



**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

(E.I.N.: 390806261)

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

June 30, 2018

(With Independent Auditors' Report Thereon)

# THE MEDICAL COLLEGE OF WISCONSIN, INC.

## Table of Contents

	<b>Page</b>
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	46
Notes to Schedule of Expenditures of Federal and State Awards	50
Schedule of Findings and Questioned Costs	55
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>	57
Independent Auditors' Report on Compliance for Each Major Federal and State Program and Report on Internal Control over Compliance Required by the Uniform Guidance	59



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., which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, 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, 2018 and 2017, 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.



*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. The 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. Such 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 5, 2018 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 5, 2018

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Consolidated Statements of Financial Position

June 30, 2018 and 2017

(In thousands)

<b>Assets</b>	<b>2018</b>	<b>2017</b>
Cash and cash equivalents	\$ 50,807	78,141
Deposits with bond trustees	775	53,039
Investments, at fair value	1,710,578	1,607,553
Receivables:		
Patient accounts, net	52,710	45,607
Other accounts, net	49,463	51,327
Grants and contracts, net	23,669	21,986
Contributions, net	33,695	36,476
Student loans, net	17,015	17,096
Notes receivable from Children's Specialty Group	31,528	27,820
Total receivables	208,080	200,312
Prepaid expenses and other assets	76,100	65,995
Land, buildings, and equipment, net	297,904	245,764
Total assets	\$ <u>2,344,244</u>	<u>2,250,804</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 109,142	90,634
Accrued payroll and related liabilities	105,168	127,316
Deferred revenue	24,200	19,530
Estimated liability for unpaid professional liability claims	10,271	12,172
Long-term debt	284,277	294,047
Interest rate swap	10,867	14,700
Other liabilities	22,733	26,868
Total liabilities	566,658	585,267
Commitments and contingencies		
Net assets:		
Unrestricted	1,081,116	992,613
Temporarily restricted	290,200	277,179
Permanently restricted	406,270	395,745
Total net assets	1,777,586	1,665,537
Total liabilities and net assets	\$ <u>2,344,244</u>	<u>2,250,804</u>

See accompanying notes to consolidated financial statements.

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Consolidated Statements of Activities

Years ended June 30, 2018 and 2017

(In thousands)

	<u>2018</u>	<u>2017</u>
Revenues:		
Net patient services	\$ 432,361	406,301
Provision for bad debts	(21,704)	(19,027)
Net patient services revenue less provision for bad debts	410,657	387,274
Children's Specialty Group contract fees	232,911	213,414
Clinical services contract fees	87,209	76,887
Affiliate hospital contracts	126,194	125,141
Children's Research Institute contract fees	8,733	9,275
Grants and contracts	120,287	117,375
Facilities and administrative cost recovery on grants and contracts	30,450	28,813
Tuition and fees	50,675	43,866
Endowment spendable income	6,584	3,086
Other investment income	11,949	11,289
Contributions	3,560	7,233
State of Wisconsin appropriation	4,685	4,678
Other	16,069	23,883
Total revenues	<u>1,109,963</u>	<u>1,052,214</u>
Net assets released from restrictions for operations	33,897	30,588
Total revenues and net assets released from restrictions	<u>1,143,860</u>	<u>1,082,802</u>
Expenses:		
Faculty salaries	433,551	397,799
Staff salaries	289,228	273,083
Fringe benefits	132,689	126,206
Services, supplies, and other	136,842	142,600
Rent and occupancy	39,865	42,002
Subcontracts	30,862	30,418
Depreciation and amortization	32,178	30,068
Interest on indebtedness	8,311	6,242
Total expenses	<u>1,103,526</u>	<u>1,048,418</u>
Revenues in excess of expenses before nonoperating gains and losses	<u>40,334</u>	<u>34,384</u>
Nonoperating gains and losses:		
Realized gain on investments, net	53,471	22,741
Unrealized (loss) gain on investments, net	(5,649)	75,175
Endowment income earned over spendable income under the total return concept	(3,732)	(630)
Loss on sale of land, buildings, and equipment	(513)	(113)
Unrealized gain on interest rate swap	3,833	6,685
Other gains	759	187
Nonoperating gains, net	<u>48,169</u>	<u>104,045</u>
Increase in unrestricted net assets	<u>88,503</u>	<u>138,429</u>

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Consolidated Statements of Activities

Years ended June 30, 2018 and 2017

(In thousands)

	<u>2018</u>	<u>2017</u>
Temporarily restricted net assets:		
Contributions	\$ 3,452	28,260
Investment income, net	6,583	6,263
Realized gain on investments, net	24,805	22,683
Unrealized gain on investments, net	12,091	55,154
Net assets released from restrictions for operations	(33,897)	(30,588)
Change in fair value of charitable trusts	(13)	1
Increase in temporarily restricted net assets	<u>13,021</u>	<u>81,773</u>
Permanently restricted net assets:		
Contributions	10,027	3,250
Investment income, net	136	151
Realized gain on investments, net	51	47
Unrealized gain on investments, net	25	114
Change in fair value of charitable trusts	286	262
Increase in permanently restricted net assets	<u>10,525</u>	<u>3,824</u>
Increase in net assets	112,049	224,026
Net assets at beginning of year	<u>1,665,537</u>	<u>1,441,511</u>
Net assets at end of year	\$ <u><u>1,777,586</u></u>	<u><u>1,665,537</u></u>

See accompanying notes to consolidated financial statements.

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Consolidated Statements of Cash Flows

Years ended June 30, 2018 and 2017

(In thousands)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 112,049	224,026
Adjustments:		
Depreciation and amortization	32,178	30,068
Provision for bad debts	21,704	19,027
Contributions restricted for long-term investment	(6,365)	(2,144)
Permanently restricted investment income	(212)	(312)
Loss on sale of land, buildings, and equipment	513	113
Gain on investments in affiliates, net	(5,536)	(11,300)
Net realized and unrealized gain on investments	(84,794)	(175,914)
Unrealized gain on interest rate swap	(3,833)	(6,685)
Increase in receivables	(29,472)	(57,855)
Increase in prepaid expenses and other assets	(2,152)	(2,506)
Increase in beneficial interest in charitable trusts	(75)	(22)
(Decrease) increase in accounts payable and accrued payroll and related liabilities	(8,054)	21,457
Increase in deferred revenue	4,670	10,625
Decrease in estimated liability for unpaid professional liability claims	(1,901)	(3,856)
(Decrease) increase in refundable advance for U.S. government-sponsored loan funds	(503)	83
Increase in other liabilities	1,068	1,247
Net cash provided by operating activities	<u>29,285</u>	<u>46,052</u>
Cash flows from investing activities:		
Purchases of investments	(627,474)	(547,495)
Proceeds from sales and maturities of investments	613,657	521,454
Purchase of funds held in deposits with bond trustees	(66,675)	(89,653)
Proceeds from sales of deposits with bond trustees	118,939	139,180
Capital expenditures	(89,478)	(69,530)
Proceeds from sale of land, buildings, and equipment	43	8
Distributions from investments in joint ventures	1,927	2,881
Capital contributions to investments in joint ventures	(5,472)	—
Net cash used in investing activities	<u>(54,533)</u>	<u>(43,155)</u>
Cash flows from financing activities:		
Restricted contributions and permanently restricted investment income	6,577	2,456
Proceeds from long-term debt	—	34
Repayments of long-term debt	(8,663)	(9,385)
Net cash used by financing activities	<u>(2,086)</u>	<u>(6,895)</u>
Net decrease in cash and cash equivalents	(27,334)	(3,998)
Cash and cash equivalents at beginning of year	<u>78,141</u>	<u>82,139</u>
Cash and cash equivalents at end of year	\$ <u>50,807</u>	\$ <u>78,141</u>
Supplemental data:		
Cash paid for interest (net of amounts capitalized of \$1,746 and \$4,151 in 2018 and 2017, respectively)	\$ 9,139	7,336
Noncash change in receivable from Children's Specialty Group	3,708	(824)

See accompanying notes to consolidated financial statements.

## THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

### (1) Organization

The Medical College of Wisconsin, Inc. (MCW) is a private, freestanding medical college that includes 8 basic science departments, 23 clinical departments, and 13 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, 2018, MCW had 955 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. The Green Bay campus matriculated students in fiscal year 2016 and the Central Wisconsin campus matriculated students in fiscal year 2017.

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:

**Permanently restricted net assets** – Net assets subject to donor-imposed stipulations that are to be maintained permanently by MCW. Generally, the donors of these assets permit MCW to use all or part of the income earned on related investments for general or specific purposes.

**Temporarily restricted net assets** – Net assets subject to donor-imposed stipulations that will be met by actions of MCW and/or the passage of time.

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

**Unrestricted net assets** – Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets 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 reclassifications between the applicable classes of net assets.

**(b) Net 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 net patient services revenue. Patient accounts receivable represent an estimate of net realizable amounts from third-party payors, patients, and others for unpaid professional fees for patient services. The estimate is based upon contract terms and historical payment experience.

**(c) Grant and Contract 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.

**(d) Contributions 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 on which they depend are substantially met. 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 unrestricted revenues.

Contributions of land, building, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with such donor stipulations are reported as revenues of the temporarily restricted net asset class until the restrictions are considered to be released and the long-lived assets are placed into service.

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

**(e) Revenues in Excess of Expenses**

Revenues in excess of expenses in the consolidated statements of activities reflect all transactions increasing or decreasing unrestricted net assets 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 temporarily or permanently restricted net assets (based upon the donor's designation) in the consolidated statements of financial position. The adjustments to the Trusts' fair values are recognized as other income or expense in the temporarily or permanently restricted net asset classifications in the consolidated statements of activities.

**(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 2018 and 2017 were \$4,130 and \$4,164, 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.

## THE MEDICAL COLLEGE OF WISCONSIN, INC.

### Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

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 temporarily restricted net assets for donor-restricted endowment funds.

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.

## THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

### **(k) Student Loans, 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 funding received from philanthropic and other sources. Loans may be used for tuition, books, fees and living expenses.

### **(l) Land, Buildings, and Equipment**

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 the recoverability of 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, 2018 and 2017.

### **(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 are used to finance future loans to students. 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.

### **(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.

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

**(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 \$411 is included in services, supplies and other expenses in the consolidated statement of activities in fiscal year 2018.

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, 2018 and 2017.

**(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**

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), which outlines a single comprehensive model for recognizing revenue and supersedes most existing revenue recognition guidance, including guidance specific to the healthcare and nonprofit industries. ASU 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU provides entities the option of applying a full or modified retrospective approach upon adoption. In July 2015, the FASB approved the deferral of the new standard's effective date by one year. The adoption of the new standard will be effective for MCW for the year ending June 30, 2019. MCW expects to record a decrease in net patient

## THE MEDICAL COLLEGE OF WISCONSIN, INC.

### Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

service revenue and a corresponding decrease in the provision for uncollectible accounts upon adoption of the standard.

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-balance sheet via a right-of-use asset and a lease liability, and additional qualitative and quantitative disclosures. 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. MCW is in process of evaluating the impact of this standard.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958). ASU 2016-14 changes how not-for-profit entities report net asset classes, expenses and liquidity in their financial statements. The adoption of the new standard will be effective for MCW for the year ending June 30, 2019. MCW is in process of evaluating the impact of this standard.

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 has not evaluated the impact of this new standard.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies the guidance on accounting for the grants and contracts of nonprofit organizations as they relate to ASU 2014-09, *Revenue from Contracts with Customers*, and aims to minimize diversity in the classification of grants and contracts that exists under current guidance. The adoption of the new standard will be effective for MCW for the year ending June 30, 2019. MCW is in process of evaluating the impact of this standard.

#### **(s) Reclassification**

Certain amounts in the 2017 consolidated financial statements have been reclassified to conform to the 2018 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

## THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

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 2018 and 2017, MCW recognized affiliate hospital contract revenue of approximately \$105,779 and \$103,598, 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, 2018 and 2017 is \$19,337 and \$27,372, 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 \$4,480 and \$8,949 in 2018 and 2017, respectively. Other direct costs for equipment, supplies, 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 \$2,810 and \$2,685 in 2018 and 2017, respectively.

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 2018 and 2017, MCW recognized \$71,613 and \$66,822, 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, 2018 and 2017 is \$18,626 and \$16,619, respectively. MCW also collects net 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 2018 and 2017, \$9,611 and \$6,833, respectively, was recorded in services, supplies, and other expense. The outstanding balance of accounts payable to FH-MCW Community Physicians as of June 30, 2018 and 2017 is \$1,809 and \$1,155, 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 net 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 2018 and 2017, approximately 7% of CSG's net patient services revenues were distributed to MCW.

MCW's revenues include \$232,911 and \$213,414 for the years ended June 30, 2018 and 2017, respectively, for certain physician services, leased equipment, and supplies purchased by CSG.

## THE MEDICAL COLLEGE OF WISCONSIN, INC.

### Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

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 \$4,337 and \$3,655 in 2018 and 2017, respectively.

#### **(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 2018 and 2017, MCW purchased \$6,213 and \$5,515, respectively, of chilled water and steam service from MRMC Thermal.

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 2018 and 2017, MCW purchased from these related parties \$392 and \$352, respectively, of employee benefit services; \$727 and \$998, respectively, of subcontract and contractual fees; \$553 and \$483, respectively, of legal services; and \$909 and \$778, 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 2018 and 2017. MCW's share of CSG's gains for fiscal years 2018 and 2017 of \$4,795 and \$7,288, respectively, is recorded in other revenue. CSG has total assets of \$110,686 and \$97,388 and net assets of \$79,158 and \$69,568 at June 30, 2018 and 2017, respectively. MCW's investment in CSG is approximately \$39,579 and \$34,784 as of June 30, 2018 and 2017, 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, 2018 and 2017

(In thousands)

Drexel Town Square Surgery Center, LLC (Drexel) is a joint venture with Froedtert. 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 has a 49% interest in Drexel and a capital contribution payable of \$4,755 is included in accounts payable on the consolidated statements of financial position as of June 30, 2018. MCW's share of Drexel's loss for fiscal year 2018 of \$961 is recorded in other revenue. MCW's investment in Drexel is approximately \$3,794 as of June 30, 2018 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	
	2018	2017
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 \$1,927 and \$2,881 as of June 30, 2018 and 2017, respectively. MCW made capital contributions to other joint ventures of \$717 and \$0 in fiscal years 2018 and 2017. MCW's share of gains in other joint ventures for fiscal years 2018 and 2017 of \$1,702 and \$4,012, respectively, is recorded in other revenue. MCW's investment in other joint ventures is approximately \$17,544 and \$17,051 as of June 30, 2018 and 2017, 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, 2018 and 2017

(In thousands)

**(5) Investments**

Cost and fair value of investments as of June 30, 2018 and 2017 are summarized below:

	2018		2017	
	Cost	Fair value	Cost	Fair value
Money market funds	\$ 2,633	2,633	5,097	5,097
Accrued investment income	401	401	333	333
U.S. government obligations	85,844	83,850	75,877	74,750
State and municipal bonds	25	25	25	25
Asset- and mortgage-backed securities	1,820	1,729	2,286	2,343
Bond mutual funds	230,418	222,339	193,394	191,326
Equity mutual funds	59,529	130,088	77,320	168,926
Commingled bond funds	178,458	167,775	164,266	156,998
Commingled equity funds	535,996	708,119	466,847	628,243
Equity securities	13,823	18,998	13,262	16,711
Other equity securities	285,852	371,889	299,485	360,020
Guaranteed investment contracts	2,732	2,732	2,781	2,781
Total	\$ <u>1,397,531</u>	<u>1,710,578</u>	<u>1,300,973</u>	<u>1,607,553</u>

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.

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

MCW's return on investments as reported in the consolidated financial statements for the years ended June 30, 2018 and 2017 is summarized below:

	Year ended June 30, 2018			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Endowment spendable income	\$ 6,584	2,255	—	8,839
Endowment investment income required to be reinvested	—	4,083	46	4,129
Endowment income earned over spendable income under the total return concept	(3,732)	239	—	(3,493)
Interest and dividends, net of fees, on pooled endowments	2,852	6,577	46	9,475
Other investment income	11,949	6	90	12,045
Total interest and dividends, net of fees	14,801	6,583	136	21,520
Realized gain on investments, net	53,471	24,805	51	78,327
Unrealized (loss) gain on investments, net	(5,649)	12,091	25	6,467
	<u>\$ 62,623</u>	<u>43,479</u>	<u>212</u>	<u>106,314</u>

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

	Year ended June 30, 2017			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Endowment spendable income	\$ 3,086	2,134	—	5,220
Endowment investment income required to be reinvested	—	3,918	47	3,965
Endowment income earned over spendable income under the total return concept	(630)	231	—	(399)
Interest and dividends, net of fees, on pooled endowments	2,456	6,283	47	8,786
Other investment income	11,289	(20)	104	11,373
Total interest and dividends, net of fees	13,745	6,263	151	20,159
Realized gain on investments, net	22,741	22,683	47	45,471
Unrealized (loss) gain on investments, net	75,175	55,154	114	130,443
	<u>\$ 111,661</u>	<u>84,100</u>	<u>312</u>	<u>196,073</u>

Investment management and custodial fees incurred in 2018 and 2017 were \$5,613 and \$5,426, 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 MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

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, 2018 and 2017.

*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.

*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.

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 \$1,247,783 and \$1,145,261 were estimated using the net asset value per share, as a practical expedient, provided by external investment managers as of June 30, 2018 and 2017, respectively. 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 MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

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.

*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, 2018 and 2017:

	<b>June 30, 2018</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets:</b>				
Cash and cash equivalents	\$ 50,807	50,807	—	—
Deposits with bond trustees	775	775	—	—
<b>Investments</b>				
Money market	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, 2018 and 2017

(In thousands)

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

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

		<b>June 30, 2017</b>			
		<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets:</b>					
Cash and cash equivalents	\$	78,141	78,141	—	—
Deposits with bond trustees		53,039	3,072	49,967	—
<b>Investments</b>					
Money market		5,097	5,097	—	—
Accrued investment income		333	157	176	—
U.S. government obligations		74,750	—	74,750	—
State and municipal bonds		25	—	25	—
Asset – and mortgage-backed securities		2,343	—	2,343	—
Bond mutual funds		191,326	191,326	—	—
Equity mutual funds		168,926	168,926	—	—
Equity securities		16,711	16,711	—	—
Guaranteed investment contracts		2,781	—	—	2,781
Subtotal		462,292	382,217	77,294	2,781
Investments measured at net asset value		1,145,261			
Total investments		1,607,553			
Contributions receivable, net		36,476	—	—	36,476
Beneficial interest in charitable trusts		4,251	—	—	4,251
Total assets	\$	1,779,460	463,430	127,261	43,508
<b>Liabilities:</b>					
Deferred compensation	\$	5,051	2,270	—	2,781
Interest rate swap		14,700	—	—	14,700
Total liabilities	\$	19,751	2,270	—	17,481

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

<u>Investments measured at net asset value</u>	<u>Net asset value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Commingled bond funds	\$ 156,998	—	Monthly	10–45 days
Commingled equity funds	628,243	—	Monthly, quarterly, annually	4–180 days
Other equity securities	360,020	38,796	Monthly, quarterly, annually	30–180 days
 Total investments measured at net asset value	 \$ <u>1,145,261</u>			

Other equity securities include investments of \$47,094 and \$34,933 as of June 30, 2018 and 2017, 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 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, 2018 and 2017.

	<u>Assets</u>			<u>Liabilities</u>	
	<u>Guaranteed investment contracts</u>	<u>Contributions receivable, net</u>	<u>Beneficial interest in charitable trusts</u>	<u>Interest rate swap</u>	<u>Deferred compensation</u>
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)
----	------	---	---	---------	------

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

	Assets			Liabilities	
	Guaranteed investment contracts	Contributions receivable, net	Beneficial interest in charitable trusts	Interest rate swap	Deferred compensation
Balance as of July 1, 2016	\$ 3,057	13,404	4,229	21,385	3,057
Purchases	—	24,090	—	—	—
Sales	—	—	—	—	—
Net realized loss	—	—	(212)	—	—
Net change in unrealized appreciation	(276)	(1,018)	234	(6,685)	(276)
Balance as of June 30, 2017	\$ 2,781	36,476	4,251	14,700	2,781
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, 2017	\$ (276)	—	—	(6,685)	(276)

There are no transfers in or out of Level 3 for the years ended June 30, 2018 and 2017.

**(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 designated by the Board of Trustees to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function 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

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

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, MCW has not changed the way permanently restricted net assets are classified. See note 2(a) for further information on net asset classification. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by MCW in a manner consistent with the standard of prudence prescribed by UPMIFA.

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 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 How Investment Objectives Relate 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.

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

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.

**(e) Net Asset Composition by Type of Fund**

Composition of endowment by net asset class (excluding pledges receivable of \$7,803 and \$1,439 respectively) as of June 30, 2018 and 2017 in total and by type is summarized below:

		<b>2018</b>			
		<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Donor-restricted endowments:					
Advancing a Healthier					
Wisconsin	\$	—	174,918	288,689	463,607
Other endowments		—	63,338	96,404	159,742
Endowments designated by the Board of Trustees					
		307,249	—	—	307,249
Total	\$	<u>307,249</u>	<u>238,256</u>	<u>385,093</u>	<u>930,598</u>
		<b>2017</b>			
		<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Donor-restricted endowments:					
Advancing a Healthier					
Wisconsin	\$	—	159,724	288,689	448,413
Other endowments		—	56,783	92,674	149,457
Endowments designated by the Board of Trustees					
		277,292	—	—	277,292
Total	\$	<u>277,292</u>	<u>216,507</u>	<u>381,363</u>	<u>875,162</u>



**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

**(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 unrestricted net assets, and for MCW, such deficiencies are \$0 as of June 30, 2018 and 2017.

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

Net patient services revenue, net of contractual allowances and discounts (before the provision for bad debts), by major payor source for the years ended June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Commercial/managed care	\$ 272,823	249,283
Self-pay	56,664	52,940
Medicaid	25,253	25,217
Medicare	67,901	61,252
Other	9,720	17,609
	<u>432,361</u>	<u>406,301</u>
Net patient services revenue	\$ <u>432,361</u>	<u>406,301</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 patients and third-party payors at June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Commercial/managed care	\$ 29,808	24,640
Self-pay	20,800	18,617
Medicaid	2,076	2,590
Medicare	6,902	5,688
Other	2,409	2,071
	<u>61,995</u>	<u>53,606</u>
Patient accounts receivable	61,995	53,606
Allowance for doubtful accounts	<u>9,285</u>	<u>7,999</u>
Patient accounts receivable, net	\$ <u>52,710</u>	<u>45,607</u>

The contractual maturity of these accounts receivables is less than one year. MCW considers the patient accounts receivable, net of contractual allowances, which are insured under third-party payor agreements, to be fully collectable. No allowance for doubtful accounts has been established for these accounts receivable. An allowance for doubtful accounts for all self-pay patient accounts receivable (which includes co-payments and deductibles for patients with insurance) is established based upon a monthly review of

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

the collectability of the underlying self-pay patient accounts receivable utilizing the self-pay patient accounts receivable aging and the historical loss rates on self-pay patient accounts receivable. The allowance represents management's estimate of the amount of self-pay patient accounts receivable balances for which a loss is probable. Actual losses are charged against the allowance. The allowance for doubtful accounts is increased through charges to expense and recoveries of patient accounts receivable previously charged to the allowance.

The allowance for doubtful accounts for self-pay patient accounts receivable decreased from 42.9% of self-pay accounts receivable at June 30, 2017 to 44.7% of self-pay accounts receivable at June 30, 2018. Actual losses from uncollectible self-pay patient accounts receivable were \$20,418 and \$18,790 for the years ended June 30, 2018 and 2017, respectively.

**(9) Other Accounts Receivable, Net**

Other accounts receivable at June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Affiliated hospitals	\$ 17,345	29,710
Other	<u>33,001</u>	<u>23,990</u>
Other accounts receivable	50,346	53,700
Allowance for doubtful accounts	<u>883</u>	<u>2,373</u>
Other accounts receivable, net	\$ <u><u>49,463</u></u>	\$ <u><u>51,327</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, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Grants and contracts	\$ 23,786	22,083
Allowance for doubtful accounts	<u>117</u>	<u>97</u>
Grants and contracts receivable, net	\$ <u><u>23,669</u></u>	\$ <u><u>21,986</u></u>

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

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 \$77,670 and \$84,935 at June 30, 2018 and 2017, respectively; other committed awards were approximately \$16,250 and \$15,428 at June 30, 2018 and 2017, 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.

**(11) Contributions Receivable, Net**

Net contributions receivable consists primarily of donor pledges and is summarized as follows at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Total contributions receivable	\$ 35,335	39,069
Allowance for uncollectible contributions	573	1,751
Adjustment to present value	<u>1,067</u>	<u>842</u>
Contributions receivable, net	\$ <u><u>33,695</u></u>	<u><u>36,476</u></u>

The discount rates used to adjust the contributions receivable to present value range from 11% to 3.62% at June 30, 2018 and 2017. Contributions receivable at June 30, 2018 are expected to be collected in future fiscal years as follows:

2019	\$ 10,576
2020	8,747
2021	7,981
2022	4,934
2023	1,633
2024 and beyond	<u>1,464</u>
Total	\$ <u><u>35,335</u></u>

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

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

Student loans receivable at June 30, 2018 and 2017 consist of the following loan funds:

	<u>2018</u>	<u>2017</u>
Federal Primary Care Loan Program	\$ 4,825	4,543
Federal Perkins Loan Program	4,921	6,268
MCW loans	<u>7,440</u>	<u>6,538</u>
Students loans receivable	17,186	17,349
Allowance for loan loss	<u>171</u>	<u>253</u>
Student loans receivable, net	\$ <u><u>17,015</u></u>	<u><u>17,096</u></u>

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, 2018 and 2017. 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>2018</u>	<u>2017</u>
Student loans receivable:		
Performing	\$ 17,028	17,036
Nonperforming	<u>158</u>	<u>313</u>
Total student loans receivable	\$ <u><u>17,186</u></u>	<u><u>17,349</u></u>

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

The following table provides an analysis of the aging of the past due student loans receivable as of June 30, 2018 and 2017:

	<u>&lt; 270 Days past due</u>	<u>270 Days– 2 Years past due</u>	<u>2–5 Years past due</u>	<u>&gt; 5 Years past due</u>	<u>Total past due</u>	<u>Current</u>
June 30, 2018	\$ 515	76	10	147	748	16,438
June 30, 2017	745	106	171	142	1,164	16,185

The recorded investment in student loans receivable for which an impairment has been recognized is \$748 and \$1,164 at June 30, 2018 and 2017, respectively. The related allowance for loan loss is \$171 and \$253 at June 30, 2018 and 2017, respectively. The average recorded investment in impaired student loans receivable is \$956 and \$2,127 during fiscal years 2018 and 2017, respectively. Interest income recognized on student loans receivable is \$370 and \$346 during fiscal years 2018 and 2017, respectively. There are no sales of student loans receivable for the years ended June 30, 2018 and 2017.

**(13) Land, Buildings, and Equipment**

Land, buildings, and equipment is comprised of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Land, buildings, and improvements	\$ 427,281	316,957
Equipment and furnishings	250,886	234,914
Library books	951	951
Construction in progress	<u>14,891</u>	<u>66,827</u>
	694,009	619,649
Accumulated depreciation	<u>396,105</u>	<u>373,885</u>
Land, buildings, and equipment, net	<u>\$ 297,904</u>	<u>245,764</u>

At June 30, 2018 and 2017, construction in progress includes capitalized interest of \$0 and \$3,742, respectively.

MCW is a party to construction contracts that exist for various building renovation and grounds improvement projects, including the Professional Office Building. As of June 30, 2018, MCW's outstanding commitment on these contracts approximates \$3,130.

**(14) Leases**

MCW leases land and buildings for clinical, academic, and administrative purposes under operating leases. Rent expense is \$20,761 and \$24,483 in 2018 and 2017, respectively.

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

Future minimum lease payments under operating leases that have initial noncancelable terms in excess of one year at June 30, 2018 are as follows:

2019	\$	14,987
2020		14,371
2021		11,523
2022		9,489
2023		9,125
2024 and beyond		<u>57,557</u>
Total minimum lease payments	\$	<u>117,052</u>

MCW also is a lessor of buildings for clinical and academic purposes under operating leases. Rental income is \$2,569 and \$2,766 in 2018 and 2017, respectively.

Future minimum rental income under leases that have initial noncancelable terms in excess of one year at June 30, 2018 is as follows:

2019	\$	965
2020		945
2021		945
2022		836
2023		821
2024 and beyond		<u>2,187</u>
Total	\$	<u>6,699</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.

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

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. Subsequent to June 30, 2018, MCW executed its option to acquire the land from Milwaukee County.

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 2018 and 2017, MCW made contributions to the Program in the amounts of \$1,250 and \$1,495, respectively. The Program has net assets of \$9,892 and \$7,293 as of June 30, 2018 and 2017, respectively.

Investments held in trust for the Program, as reported in investments at fair value on the consolidated statements of financial position, are \$20,206 and \$19,503 as of June 30, 2018 and 2017, respectively.

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

**(16) Long-Term Debt**

Long-term debt consists of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</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 5.13% and 5.11% at June 30, 2018 and 2017, respectively. Interest is payable semiannually.	\$ 6,675	6,930
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 (1.49% and 0.91% at June 30, 2018 and 2017, respectively).	67,500	67,500
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, 2018 and 2017. Interest is payable semiannually.	5,145	6,700
Tax-exempt fixed rate WHEFA Revenue Bonds Series 2014 A, with principal payments due annually through 2025. Interest is payable monthly at 2.21%.	13,375	15,095
Tax-exempt fixed rate WHEFA Revenue Bonds Series 2014 B, with principal payments due annually through 2027. Interest is payable monthly at 2.36%.	13,285	13,500
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 4.49% and 4.47% at June 30, 2018 and 2017 respectively.	153,550	155,780
Taxable variable rate term loan, with principal payments due annually through 2021. Interest is payable monthly at rates reset on a monthly basis (2.75% and 1.83% at June 30, 2018 and 2017, respectively).	6,785	8,925
Taxable variable rate revolving loan, due November 2018. Interest is payable monthly at rates reset on a monthly basis (2.55% and 1.63% at June 30, 2018 and 2017, respectively).	1,971	2,518

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

	<u>2018</u>	<u>2017</u>
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	269,781	278,443
Unamortized discount and premium (net) on Series 2008 A	(187)	(199)
Unamortized premium on Series 2010	69	132
Unamortized discount and premium (net) on Series 2016	16,824	17,973
Unamortized issuance costs	<u>(2,210)</u>	<u>(2,302)</u>
Total long-term debt	\$ <u>284,277</u>	<u>294,047</u>

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, building, 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, 2018 and thereafter are as follows:

2019	\$ 10,366
2020	8,700
2021	9,040
2022	7,005
2023	7,260
2024 and beyond	<u>227,410</u>
Total	\$ <u>269,781</u>

All or part of the Series 2008 A, 2008 B, 2014 A, 2014 B, and 2016 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 MEDICAL COLLEGE OF WISCONSIN, INC.

### Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

- 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.

#### **(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 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, 2018, the remaining balance of the debt service reserve fund is \$768.

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, 2018, there were no outstanding liquidity drawings or drawing loans under the Credit Agreement.

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

**(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 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) 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 is for \$20,000 and is currently being used for working capital expenditures related to the regional campuses.

**(f) 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.

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

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 \$0 and \$5,881 were provided as collateral as of June 30, 2018 and 2017, respectively.

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 remain unrestricted and can be used for any institutional purposes by MCW. The designations at June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Designated for investment as endowment funds	\$ 307,249	277,292
Designated for the professional liability insurance program	9,892	7,293
Undesignated	<u>763,975</u>	<u>708,028</u>
	<u>\$ 1,081,116</u>	<u>992,613</u>

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

Donor restrictions of temporarily restricted net assets at June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Advancing a Healthier Wisconsin spendable income funds	\$ 174,918	159,724
Temporarily restricted endowment funds	63,338	56,783
State of Wisconsin construction and equipment grants	25,451	27,416
Implied time restrictions on contribution pledges	24,354	31,082
Charitable gifts restricted by time and/or purpose	526	698
Scholarships	413	248
Land, buildings, and equipment	<u>1,200</u>	<u>1,228</u>
	\$ <u>290,200</u>	<u>277,179</u>

Donor restrictions of permanently restricted net assets at June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Advancing a Healthier Wisconsin endowed funds	\$ 288,689	288,689
Perpetual endowment funds	96,404	92,674
Student loans	8,841	8,649
Charitable gifts restricted by time and/or purpose	4,505	4,257
Pledges receivable	<u>7,831</u>	<u>1,476</u>
	\$ <u>406,270</u>	<u>395,745</u>

**(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 permanently restricted funds. 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

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

land or buildings, or committed as collateral without the approval of two-thirds of all members of the MCW Consortium.

**(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 temporarily restricted contribution 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, 2018, \$17,951 remains temporarily restricted.

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.

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 restriction on the contribution over the estimated life of the related assets. As of June 30, 2018, \$3,968 remains temporarily restricted.

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, 2018 and 2017, MCW recognized a temporarily restricted contribution of \$123 and \$490, 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, 2018, \$3,408 remains temporarily restricted.

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

**(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 \$37,294 and \$35,073, respectively, for the years ended June 30, 2018 and 2017.

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 \$5,682 and \$5,011 at June 30, 2018 and 2017, respectively, are reflected in cash and cash equivalents and investments at fair value. Accrued benefits totaling approximately \$5,723 and \$5,051 at June 30, 2018 and 2017, 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 claims, net of employee contributions, of \$49,931 and \$1,512, respectively, during the year ended June 30, 2018 and \$48,680 and \$1,743, respectively, during the year ended June 30, 2017.

**(19) Functional Expenses**

Expenses classified by function are as follows:

	<u>2018</u>	<u>2017</u>
Patient care	\$ 682,394	655,132
Research	235,105	222,823
Instruction	86,628	76,149
Community service	12,632	12,086
Institutional support	65,133	61,189
Student services	8,045	8,071
Academic support	7,025	6,883
Fundraising	6,564	6,085
	<u>\$ 1,103,526</u>	<u>1,048,418</u>

## THE MEDICAL COLLEGE OF WISCONSIN, INC.

### Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

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. Instruction expenses include credit and noncredit programs for medical students, graduate students, residents, post-doctoral fellows, student trainees and continuing medical education participants.

Interest expense and costs related to the operation and maintenance of physical plant, including depreciation of plant assets, are allocated to program and supporting activities.

#### **(20) Electronic Health Record Incentives**

Under certain provisions of the American Recovery and Reinvestment Act of 2009 (ARRA), federal incentive payments are available to hospitals, physicians and certain other professionals (Providers) when they adopt, implement or upgrade (AIU) certified electronic health record (EHR) technology or become "meaningful users," as defined under ARRA, of EHR technology in ways that demonstrate improved quality, safety and effectiveness of care. Providers may be eligible for either Medicare or Medicaid incentive payments, but not both. Medicaid EHR incentive payments to Providers are 100% federally funded and administered by the states.

MCW recognizes EHR incentive payments in the consolidated statement of activities in the period during which specified meaningful use criteria are met. As a result, MCW recognized \$3,349 and \$5,472 of EHR incentive payments as other revenues in the consolidated statement of activities for the years ended June 30, 2018 and 2017, respectively.

#### **(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.

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.

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(In thousands)

**(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, 2018 through October 5, 2018, which was the date the consolidated financial statements were available to be issued.

On September 6, 2018 MCW issued tax-exempt, fixed rate WHEFA Revenue Bonds Series 2018 (the Series 2018 Bonds). The Series 2018 bonds, totaling \$55,000 and issued as a direct placement with a financial institution, were issued to fund construction, renovation and equipping of MCW's educational, research, healthcare and related administrative facilities. The Series 2018 Bonds require mandatory principal payments due annually in 2020 through 2033. Interest is payable monthly at an effective interest rate of 3.05%.

No other 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, 2018

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:				
Research and Development Cluster:				
U.S. Department of Defense				
Department of the Army	12.420	—	\$ 241,844	3,704,915
CFD Research Corporation	12.RD	20160327	—	46,086
Children's Hospital of Boston	12.RD	TEAMMATE-002	—	189
Indiana University	12.RD	IN-4386932-MCW	1,146,705	2,013,708
InnoVital Systems, Inc.	12.RD	S208-03-WI-01	—	4,140
National Trauma Institute	12.RD	NTI-CLOTT17-06	—	26,021
Neuren Pharmaceuticals	12.RD	CSA-1145-29	—	4,335
Regents of the University of California, San Francisco	12.RD	8456sc	—	138,133
Total Department of the Army	12.RD	—	1,388,549	5,937,527
Department of the Navy				
Johns Hopkins University	12.RD	122100	—	1,423,537
L-3 Applied Technologies Inc	12.RD	82SC17001	—	103,804
National Marrow Donor Program	12.RD	204757	—	128,830
University of Pittsburgh	12.RD	0043845-12	—	1,638
Total Department of the Navy	12.RD	—	—	1,657,809
Total U.S. Department of Defense	12.RD	—	1,388,549	7,595,336
U.S. Department of Justice				
National Institute of Justice	16.DOJ	—	—	7,162
Michigan State University	16.RD	Various	—	40,789
Total National Institute of Justice	16.RD	—	—	47,951
Bureau of Justice Assistance	16.817	—	12,811	208,774
City of Milwaukee	16.RD	E0000014927	—	17,533
Total Bureau of Justice Assistance	16.RD	—	12,811	226,307
Office of Juvenile Justice and Delinquency Prevention				
Milwaukee County Department of Health and Human Services	16.RD	N/A	—	6,305
Office on Violence Against Women				
State of Wisconsin	16.RD	2016-GT-01-12480	—	94,782
Total U.S. Department of Justice	16.RD	—	12,811	375,345
U.S. Department of Transportation				
Federal Aviation Administration	20.108	—	—	168,852
National Highway Traffic Safety Administration (NHTSA)	20.DOT	—	—	1,010,385
Total U.S. Department of Transportation	20.RD	—	—	1,179,237
National Aeronautics and Space Administration				
National Science Foundation	43.003	—	81,880	478,519
National Science Foundation	47.049	—	—	80,509
National Science Foundation	47.074	—	—	213,143
The University of Texas Health Science Center at San Antonio	47.RD	158063/158037	—	95,763
University of Wisconsin-Milwaukee	47.RD	173405304	—	2,011
Total National Science Foundation	47.RD	—	—	391,426
U.S. Department of Veterans Affairs				
U.S. Department of Energy	64.VA	—	—	1,685,693
Battelle Memorial Institute	81.RD	216000	—	14,405
U.S. Department of Health and Human Services				
Agency for Healthcare Research and Quality	93.AHRQ	—	43,209	47,147
Agency for Healthcare Research and Quality	93.226	—	—	(8,946)
Beth Israel Deaconess Medical Center	93.RD	01029569	—	27,148
Mayo Clinic Rochester	93.RD	MED-230704, PO 65466507	—	1,870
University of Wisconsin-Madison	93.RD	777K571	—	22,168
Total Agency for Healthcare Research and Quality	93.RD	—	43,209	89,387
Centers for Disease Control and Prevention				
Eastern Virginia Medical School	93.RD	S270141-28	—	1,383
Safe States Alliance	93.RD	N/A	—	9,846
State of Wisconsin	93.RD	Various	39,460	457,965
University of Kansas Medical Center Research Institute Inc.	93.RD	Z9L00010	—	48,261
Total Centers for Disease Control and Prevention	93.RD	—	39,460	517,455
Centers for Medicare and Medicaid Services				
Children's Hospital of Wisconsin	93.RD	N/A	—	159,278
The American College of Cardiology	93.RD	3098 WI 01	—	43,264
Total Centers for Medicare and Medicaid Services	93.RD	—	—	202,542
Administration for Community Living				
Marquette University	93.RD	71170-001-04	—	59,774
Food and Drug Administration				
New York Medical College	93.RD	120004	—	5,980
Vanderbilt University	93.RD	VUMC 42098	—	4,076
Total Food and Drug Administration	93.RD	—	—	10,056

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**  
Schedule of Expenditures of Federal and State Awards  
Year ended June 30, 2018

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)	93.HRSA	—	\$ 2,096,171	4,139,937
Health Resources and Services Administration (HRSA)	93.127	—	129,383	383,763
Health Resources and Services Administration (HRSA)	93.186	—	34,523	409,463
Cincinnati Children's Hospital Medical Center	93.RD	Various	—	163,948
State of Wisconsin	93.RD	155999	—	2,621
Total Health Resources and Services Administration (HRSA)	93.RD	—	<u>2,260,077</u>	<u>5,099,732</u>
Indian Health Service				
Great Lakes Inter-Tribal Council, Inc.	93.RD	U261IHS0089-01-01	—	40,873
National Institutes of Health (NIH)	93.NIH	—	69,898	1,179,921
National Institutes of Health (NIH)	93.113	—	27,751	60,107
National Institutes of Health (NIH)	93.121	—	—	149,183
National Institutes of Health (NIH)	93.173	—	—	388,447
National Institutes of Health (NIH)	93.242	—	119,301	2,776,978
National Institutes of Health (NIH)	93.279	—	376,134	1,880,553
National Institutes of Health (NIH)	93.286	—	138,267	1,443,656
National Institutes of Health (NIH)	93.307	—	317,064	1,131,821
National Institutes of Health (NIH)	93.350	—	744,336	3,928,819
National Institutes of Health (NIH)	93.351	—	—	121,408
National Institutes of Health (NIH)	93.361	—	84,246	573,400
National Institutes of Health (NIH)	93.393	—	212,403	2,845,936
National Institutes of Health (NIH)	93.394	—	219,208	1,194,485
National Institutes of Health (NIH)	93.395	—	2,680,985	5,312,149
National Institutes of Health (NIH)	93.396	—	136,026	2,649,922
National Institutes of Health (NIH)	93.398	—	—	83,232
National Institutes of Health (NIH)	93.837	—	719,605	17,032,373
National Institutes of Health (NIH)	93.838	—	(43,238)	682,612
National Institutes of Health (NIH)	93.839	—	7,815,914	10,857,071
National Institutes of Health (NIH)	93.846	—	239,668	971,654
National Institutes of Health (NIH)	93.847	—	1,203,437	7,310,728
National Institutes of Health (NIH)	93.853	—	787,599	3,652,098
National Institutes of Health (NIH)	93.855	—	1,573,749	7,643,066
National Institutes of Health (NIH)	93.859	—	38,608	5,552,751
National Institutes of Health (NIH)	93.865	—	383,861	1,013,065
National Institutes of Health (NIH)	93.866	—	976,848	1,987,758
National Institutes of Health (NIH)	93.867	—	228,455	2,683,387
Alliance for Clinical Trials in Oncology Foundation	93.RD	N/A	—	305,271
Baylor Research Institute	93.RD	41010481706	—	14,485
Benaroya Research Institute at Virginia Mason	93.RD	N/A	—	625
Blood Center of Wisconsin	93.RD	Various	—	102,308
Board of Regents of the University of Oklahoma	93.RD	C3099401	—	41,250
Brigham and Women's Hospital Inc	93.RD	114117	—	8,326
Brio Device, LLC	93.RD	1R43HL124724-01A1	—	4,526
Case Western Reserve University	93.RD	RESS10758	32,577	53,419
Children's Hospital Los Angeles	93.RD	Various	—	35,566
Children's Hospital of Boston	93.RD	GENFD0001328245	—	104,349
Children's Hospital of Philadelphia	93.RD	Various	—	144,535
Children's Mercy Hospitals and Clinics	93.RD	Various	—	37,236
Cincinnati Children's Hospital Medical Center	93.RD	Various	—	25,894
Cleveland Clinic Lerner College of Medicine of CWRU	93.RD	908-SUB	—	30,075
Columbia University	93.RD	2 (GG011515)	—	17,491
Connecticut Children's Medical Center	93.RD	12-179296-18	—	7,312
CyteGen Corporation	93.RD	CG-AG056253	—	75,919
Dartmouth College	93.RD	R800	—	9,337
Dignity Health	93.RD	N/A	—	24,745
Duke University	93.RD	Various	—	291,756
ECOG-ACRIN Cancer Research Group	93.RD	Various	—	342,693
Emmes Corporation	93.RD	N/A	—	22,302
Fred Hutchinson Cancer Research Center	93.RD	Various	—	57,169
Frontier Science and Technology Research	93.RD	N/A	—	(90,192)
Hospital for Special Surgery	93.RD	001	—	22,295
Humanetics Corporation	93.RD	CL0101-01	—	15,503
Indiana University	93.RD	IN-4689862-MCW	—	23,319
Institute for Clinical Research, Inc.	93.RD	M54-WI-052-1101-3	—	52,384
Jaeb Center for Health Research, Inc.	93.RD	N/A	—	31,969
Johns Hopkins University	93.RD	2002088299	—	10,153
Kitware, Inc.	93.RD	K001837-00-S02	—	19,042
La Jolla Institute for Allergy and Immunology	93.RD	26666-89-393	—	(5,900)
Lehigh University	93.RD	N/A	—	4,275
Leidos Biomedical Research, Inc.	93.RD	Various	—	47,402
Los Angeles Biomedical Research Institute at Harbor-UCLA Medical Center	93.RD	R01HL127237	—	16,686
Marquette University	93.RD	Various	—	409,827
Marshfield Clinic Research Institute	93.RD	27755	21,510	925,137
Massachusetts General Hospital	93.RD	Various	—	76,620
Mayo Clinic Jacksonville	93.RD	MED-235640	—	2,863
Mayo Clinic Rochester	93.RD	Various	—	27,338
National Marrow Donor Program	93.RD	Various	—	227,108
Nationwide Children's Hospital	93.RD	952614	—	7,231
New England Research Institutes Inc.	93.RD	Various	—	342,677
New York University School of Medicine	93.RD	12-02247	—	4,680
Northwestern University	93.RD	Various	—	318,116
NRG Oncology Foundation, Inc.	93.RD	Various	—	404,501
Oklahoma University Health Science Center	93.RD	RS20140117-01	—	33,476
Pennsylvania State University	93.RD	MCWEY023533	—	4,815

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**  
Schedule of Expenditures of Federal and State Awards  
Year ended June 30, 2018

Federal grantor/pass-through grantor/cluster title	Federal CFDA number	Pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Prism Clinical Imaging, Inc.	93.RD	N/A	\$ —	107,068
Purdue University	93.RD	4102-82264	—	37,314
Rhode Island Hospital	93.RD	7017137111-5-WI	—	(8)
Seattle Children's Research Institute	93.RD	11019SUB	—	7,728
Stanford University	93.RD	Various	—	217,541
Tufts University School of Medicine	93.RD	100970-00001	—	167,609
University of Alabama at Birmingham	93.RD	Various	—	229,883
University of California Davis	93.RD	201602235-01	—	66,985
University of California-Irvine	93.RD	Various	—	19,195
University of California-San Francisco	93.RD	Various	—	230,808
University of Chicago	93.RD	Various	18,393	62,876
University of Florida	93.RD	Various	—	114,222
University of Illinois	93.RD	Various	—	29,172
University of Illinois-Chicago	93.RD	Various	—	28,358
University of Iowa	93.RD	W001038588	—	1,500
University of Kansas Medical Center Research Institute Inc.	93.RD	QR864362	—	161,784
University of Kentucky	93.RD	3200000735-17-015	—	98,382
University of Michigan	93.RD	Various	14,749	145,173
University of Minnesota	93.RD	Various	—	377,948
University of Nebraska Medical Center	93.RD	34-1905-2231-001	—	24,985
University of North Carolina at Chapel Hill	93.RD	5101140	—	23,075
University of Pennsylvania	93.RD	565975/10046355	—	150,509
University of Pittsburgh	93.RD	Various	—	43,282
University of South Florida	93.RD	Site 3302	—	22,160
University of Southern California	93.RD	68542389	—	1,653
University of Texas Medical Branch at Galveston	93.RD	16-073	—	19,097
University of Virginia	93.RD	Various	—	26,348
University of Washington	93.RD	Various	—	236,356
University of Wisconsin-Madison	93.RD	Various	—	266,187
University of Wisconsin-Milwaukee	93.RD	153405580	—	50,996
Vanderbilt University Medical Center	93.RD	VUMC65033	—	10,007
Virginia Commonwealth University	93.RD	Various	26,549	136,027
Wake Forest University	93.RD	WFUHS 113519	—	12,260
Washington University in St. Louis	93.RD	Various	—	140,794
Wayne State University	93.RD	Various	—	174,388
Westat, Inc.	93.RD	8339-S04/HHSN261200622012C	255,050	311,928
Wisconsin Corporation for Biomedical Research	93.RD	N/A	—	(24,417)
Yale University	93.RD	GR100921 (CON-80000970)	—	2,665
Total National Institutes of Health	93.RD	—	19,418,953	93,526,332
Office of the Secretary				
Atox Bio Ltd	93.RD	AB103	—	1,107
State of Wisconsin	93.RD	155992	—	408
Total Office of the Secretary	93.RD	—	—	1,515
Substance Abuse and Mental Health Services Administration:				
City of Milwaukee	93.RD	Various	—	5,296
Total U.S. Department of Health and Human Services	93.RD	—	21,761,699	99,552,962
Total Research and Development Cluster			23,244,939	111,272,923
Total major federal program			23,244,939	111,272,923
Nonmajor federal programs:				
U.S. Department of Justice				
Bureau of Justice Assistance				
State of Wisconsin	16.609	2016-PE-01-12277	—	30,323
State of Wisconsin	16.812	Various	—	22,346
Total U.S. Department of Justice			—	52,669
U.S. Department of Health and Human Services				
Centers for Disease Control and Prevention				
State of Wisconsin	93.074	43500-0000014895	—	50,003
State of Wisconsin	93.136	155066	—	60,577
State of Wisconsin	93.977	155027	—	69,252
Total Centers for Disease Control and Prevention			—	179,832
Administration for Children and Families				
State of Wisconsin	93.092	Various	—	85,872
State of Wisconsin	93.566	Various	—	74,850
State of Wisconsin	93.643	N/A	—	512
Total Administration for Children and Families			—	161,234
Health Resources and Services Administration (HRSA)	93.153	—	682,893	1,058,973
Health Resources and Services Administration (HRSA)	93.884	—	—	(1,128)
University of North Carolina at Chapel Hill	93.127	5108351	—	15,943
University of California-San Francisco	93.145	B000736743	—	9,272
University of Wisconsin-Milwaukee	93.359	183405336/144AAC3711	—	9,161
State of Wisconsin	93.917	Various	461,669	1,085,655

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**  
Schedule of Expenditures of Federal and State Awards  
Year ended June 30, 2018

<u>Federal grantor/pass-through grantor/cluster title</u>	<u>Federal CFDA number</u>	<u>Pass-through entity identifying number</u>	<u>Passed through to subrecipients</u>	<u>Total federal expenditures</u>
Marquette University	93.969	15-285-003-3	\$ —	146,823
State of Wisconsin	93.994	Various	—	141,015
University of Wisconsin-Madison	93.994	728K151	—	12,002
Total Federal CFDA number 93.994			—	153,017
Total Health Resources and Services Administration (HRSA)			1,144,562	2,477,716
Centers for Medicare and Medicaid Services				
State of Wisconsin	93.778	Various	—	5,394
Total U.S. Department of Health and Human Services			1,144,562	2,824,176
Student Financial Assistance Cluster (notes 4(a) and 5)				
U.S. Department of Education				
Federal Perkins Loan Program	84.038	—	—	6,170,092
Federal Direct Loan Program	84.268	—	—	40,366,866
Total U.S. Department of Education			—	46,536,958
U.S. Department of Health and Human Services				
Federal Primary Care Loans	93.342	—	—	5,306,469
Total Student Financial Assistance Cluster			—	51,843,427
Total nonmajor federal programs			1,144,562	54,720,272
Total expenditures of federal awards			24,389,501	165,993,195
Wisconsin Department of Health Services				
Division of Public Health		435.128010	—	184,871
Division of Public Health		435.128012	—	323,198
Division of Public Health		435.153312	—	8,571
Division of Public Health		435.159352	—	23,961
Division of Public Health		435.159363	—	70,161
Division of Public Health		43500-0000016831	—	9,501
Division of Public Health		435100-O15-GME-MCW	—	(2,904)
Division of Public Health		None	—	61,917
Division of Public Health		PO# 43500-0000014662	—	733,873
Division of Public Health		PO# 43500-000008181	—	4,083
University of Wisconsin-Madison		731K522	—	149,853
University of Wisconsin-Madison		763K932	—	13,803
University of Wisconsin-Madison		774K454	—	11,316
Wisconsin Department of Justice		None	—	900
Wisconsin Division of Medicaid Services		G-0590-OPIB-17	—	74,200
Wisconsin Department of Corrections		None	—	95,205
State of Wisconsin Appropriations				
Family Medicine and Practice (note 7)		N/A	—	4,611,396
General Program Operations Tuition Capitation (note 7)		N/A	—	1,927,724
Breast and Prostate Cancer Research Programs (note 7)		N/A	—	146,492
Total state expenditures			—	8,448,121
Total expenditures of federal awards and state expenditures			\$ 24,389,501	174,441,316

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, 2018

### (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, 2018 and should be read in conjunction with MCW's consolidated financial statements. The information in this 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 Guidance 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 for research and development activities are combined and considered to be a single program (Research and Development cluster) for major program determination. Also, 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).

#### (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, 2018

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, 2018, MCW charged facilities and administrative costs of \$27,318,499 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**

##### *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.

#### **(4) 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.

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2018

**(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. The administrative cost allowance charged to the Perkins Loan Program is based on disbursements and was \$0 for the year ended June 30, 2018. No disbursements occurred during the year ended June 30, 2018 due to the expiration of the Perkins Loan Program. Under the Perkins Loan Program Extension Act of 2015, no new Perkins Loans could be made to graduate students after September 30, 2016. If an eligible graduate student received a disbursement of a Perkins Loan before October 1, 2016 for the 2016-2017 award year, the student could receive any subsequent disbursements of that Perkins Loan through June 30, 2017. No Perkins Loan disbursements of any kind could be made to graduate students after June 30, 2017.

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 \$4,878,753 and \$4,781,480, respectively, at June 30, 2018.

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, 2018.

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2018

**(6) 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, 2018 are 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	7/1/16-6/30/17	\$ 168,970	41,056	503	41,559
128010	Congenital Disorders	168,974	7/1/17-6/30/18	131,423	133,693	9,619	143,312
128012	Congenital Disorders 2	330,229	7/1/16-6/30/17	326,350	95,811	—	95,811
128012	Congenital Disorders 2	330,229	7/1/17-6/30/18	216,968	217,806	9,581	227,387
150211	Opioid RX Pathway Project	317,206	9/1/16-8/31/17	224,520	75,507	38,662	114,169
150211	Opioid RX Pathway Project	196,642	9/1/17-8/31/18	96,483	67,297	29,186	96,483
153312	Trauma Care - RTAC	10,000	7/1/17-6/30/18	—	7,916	655	8,571
155027	Infertility Prevention	70,000	1/1/17-12/31/17	70,000	33,841	8,799	42,640
155027	Infertility Prevention	75,000	1/1/18-12/31/18	26,612	21,121	5,491	26,612
155066	National Violent Death Reporting System	87,768	9/1/16-8/31/17	83,664	9,227	915	10,142
155066	National Violent Death Reporting System	96,738	9/1/17-8/31/18	76,396	69,989	6,407	76,396
155174	Hospital Preparedness NPP	20,000	7/1/16-6/30/17	19,789	—	—	—
155915	HIV Home/Community Care (Ryan White)	257,084	4/1/16-3/31/17	257,084	1,892	189	2,081
155915	HIV Home/Community Care (Ryan White)	357,084	4/1/17-3/31/18	357,084	324,622	32,462	357,084
155919	HIV Home/Community Care (Ryan White)	250,000	4/1/17-3/31/18	250,000	233,780	16,220	250,000
155919	HIV Home/Community Care (Ryan White)	420,891	4/1/18-3/31/19	—	4,973	497	5,470
155961	Disease Intervention Specialists Evaluation	108,788	10/1/16-9/30/17	87,097	18,527	2,036	20,563
155989	Ryan White Supplemental	200,000	10/1/16-9/30/17	199,999	177,786	19,734	197,520
155989	Ryan White Supplemental	100,000	10/1/17-9/30/18	99,997	90,007	9,990	99,997
155990	Ryan White Part B Supplemental	193,755	10/1/16-9/30/17	193,755	85,098	8,510	93,608
155990	Ryan White Part B Supplemental	71,624	10/1/17-9/30/18	27,095	24,632	2,463	27,095
155991	Ryan White Minority AIDS Initiative	51,653	4/1/16-3/31/17	51,653	(1,895)	(189)	(2,084)
155991	Ryan White Minority AIDS Initiative	54,886	4/1/17-3/31/18	54,884	49,895	4,989	54,884
155992	HIV Minority Health Partner	8,250	8/1/16-7/31/17	8,166	371	37	408
155999	HIV Evaluation	2,750	8/1/17-3/31/18	2,621	2,383	238	2,621
159352	Milwaukee Adolescent Pregnancy Prevention Partnership	125,483	1/1/17-12/31/17	122,531	34,532	8,978	43,510
159353	Milwaukee Adolescent Pregnancy Prevention Partnership-Pregnancy Outreach	11,520	1/1/17-12/31/17	11,520	—	—	—
159354	Personal Responsibility Educational Program (PREP)	60,000	1/1/17-12/31/17	60,000	45,130	11,734	56,864
159363	Adolescent Pregnancy	80,620	1/1/18-6/30/18	56,525	59,965	15,591	75,556
159364	Reproduction Health Personal Responsibility Educational Program-Federal	85,000	1/1/18-1/31/19	24,833	18,463	4,800	23,263
				\$ 3,306,019	1,943,425	248,097	2,191,522

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Notes to Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2018

**(7) 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 \$4,611,396 for the year ended June 30, 2018. 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, 2018. MCW also receives annual appropriations from the State of Wisconsin to support breast and prostate cancer research. MCW expended \$146,492 of the cancer research appropriations during the year ended June 30, 2018. 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 on-site, 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.**

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

**(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:**  
Research and Development Cluster – Various CFDA Numbers
- H. Major state program:
- Program name:**  
Division of Public Health – Congenital Disorders – State ID 435.128010 & 435.128012
- I. Dollar threshold used to distinguish between federal Type A and Type B programs: **\$3,000,000**
- J. Auditee qualified as low-risk auditee? **Yes**

**THE MEDICAL COLLEGE OF WISCONSIN, INC.**

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

**(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 5, 2018



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, 2018, 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 5, 2018.

### **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 5, 2018



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, 2018. 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, 2018.



## 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 5, 2018