | — | 420,180 | 1,200,409 |
| National Institutes of Health (NIH) | 93.866 | — | 1,358,937 | 2,319,429 |
| National Institutes of Health (NIH) | 93.867 | — | 464,396 | 3,492,070 |
| Advanced Medical Electronics Corp. | 93.RD | AME18-mTBIDetection-07 | — | 168,435 |
| Alliance for Clinical Trials in Oncology Foundation | 93.RD | N/A | — | 183,813 |
| Ascending Hearing Technologies, LLC | 93.RD | N/A | — | 6,720 |
| Baylor Research Institute | 93.RD | 41010481706 | — | 23,235 |
| Board of Regents of the University of Oklahoma | 93.RD | Various | — | 24,856 |
| Brigham and Women's Hospital Inc | 93.RD | 114117 | — | 9,304 |
| Brio Device, LLC | 93.RD | 1R43HL124724-01A1 | — | 99 |
| Case Western Reserve University | 93.RD | RES510758 | 24,121 | 48,774 |
| Children's Hospital Los Angeles | 93.RD | Various | — | 74,928 |
| Children's Hospital of Boston | 93.RD | GENFD0001498967 | — | 177,967 |
| Children's Hospital of Philadelphia | 93.RD | Various | — | 131,846 |
| Children's Mercy Hospitals and Clinics | 93.RD | Various | — | 41,998 |
| Cleveland Clinic Lerner College of Medicine of CWRU | 93.RD | Various | — | 88,623 |
| CNMC-Children's Research Institute | 93.RD | 30004942-07 | — | 11,412 |
| Columbia University | 93.RD | 2 (GG011515) | — | 15,324 |
| CyteGen Corporation | 93.RD | Various | — | 175,899 |
| Cytex Therapeutics, Inc. | 93.RD | R42AR055042 | — | 160 |
| Dignity Health | 93.RD | 32715MCW | — | 68,982 |
| Duke University | 93.RD | Various | — | 120,428 |
| ECOG-ACRIN Cancer Research Group | 93.RD | Various | — | 185,050 |
| Emmes Corporation | 93.RD | N/A | — | 19,724 |
| Fred Hutchinson Cancer Research Center | 93.RD | Various | — | 79,534 |
| Great Lakes Inter-Tribal Council, Inc | 93.RD | N/A | — | 110,787 |
| Hospital for Special Surgery | 93.RD | 001 | — | 30,137 |
| Indiana University | 93.RD | IN-4689862-MCW | — | 30,749 |
| Innovation Pathways | 93.RD | N/A | — | 188,730 |
| Institute for Clinical Research, Inc. | 93.RD | M54-WI-052-1101-3 | — | 16,974 |
| Jaeb Center for Health Research, Inc. | 93.RD | Various | — | 17,052 |
| Johns Hopkins University | 93.RD | 2,004,191,253 | — | 42,807 |
| Kitware, Inc. | 93.RD | K001837-00-S02 | — | 3,635 |
| Lehigh University | 93.RD | 543555-78003 | — | 7,697 |
| Leidos Biomedical Research, Inc. | 93.RD | 15X188 | — | 14,468 |
| Los Angeles Biomedical Research Institute at Harbor-UCLA Medical Center | 93.RD | R01HL127237 | — | 15,045 |
| Marquette University | 93.RD | Various | — | 396,348 |
| Marshfield Clinic Research Institute | 93.RD | 27759 | 37,014 | 3,183,965 |
| Massachusetts General Hospital | 93.RD | Various | — | 67,489 |
| Mayo Clinic Jacksonville | 93.RD | MED-235640 | — | 5,052 |
| Mayo Clinic Rochester | 93.RD | Various | — | 34,681 |
| Medical University of South Carolina | 93.RD | MUSC08-068 | — | 768 |
| Microbiotix, Inc. | 93.RD | N/A | — | 257 |
| National Marrow Donor Program | 93.RD | Various | — | 305,114 |
| Nationwide Children's Hospital | 93.RD | 700043-0519-00 | — | 6,334 |
| New England Research Institutes Inc. | 93.RD | Various | — | 387,640 |

THE MEDICAL COLLEGE OF WISCONSIN, INC.
Schedule of Expenditures of Federal and State Awards
Year ended June 30, 2019

| Federal grantor/pass-through grantor/cluster title | Federal CFDA number | Pass-through entity identifying number | Passed through to subrecipients | Total federal expenditures |
|--|---------------------------|---|---------------------------------------|-------------------------------|
| Northwestern University | 93.RD | Various | \$ — | 260,901 |
| NRG Oncology Foundation, Inc. | 93.RD | Various | — | 302,658 |
| Oklahoma University Health Science Center | 93.RD | RS20140117-01 | — | 8,351 |
| Oregon Health & Science University | 93.RD | 1011985_Wisconsin | — | 13,561 |
| Pennsylvania State University | 93.RD | MCWEY023533 | — | 4,080 |
| Prism Clinical Imaging, Inc. | 93.RD | N/A | — | 172,665 |
| Protein Foundry LLC | 93.RD | PFSUB00115 | — | 7,513 |
| Purdue University | 93.RD | 4102-82264 | — | 4,968 |
| Rutgers, The State University | 93.RD | 821,367 | — | 3,347 |
| Seattle Children's Research Institute | 93.RD | 11019SUB | — | 3,212 |
| Stanford University | 93.RD | Various | — | 96,323 |
| The Mind Research Network | 93.RD | 6010509 SubN5 | — | 18,237 |
| Thomas Jefferson University | 93.RD | 080-05001-S33301 | — | 20,465 |
| Tufts University School of Medicine | 93.RD | 100970-00001 | — | 160,792 |
| University of Alabama at Birmingham | 93.RD | Various | — | 37,803 |
| University of Arizona | 93.RD | Various | — | 31,771 |
| University of California Davis | 93.RD | 201602235-01 | — | 22,762 |
| University of California-Irvine | 93.RD | Various | — | 211,659 |
| University of California-Los Angeles | 93.RD | Various | — | 174,271 |
| University of California-San Diego | 93.RD | 108040923/MP Inv S9002118 | 11,399 | 66,824 |
| University of California-San Francisco | 93.RD | Various | — | 289,932 |
| University of Chicago | 93.RD | Various | — | 29,722 |
| University of Florida | 93.RD | Various | — | 115,569 |
| University of Illinois | 93.RD | Various | — | 33,697 |
| University of Illinois-Chicago | 93.RD | 16955-01 | — | 121,655 |
| University of Iowa | 93.RD | Various | — | 248,824 |
| University of Kansas Medical Center Research Institute Inc. | 93.RD | QR864362 | — | 104,443 |
| University of Kentucky | 93.RD | 320000735-17-015 | — | 369,316 |
| University of Massachusetts | 93.RD | CCTS2017044 | — | 7,499 |
| University of Michigan | 93.RD | Various | 5,639 | 92,250 |
| University of Minnesota | 93.RD | Various | — | 350,384 |
| University of North Carolina at Chapel Hill | 93.RD | Various | — | 38,256 |
| University of Pennsylvania | 93.RD | Various | — | 179,992 |
| University of Pittsburgh | 93.RD | Various | — | 197,462 |
| University of South Florida | 93.RD | Site 3302 | — | 31,305 |
| University of Texas Medical Branch at Galveston | 93.RD | 16-073 | — | 22,829 |
| University of Texas-Health Science Center at Houston | 93.RD | 0014326C | — | 5,401 |
| University of Virginia | 93.RD | Various | — | 62,856 |
| University of Washington | 93.RD | Various | — | 121,493 |
| University of Wisconsin-Madison | 93.RD | Various | — | 184,864 |
| University of Wisconsin-Milwaukee | 93.RD | Various | — | 63,617 |
| Vanderbilt University Medical Center | 93.RD | Various | — | 4,045 |
| Verstii Wisconsin, Inc. | 93.RD | Various | — | 122,481 |
| Virginia Commonwealth University | 93.RD | Various | — | 118,059 |
| Wake Forest University | 93.RD | WFUHS 113519 | — | 12,650 |
| Washington University in St. Louis | 93.RD | Various | — | 53,759 |
| Wayne State University | 93.RD | Various | — | 57,986 |
| Westat, Inc. | 93.RD | 8339-S04/HHSN261200622012C | 328 | 875,579 |
| Wisconsin Corporation for Biomedical Research | 93.RD | 5018FEDSciINVESTED | — | 36,044 |
| Yale University | 93.RD | GR100921 (CON-80000970) | — | 11,691 |
| Total National Institutes of Health | 93.RD | — | 17,594,359 | 103,101,685 |
| Office of Minority Health: | | | | |
| Marquette University | 93.RD | 001592-02-02 | — | 13,910 |
| Office of the Secretary: | | | | |
| Atox Bio Ltd | 93.RD | AB103 | — | 1,023 |
| Total U.S. Department of Health and Human Services | 93.RD | — | 20,078,685 | 109,049,078 |
| Total Research and Development Cluster | | | 20,379,748 | 119,035,819 |
| U.S. Department of Justice: | | | | |
| Office of Justice Programs: | | | | |
| State of Wisconsin | 16.609 | 2016-PE-01-12277 | — | 8,430 |
| City of Milwaukee | 16.609 | E0000014927 | — | 52,618 |
| Total Federal CFDA number 16.609 | | | — | 61,048 |
| State of Wisconsin | 16.812 | 2016-SR-01-12816 | — | 29,645 |
| Total U.S. Department of Justice | | | — | 90,693 |
| U.S. Department of Health and Human Services: | | | | |
| Centers for Disease Control and Prevention: | | | | |
| State of Wisconsin | 93.074 | Various | — | 51,653 |
| Southeast Wisconsin Healthcare Emergency Readiness Coalition, Inc. | 93.074 | N/A | — | 49,009 |
| Total Federal CFDA number 93.074 | | | — | 100,662 |
| State of Wisconsin | 93.136 | Various | — | 76,103 |
| State of Wisconsin | 93.977 | 155027 | — | 117,223 |
| Total Centers for Disease Control and Prevention | | | — | 293,988 |
| Administration for Children and Families: | | | | |
| State of Wisconsin | 93.092 | 159364 | — | 61,737 |
| State of Wisconsin | 93.566 | Various | — | 62,779 |
| State of Wisconsin | 93.576 | 437004-G19-0001388-000-07 | — | 8,000 |
| State of Wisconsin | 93.643 | N/A | — | 1,457 |
| Total Administration for Children and Families | | | — | 133,973 |

THE MEDICAL COLLEGE OF WISCONSIN, INC.
Schedule of Expenditures of Federal and State Awards
Year ended June 30, 2019

| Federal grantor/pass-through grantor/cluster title | Federal CFDA number | Pass-through entity identifying number | Passed through to subrecipients | Total federal expenditures |
|---|---------------------------|---|---------------------------------------|-------------------------------|
| Health Resources and Services Administration (HRSA): | | | \$ 473,664 | 930,138 |
| State of Wisconsin | 93.110 | 152018 | — | 49,270 |
| University of North Carolina at Chapel Hill | 93.127 | 5111278 | — | 8,731 |
| University of California-San Francisco | 93.145 | 8000736743 | — | 9,293 |
| University of Wisconsin-Milwaukee | 93.359 | 183405336/144AAC3711 | — | 3,074 |
| State of Wisconsin | 93.917 | Various | 361,465 | 1,472,781 |
| Marquette University | 93.969 | 15-285-003-6 | — | 144,333 |
| State of Wisconsin | 93.994 | Various | — | 117,966 |
| Total Health Resources and Services Administration (HRSA) | | | 835,129 | 2,735,586 |
| Centers for Medicare and Medicaid Services: | | | | |
| State of Wisconsin | 93.778 | 159363 | — | 362 |
| Total U.S. Department of Health and Human Services | | | 835,129 | 3,163,909 |
| Executive Office of the President: | | | | |
| Safe and Sound | 95.001 | G16ML0017A | — | 1,524 |
| Total nonmajor federal programs | | | 21,214,877 | 122,291,945 |
| Total expenditures of federal awards | | | 21,214,877 | 176,327,890 |
| Wisconsin Department of Health Services: | | | | |
| Division of Public Health | | 435.128010 | — | 148,012 |
| Division of Public Health | | 435.128012 | — | 338,714 |
| Division of Public Health | | 435.159363 | — | 4,702 |
| Division of Public Health | | 435100-G19-MedEduProGr_00 | — | 29,060 |
| Division of Public Health | | 40625 | — | 796,991 |
| Division of Public Health | | 43500-0000022719 | — | 33,047 |
| Division of Public Health | | None | — | 33,214 |
| Division of Public Health | | PO# 43500-0000014662 | — | 5,892 |
| Children's Hospital of Wisconsin | | None | — | 11,372 |
| University of Wisconsin-Madison | | 774K454 | — | 113,633 |
| University of Wisconsin-Madison | | 851K992 | — | 4,924 |
| University of Wisconsin-Madison | | 859K891 | — | 13,792 |
| University of Wisconsin-Madison | | 851K981 | — | 8,422 |
| Wisconsin Department of Justice | | None | — | 528 |
| Wisconsin Division of Medicaid Services | | G-0590-OPIB-17 | — | (5,280) |
| Wisconsin Division of Medicaid Services | | None | — | 66,699 |
| Wisconsin Department of Corrections | | None | — | 97,815 |
| Wisconsin Department of Corrections | | 410021-W19-ELB6762-GEN-04 | — | 52,111 |
| State of Wisconsin Appropriations: | | | | |
| Family Medicine and Practice (note 6) | | N/A | — | 4,611,880 |
| General Program Operations Tuition Capitation (note 6) | | N/A | — | 1,926,525 |
| Breast and Prostate Cancer Research Programs (note 6) | | N/A | — | 97,371 |
| Total state expenditures | | | — | 8,389,424 |
| Total expenditures of federal awards and state expenditures | | | \$ 21,214,877 | 184,717,314 |

See accompanying independent auditors' report and notes to schedule of expenditures of federal and state awards.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2019

(1) Basis of Presentation

The schedule of expenditures of federal and state awards (the Schedule) includes the federal and state award activity of The Medical College of Wisconsin, Inc. (MCW) under programs of the federal and state governments for the year ended June 30, 2019 and should be read in conjunction with MCW's consolidated financial statements. 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) and the *State Single Audit Guidelines for Wisconsin*.

Federal and state expenditures include all grants, contracts, and similar agreements entered into directly between MCW and agencies and departments of the federal government and all awards to MCW by other governmental entities, not-for-profit organizations, and for-profit organizations pursuant to federal grants, contracts, and similar agreements. The Schedule summarizes expenditures by the following:

- Major and nonmajor federal programs
- Primary federal funding agency
- Direct award agreements between MCW and federal granting agencies
- Pass-through federal award agreements between MCW and nonfederal granting agencies
- Direct award agreements between MCW and state granting agencies
- Pass-through state award agreements between MCW and nonstate granting agencies

(a) Major Program Determination

Under Uniform Guidance, tests of compliance with laws and regulations related to specific program requirements are required for each federal award program that is considered a major program for MCW.

Awards to provide financial assistance to students and loans made during the year under federal government loan programs are combined and considered to be a single program (Student Financial Assistance cluster) for major program determination. Also, awards to provide financial assistance for research and development activities are combined and considered to be a single program (Research and Development cluster).

(b) Federal Award Expenditures

Expenditures consist of direct costs and facilities and administrative costs. Direct costs are those that can be easily identified with an individual federally sponsored project. The salary of a principal investigator of a sponsored research project and the materials consumed by the project are examples of direct costs.

Unlike direct costs, facilities and administrative costs cannot be easily identified with an individual sponsored project. Facilities and administrative costs are the costs of services and resources that benefit many sponsored projects as well as nonsponsored projects and activities. Expenses incurred for administration, library, building maintenance, and building and equipment depreciation are examples of facilities and administrative costs.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2019

MCW and federal agencies use a facilities and administrative cost rate to charge facilities and administrative costs to individual sponsored projects. The rate is the result of a number of complex cost allocation procedures that MCW uses to allocate its facilities and administrative costs to both sponsored and nonsponsored activities. The costs allocated to sponsored projects are divided by the direct costs of sponsored projects to arrive at a rate. The U.S. Department of Health and Human Services (DHHS) must approve the rate before MCW can use it to charge facilities and administrative costs to federally sponsored projects. MCW has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

During the year ended June 30, 2019, MCW charged facilities and administrative costs of \$30,964,163 based on predetermined rates approved by DHHS.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

(3) Major Program

Student Financial Assistance Program Cluster

MCW receives awards to make loans to eligible students under certain federal student loan programs, and federally guaranteed loans are issued to the students of MCW through the Department of Education's Direct Loan Program. These loans are considered for purposes of determining whether student financial assistance is a major program under Uniform Guidance; Perkins and Primary Care loans outstanding at the beginning of the year, loans made during the year, and administrative charges are included in the federal expenditures presented in the Schedule, in addition to Direct Loan Program disbursements. The student financial assistance category does not include programs that provide fellowships or similar awards to students on a competitive basis. Those programs are classified either as research and development or as nonmajor programs.

(4) Research and Development Program Cluster

Research and development programs include those awards that are for basic and applied research and development activities, including all awards issued by the National Institutes of Health. The Uniform Guidance defines research and development as follows: research is the systematic study directed toward fuller scientific knowledge or understanding of the subject studied; development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes.

(5) Federal Government Student Loan Programs

The Perkins and Primary Care Loan Programs are administered directly by MCW, and balances and transactions relating to these programs are included in MCW's consolidated financial statements. Under the Perkins Loan Program Extension Act of 2015, no Perkins Loan disbursements could be made to graduate students after June 30, 2017. The administrative cost allowance charged to the Perkins Loan Program is based on disbursements, and no disbursements occurred during the year ended June 30, 2019.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2019

Loans outstanding at the beginning of the year, loans made during the year, and administrative charges are included in the federal expenditures presented in the Schedule. The balance of loans outstanding under the Perkins and Primary Care Student Loan Programs was \$3,592,838 and \$5,009,827, respectively, at June 30, 2019.

MCW is responsible only for the performance of certain administrative duties with respect to the federally guaranteed Direct Loan Program, and accordingly, these loans are not included in its consolidated financial statements. It is not practical to determine the balance of loans outstanding to students and former students of MCW under these programs at June 30, 2019.

(6) State of Wisconsin Appropriations

MCW receives an annual appropriation from the State of Wisconsin to support the training of health professionals in family medicine and practice. The appropriation was \$4,611,880 for the year ended June 30, 2019. MCW receives an annual appropriation from the State of Wisconsin based on a per capita formula for an amount for each Wisconsin resident enrolled at the college who is paying full tuition. The appropriation was \$1,926,600 for the year ended June 30, 2019. MCW also receives annual appropriations from the State of Wisconsin to support breast and prostate cancer research. MCW expended \$97,371 of the cancer research appropriations during the year ended June 30, 2019. These appropriations and the related expenditures have been excluded from the scope of this audit. The State of Wisconsin statutes mandate that the Legislative Audit Bureau perform an annual audit on the family medicine and practice funds and that the Higher Education Advisory Board review the request for the tuition capitation funds each semester, prior to the release of the funds. MCW must annually report to the legislature and to the governor on the cancer research programs it has conducted. These actions thereby satisfy the state audit requirement.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2019

(7) Settlement of State of Wisconsin Department of Health Services Cost Reimbursement Awards

MCW's settlement of State of Wisconsin Department of Health Services (DHS) cost reimbursement awards presented in the Schedule for the year ended June 30, 2019 is summarized as follows:

| DHS identification number (CARS profile) | CARS profile name | Award amount | Award period | Expenditures reported to DHS for payment | Total program expenses | Total management and general expense allocated to program | Total allowable costs |
|--|---|--------------|-----------------|--|------------------------|---|-----------------------|
| 128010 | Congenital Disorders | \$ 168,974 | 7/1/17-6/30/18 | \$ 168,962 | 24,846 | 804 | 25,650 |
| 128010 | Congenital Disorders | 168,974 | 7/1/18-6/30/19 | 168,725 | 112,922 | 9,440 | 122,362 |
| 128012 | Congenital Disorders 2 | 330,229 | 7/1/17-6/30/18 | 327,029 | 99,642 | — | 99,642 |
| 128012 | Congenital Disorders 2 | 330,229 | 7/1/18-6/30/19 | 329,011 | 229,194 | 9,878 | 239,072 |
| 150211 | Opioid RX Pathway Project | 196,642 | 9/1/17-8/31/18 | 124,983 | 13,611 | 14,505 | 28,116 |
| 152017 | Maternal and Child Health Services Violent Death Reporting System | 24,184 | 9/1/18-8/31/19 | 16,686 | 15,168 | 1,517 | 16,685 |
| 152018 | Pediatric Mental Health Care Access | 390,000 | 10/1/18-9/30/19 | 49,270 | 39,103 | 10,167 | 49,270 |
| 155027 | Infertility Prevention | 125,000 | 1/1/18-12/31/18 | 102,872 | 60,524 | 15,736 | 76,260 |
| 155027 | Infertility Prevention | 75,000 | 1/1/19-12/31/19 | — | 32,511 | 8,453 | 40,964 |
| 155066 | National Violent Death Reporting System | 96,738 | 9/1/17-8/31/18 | 85,626 | 7,853 | 1,377 | 9,230 |
| 155066 | National Violent Death Reporting System | 102,554 | 9/1/18-8/31/19 | 37,498 | 34,089 | 3,409 | 37,498 |
| 155080 | Rape Prevention and Education | 31,683 | 2/1/18-1/31/19 | 31,682 | 25,145 | 6,537 | 31,682 |
| 155915 | HIV Home/Community Care (Ryan White) | 768,394 | 4/1/18-3/31/19 | 737,920 | 670,366 | 67,037 | 737,403 |
| 155915 | HIV Home/Community Care (Ryan White) | 763,699 | 4/1/19-3/31/20 | — | 175,756 | 17,576 | 193,332 |
| 155919 | HIV Home/Community Care (Ryan White) | 435,411 | 4/1/18-3/31/19 | 435,410 | 397,711 | 32,229 | 429,940 |
| 155961 | Disease Intervention Specialists Evaluation | 108,788 | 10/1/17-3/31/19 | 108,788 | 94,598 | 14,190 | 108,788 |
| 155990 | Ryan White Part B Supplemental | 71,624 | 10/1/17-9/30/18 | 71,624 | 40,481 | 4,048 | 44,529 |
| 155991 | Ryan White Minority AIDS Initiative | 52,526 | 4/1/18-3/31/19 | 52,502 | 47,729 | 4,773 | 52,502 |
| 155991 | Ryan White Minority AIDS Initiative | 57,221 | 4/1/19-3/31/20 | — | 13,705 | 1,370 | 15,075 |
| 159363 | Adolescent Pregnancy | 80,620 | 1/1/18-6/30/18 | 80,620 | 4,019 | 1,045 | 5,064 |
| 159364 | Reproduction Health Personal Responsibility Educational Program-Federal | 85,000 | 1/1/18-12/31/18 | 85,000 | 48,997 | 12,740 | 61,737 |
| | | | | \$ 3,014,208 | 2,187,970 | 236,831 | 2,424,801 |

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2019

(1) Summary of Auditors' Results

Financial Statements

- A. Type of report issued on whether the consolidated 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 consolidated financial statements:
- Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- C. Noncompliance material to the consolidated financial statements: **No**

Federal and State Awards

- 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. Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**
- G. Major federal program:
- Program name:**
Student Financial Assistance Cluster – Various CFDA Numbers
- H. Major state program:
- Program name:**
Division of Public Health – Child Psychiatry Consultation Program – State ID Number 40625 & PO# 43500-0000014662.
- I. Dollar threshold used to distinguish between Type A and Type B programs for federal awards: **\$3,000,000**; state awards **\$250,000**
- J. Auditee qualified as low-risk auditee? **Yes**

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2019

- (2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*: **None**
- (3) Findings and Questioned Costs Relating to Federal and State Awards: **None**
- (4) Other Issues
- A. Does the auditor have substantial doubt as to the auditee's ability to continue as a going concern? **No**
 - B. Does the audit report show audit issues related to grants/contract with funding agencies that require audits to be in accordance with the *State Single Audit Guidelines for Wisconsin*? **None reported**
 - C. Was a Management Letter or other document conveying audit comments issued as a result of this audit? **No**
 - D. Date of Report: October 9, 2019



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

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

The Board of Trustees
The Medical College of Wisconsin, Inc.:

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 The Medical College of Wisconsin, Inc., which comprise the consolidated statement of financial position as of June 30, 2019, 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 October 9, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered The Medical College of Wisconsin Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Medical College of Wisconsin Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of The Medical College of Wisconsin Inc.'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 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 The Medical College of Wisconsin Inc.'s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

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

KPMG LLP

Milwaukee, Wisconsin
October 9, 2019



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

Independent Auditors' Report on Compliance for Each Major Federal and State Program and Report on Internal Control over Compliance Required by the Uniform Guidance

The Board of Trustees
The Medical College of Wisconsin, Inc.:

Report on Compliance for Each Major Federal and State Program

We have audited The Medical College of Wisconsin, Inc.'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 The Medical College of Wisconsin Inc.'s major federal and state programs for the year ended June 30, 2019. The Medical College of Wisconsin Inc.'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 The Medical College of Wisconsin Inc.'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; and 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 and state program occurred. An audit includes examining, on a test basis, evidence about The Medical College of Wisconsin Inc.'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 The Medical College of Wisconsin Inc.'s compliance.

Opinion on Each Major Federal and State Program

In our opinion, The Medical College of Wisconsin 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, 2019.



Report on Internal Control over Compliance

Management of The Medical College of Wisconsin 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 The Medical College of Wisconsin Inc.'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 The Medical College of Wisconsin Inc.'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 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 for Wisconsin*. Accordingly, this report is not suitable for any other purpose.

KPMG LLP

Milwaukee, Wisconsin
October 9, 2019