



THE MEDICAL COLLEGE OF WISCONSIN, INC.

(E.I.N.: 390806261)

Audit Reports in Accordance with
Government Auditing Standards and
Uniform Guidance

June 30, 2020

(With Independent Auditors' Report Thereon)

THE MEDICAL COLLEGE OF WISCONSIN, INC.

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KPMG LLP
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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, 2020 and 2019, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Medical College of Wisconsin, Inc. as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in notes 2(l) and 2(t) to the consolidated financial statements, in 2020, The Medical College of Wisconsin, Inc. adopted Accounting Standards Codification (ASC) Topic 842, *Leases* and Accounting Standards Update No. 2016-18, *Restricted Cash*. Our opinion is not modified as a result of this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary schedule of financial responsibility data (Schedule 1) as of and for the year ended June 30, 2020, is presented for purposes of additional analysis, as required by the US Department of Education, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying account 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, Schedule 1 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 14, 2020 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 14, 2020

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Consolidated Statements of Financial Position

June 30, 2020 and 2019

(In thousands)

Assets	2020	2019
Cash and cash equivalents	\$ 108,228	102,139
Deposits with bond trustees	8,838	23,568
Investments, at fair value	1,738,939	1,734,142
Receivables:		
Patient accounts	52,872	51,565
Other accounts, net	56,403	61,273
Grants and contracts, net	24,960	27,733
Contributions, net	48,583	53,489
Student loans, net	18,271	16,849
Notes receivable from Children's Specialty Group	28,132	34,119
Total receivables	229,221	245,028
Prepaid expenses and other assets	89,485	80,502
Right-of-use assets-operating leases	89,687	—
Land, buildings, and equipment, net	295,962	291,189
Total assets	\$ <u>2,560,360</u>	<u>2,476,568</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 117,442	113,060
Accrued payroll and related liabilities	146,079	140,191
Deferred revenue	20,641	14,787
Estimated liability for unpaid professional liability claims	8,931	10,285
Long-term operating lease obligations	95,950	—
Long-term debt	326,264	327,270
Interest rate swap	20,554	14,978
Other liabilities	9,942	24,162
Total liabilities	745,803	644,733
Net assets:		
Without donor restrictions	1,112,450	1,119,844
With donor restrictions	702,107	711,991
Total net assets	1,814,557	1,831,835
Total liabilities and net assets	\$ <u>2,560,360</u>	<u>2,476,568</u>

See accompanying notes to consolidated financial statements.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Consolidated Statements of Activities

Years ended June 30, 2020 and 2019

(In thousands)

	<u>2020</u>	<u>2019</u>
Net assets without donor restrictions:		
Revenues:		
Patient services	\$ 428,611	420,020
Children's Specialty Group contract fees	232,061	238,495
Clinical services contract fees	77,621	82,991
Affiliate hospital contracts	143,511	143,656
Children's Research Institute contract fees	9,009	8,986
Grants and contracts	145,992	133,178
Facilities and administrative cost recovery on grants and contracts	35,460	34,803
Coronavirus relief funds	22,369	—
Tuition and fees	59,080	54,870
Endowment spendable income	12,212	12,019
Other investment income	8,735	13,229
Contributions	6,994	11,503
State of Wisconsin appropriation	4,911	4,690
Other	7,925	15,321
Total revenues	<u>1,194,491</u>	<u>1,173,761</u>
Net assets released from donor restrictions	<u>33,999</u>	<u>31,308</u>
Total revenues and net assets released from donor restrictions	<u>1,228,490</u>	<u>1,205,069</u>
Expenses:		
Faculty salaries	480,624	456,161
Staff salaries	305,343	297,427
Fringe benefits	146,423	143,671
Services, supplies, and other	149,203	151,875
Rent and occupancy	39,789	41,111
Subcontracts	37,298	31,710
Depreciation and amortization	36,454	35,804
Interest on indebtedness	10,707	10,451
Total expenses	<u>1,205,841</u>	<u>1,168,210</u>
Revenues in excess of expenses before nonoperating gains and losses	<u>22,649</u>	<u>36,859</u>
Nonoperating gains and losses:		
Realized gain on investments, net	49,668	15,818
Unrealized loss on investments, net	(65,838)	(7,964)
Endowment income earned deficient of spendable income under the total return concept	(7,216)	(8,729)
(Loss) gain on sale of land, buildings, and equipment	(439)	7,274
Unrealized loss on interest rate swap	(5,576)	(4,111)
Other losses, net	(642)	(419)
Nonoperating losses, net	<u>(30,043)</u>	<u>1,869</u>
(Decrease) increase in net assets without donor restrictions	<u>(7,394)</u>	<u>38,728</u>

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Consolidated Statements of Activities

Years ended June 30, 2020 and 2019

(In thousands)

	<u>2020</u>	<u>2019</u>
Net assets with donor restrictions:		
Contributions	\$ 22,744	31,404
Investment income, net	6,347	7,329
Realized gains on investments, net	7,785	19,765
Unrealized losses on investments, net	(12,757)	(11,635)
Net assets released from donor restrictions	(33,999)	(31,308)
Change in fair value of charitable trusts	(4)	(34)
	<u>(9,884)</u>	<u>15,521</u>
(Decrease) increase in net assets with donor restrictions		
	(17,278)	54,249
(Decrease) increase in net assets		
Net assets at beginning of year	<u>1,831,835</u>	<u>1,777,586</u>
Net assets at end of year	<u>\$ 1,814,557</u>	<u>1,831,835</u>

See accompanying notes to consolidated financial statements.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2020 and 2019

(In thousands)

	2020	2019
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (17,278)	54,249
Adjustments:		
Depreciation and amortization	36,454	35,804
Contributions restricted for long-term investment	(15,154)	(6,123)
Loss (gain) on sale of land, buildings, and equipment	439	(7,274)
Loss on extinguishment of debt	24	—
Gain on investments in affiliates, net	(372)	(5,293)
Realized and unrealized loss (gain) on investments, net	21,142	(15,984)
Unrealized loss on interest rate swap	5,576	4,111
Decrease (increase) in receivables	15,807	(36,948)
Increase in prepaid expenses and other assets	(3,483)	(2,133)
Increase (decrease) in beneficial interest in charitable trusts	(1,287)	114
Increase in accounts payable and accrued payroll and related liabilities	23,941	38,307
Increase (decrease) in deferred revenue	5,854	(9,413)
(Decrease) increase in estimated liability for unpaid professional liability claims	(1,354)	14
(Decrease) increase in refundable advance for U.S. government-sponsored loan funds	(1,314)	284
Payments on operating leases	(8,143)	—
(Decrease) increase in other liabilities	(3,188)	308
	57,664	50,023
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchases of marketable securities	(548,600)	(320,198)
Proceeds from sales and maturities of marketable investments	656,213	280,518
Purchases of non-marketable securities	(398,524)	(106,425)
Proceeds from sales and maturities of non-marketable investments	260,181	139,160
Purchases of funds held in deposits with bond trustees	(31,821)	(106,075)
Proceeds from sales of deposits with bond trustees	46,551	83,282
Capital expenditures	(34,280)	(32,778)
Proceeds from sale of land, buildings, and equipment	12	8,662
Capital contributions to investments in joint ventures	(6,614)	(395)
Distributions from investments in joint ventures	1,563	2,011
	(55,319)	(52,238)
Net cash used in investing activities		
Cash flows from financing activities:		
Restricted contributions and investment income	15,154	6,123
Proceeds from long-term debt	—	55,000
Repayments of long-term debt	(8,700)	(10,886)
Purchase of capital assets under finance leases	—	3,310
Payments on finance leases	(2,710)	—
	3,744	53,547
Net cash provided by financing activities		
Net increase in cash and cash equivalents	6,089	51,332
Cash and cash equivalents at beginning of year	102,139	50,807
Cash and cash equivalents at end of year	\$ 108,228	102,139
Supplemental data:		
Cash paid for interest (net of amounts capitalized of \$495 and \$724 in 2020 and 2019, respectively)	\$ 11,512	11,182
Noncash change in receivable from Children's Specialty Group	(5,987)	2,591
Noncash purchase of equipment acquired with capital lease obligation	—	3,502
Noncash acquisition of land, building and equipment in exchange for long-term debt	8,578	—
Noncash acquisition of right-of-use assets in exchange for long-term lease obligations	102,168	—

See accompanying notes to consolidated financial statements.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(In thousands)

(1) Organization

The Medical College of Wisconsin, Inc. (MCW) is a private, freestanding health science university comprised of a school of medicine, a school of biomedical sciences and a school of pharmacy. The medical and biomedical sciences schools are comprised of 8 basic science departments, 24 clinical departments, and 13 centers and institutes, and offer medical and graduate degrees. The school of pharmacy focuses on high-end, consultative care, particularly for acute, primary and preventative needs and offers a doctorate of pharmacy degree. 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. Pharmacy education activities are performed at or near MCW's main campus in Milwaukee, Wisconsin.

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, 2020, MCW had 1,073 practicing faculty and staff physicians.

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

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

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

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

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(In thousands)

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

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

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

MCW faculty and staff physicians provide services to patients under agreements MCW has with third-party payors, patients, and others. The revenue related to patient services is recorded as patient services revenue as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total charges. As required in ASC 606, *Revenue from Contracts with Customers*, revenue is recognized at the time of transfer of control of promised goods and services in the amount that reflects the consideration an entity expects to receive in exchange for those goods and services.

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

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

(c) Grants and Contracts Revenue and Deferred Revenue

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

(d) Contributions Revenue and Contributions Receivable, Net

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized as revenue until the conditions that represent

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(In thousands)

a barrier are overcome and MCW is entitled to the assets promised. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Contributions to be received after one year are discounted using a discount rate consistent with the general principles of present value measurement. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of the fund-raising activity.

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

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

(e) Revenues in Excess of Expenses

Revenues in excess of expenses in the consolidated statements of activities reflect all transactions increasing or decreasing net assets without donor restrictions except realized and unrealized gains and losses on investments, gains or losses on the sale of land, buildings, and equipment, the difference between net appreciation and the amount expended for funds designated by the MCW Board of Trustees to function as endowments, unrealized gains and losses on interest rate swaps, 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. Contribution revenue for charitable gift annuities is recognized at the date annuity agreements are established for the amount of the assets less the amount of the present value of the estimated future payments to be made to the donors at the time of the gift. Assets held by MCW, as trustee, under charitable gift annuity agreements are recorded at fair value (see note 2(i)) and are included in investments. The related 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). Charitable gift annuity agreements administered by third-parties as trustees, in which assets will be distributed to MCW upon termination, are recorded at the present value of the estimated future payments and are included in contributions receivable.

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

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(In thousands)

(g) *Unreimbursed and Partially Reimbursed Care*

MCW has a policy of providing health care services without charge, or at amounts less than established rates, to patients who are unable to pay and who meet certain eligibility criteria established in MCW's community care policy. Because MCW does not pursue collection of amounts determined to qualify as community care, the amounts are not reported as revenue. The estimated direct and indirect costs incurred by MCW to provide services under MCW's community care policy during fiscal years 2020 and 2019 were \$2,422 and \$2,684, respectively. The estimated cost of these community care services was determined using a ratio of cost to gross charges and applying that ratio to the gross charges associated with providing care to these patients for the period. Gross charges associated with providing care to these patients includes only the related charges for those patients who are financially unable to pay and qualify under MCW's community care policy and who do not otherwise qualify for reimbursement from a governmental program.

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

(h) *Cash and Cash Equivalents*

Cash and cash equivalents include bank depository account balances, money market funds and other short-term, highly liquid investments not held by external investment managers or trustees, which are classified as investments or deposits with bond trustees. Cash and cash equivalents included as part of the investment portfolio and deposits with bond trustees are treated as investments for cash flow purposes.

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.

Total cash and cash equivalents reported on the consolidated statements of financial position includes \$2,868 and \$5,009 as of June 30, 2020 and 2019, respectively, of cash and cash equivalents restricted for the purpose of providing loans to students (see note 2(k)).

(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 investments without donor restriction. Endowment spendable income included in revenue consists of the amount expended from

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(In thousands)

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 functioning as endowments and as a change in net assets with donor restrictions 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.

(k) Student Loans Receivable, Net

MCW receives awards to make loans to eligible students under certain federal student loan programs. The Department of Education's Direct Loan program consists of federally guaranteed loans directly issued to the students of MCW. MCW is only responsible 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. All students are eligible for the Direct Loan Program. The Perkins, Primary Care, and Health Professions 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. Only medical students are eligible for the Perkins and Primary Care Student Loan Programs. Under the Perkins Loan Program Extension Act of 2015, no new Perkins Loans were made to medical students after June 30, 2017. Only pharmacy students are eligible for the Health Professions Student Loan Program. In addition, MCW also makes student loans to eligible students from funds received from philanthropic and other sources. Loans may be used for tuition, books, fees and living expenses.

(l) Right of Use Assets and Long-term Lease Obligations

MCW early-adopted ASC 842, *Leases*, effective July 1, 2019 using a mandated modified transition method. The standard requires lessees to recognize most leases on the consolidated statements of financial position and disclose additional qualitative and quantitative information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the consolidated statements of financial position for all leases with a term longer than 12 months. Leases are classified as either finance or operating leases, which impacts 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 to certain leasing transactions. In adopting and applying the standard, MCW has elected to adopt the package of transition practical expedients and, therefore, has not reassessed whether existing or expired contracts contain a lease, lease classifications for existing or expired leases

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(In thousands)

or the accounting for initial direct costs that were previously capitalized. MCW did not elect the practical expedient to use hindsight for leases existing at the adoption date. MCW adopted the standard using a modified retrospective transition approach and therefore did not adjust comparative financial information for effects of the standard or update lease disclosures for periods prior to the date of adoption. As of July 1, 2019, MCW recorded a ROU asset of \$102,168 and a long-term lease obligation of \$102,168 on the consolidated statements of financial position as part of the adoption. Total accrued lease expense as of June 30, 2019 of \$5,525 previously recorded as other liabilities was reclassified as an adjustment to the related ROU assets in accordance with the standard.

MCW is a lessee in several noncancelable operating leases, primarily for land and buildings for clinical, academic, and administrative purposes (see note 13). If an arrangement is a lease or contains a lease at contract inception, a ROU asset and a long-term lease obligation are recorded at the commencement of the lease and are included on the consolidated statements of financial position. MCW has elected not to recognize ROU assets and long-term lease obligations that have a term of one year or less. MCW recognizes the lease payments associated with its short-term leases as an expense on a straight-line basis over the lease term.

For operating leases, the long-term lease obligation is initially and subsequently measured at the present value of the unpaid lease payments and is included in the long-term operating lease obligations on the consolidated statements of financial position. Subsequent measurement of the long-term lease obligation is at amortized cost using the effective-interest method. The present value of the long-term lease obligation is determined using a discount rate equal to the interest rate implicit in the lease or, if unavailable, MCW's incremental borrowing rate at commencement of the lease. The lease term includes all noncancelable periods of the lease plus any additional periods covered by an option to extend that are reasonably certain to be executed by MCW or are controlled by the lessor.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred, less any lease incentives received. For operating leases, subsequent measurement of the ROU asset is measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus any prepaid lease payments, less the unamortized balance of lease incentives received. Lease payments are recognized as rent and occupancy expense on the consolidated statements of activities on a straight-line basis.

(m) Land, Buildings, and Equipment, Net

Investments in land, buildings, and equipment (including software licenses) are recorded at cost if purchased or at appraised value if donated. Assets are depreciated using the straight-line method over their estimated useful lives. The net interest cost incurred on borrowed funds during the period of major construction or renovation is capitalized as a component of the cost of acquiring those assets in accordance with FASB 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, the assets are written off or down to the net realizable value.

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(n) Impairment of Long-lived Assets

MCW periodically assesses its ability to recover long-lived assets (including land, buildings, equipment, and ROU assets) 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. When such assets are determined to be impaired, the assets are written off or down to the net realizable value. Management believes MCW's long-lived assets are not impaired as of June 30, 2020 and 2019.

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

Funds provided by the U.S. government under the Federal Perkins Student Loan Program, Federal Primary Care Loan Program, and Federal Health Professions Student Loan Program are loaned to qualified students. Receipts of principal and interest payments through the Federal Primary Care Loan Program are used to finance future loans to students. Under the Perkins Loan Program Extension Act of 2015, no Perkins Loan disbursements of any kind can be made to students after June 30, 2017; receipts of principal and interest payments through the Federal Perkins Student Loan Program are retained until the government issues Excess Cash Return notices. In fiscal year 2020, MCW received a notice for a return of excess funds and paid the government \$2,514. Funds provided by the U.S. government and earnings thereon are ultimately refundable to the government and, therefore, are presented as a liability and are included in other liabilities on the consolidated statements of financial position.

(p) Long-term Debt – Deferred Costs

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.

(q) 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.

(r) 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 \$372 and \$664 is included in services, supplies and other expenses and \$527 and \$(419) is included in other nonoperating gains and losses in the consolidated statements of activities in fiscal year 2020 and 2019, respectively.

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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 consolidated 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, 2020 and 2019.

(s) 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.

(t) New Accounting Pronouncements

MCW adopted ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, effective for the year ending June 30, 2020 with retrospective application. The standard 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. The adoption of the standard did not have a material effect on the consolidated statements of cash flows.

(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 Wisconsin, Inc. and related entities collectively referred to as Children's), and several other health care providers. The following is a summary of the transactions with these and other related parties.

(a) Froedtert Health, Inc.

MCW contracts with Froedtert to receive payment for faculty and staff physician services at hospital and clinic sites. During 2020 and 2019, MCW recognized affiliate hospital contract revenue of approximately \$125,199 and \$120,617, 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, 2020 and 2019 is \$29,460 and \$37,134, 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 \$4,874 and \$4,490 in 2020 and 2019, respectively. Other direct costs for equipment, supplies, and general services related to professional medical services at Froedtert are incurred by MCW

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directly. MCW also leases clinical space to Froedtert under operating leases. Rental income received from Froedtert by MCW is \$2,817 and \$2,832 in 2020 and 2019, respectively.

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

On January 30, 2013, MCW entered into a definitive agreement with Froedtert to form a joint clinical practice group effective July 1, 2013 named Froedtert & The Medical College of Wisconsin Community Physicians (FH-MCW Community Physicians). FH-MCW Community Physicians combines many of the community-based practices of Froedtert and MCW's Medical College Physicians. MCW has a 50% interest in the governance of the entity, but Froedtert is the sole financial member. MCW receives payments for MCW faculty and staff physicians leased to and performing services on behalf of FH-MCW Community Physicians. Additionally, FH-MCW Community Physicians contracts with MCW to perform billing services for its clinic-based sites. During 2020 and 2019, MCW recognized \$70,127 and \$75,864, 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, 2020 and 2019 is \$13,943 and \$15,053, respectively. MCW also collects patient services revenue for certain specialty services provided by FH-MCW Community Physicians providers performing services on behalf of MCW. These collections, net of assessments, are remitted to FH-MCW Community Physicians and in 2020 and 2019, \$11,224 and \$8,905, respectively, was recorded in services, supplies, and other expense. The outstanding balance of accounts payable to FH-MCW Community Physicians as of June 30, 2020 and 2019 is \$1,553 and \$1,707, respectively.

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

MCW entered into an Operations Agreement with Children's to form Children's Specialty Group, Inc. (CSG), a provider of pediatric specialty health care services, on July 1, 2000. MCW and Children's are the two members of CSG (see note 4(a)). Effective July 1, 2011, MCW and Children's agreed to amend the CSG Operations Agreement. Under the revised agreement, CSG distributes a percentage of its patient services revenues to MCW and any CSG revenues and gains in excess of expenses and losses are retained by CSG for program development. In 2020 and 2019, approximately 7% of CSG's patient services revenues were distributed to MCW.

MCW's revenues include \$232,061 and \$238,495 for the years ended June 30, 2020 and 2019, respectively, for certain physician services, leased equipment, and supplies purchased by CSG.

The pediatric practice patient accounts receivable at June 30, 2000 of approximately \$10,243 was transferred to CSG effective July 1, 2000 in exchange for a revolving note receivable. In 2012, MCW loaned an additional \$5,471 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 statements of financial position.

MCW leases space from Children's for certain administrative purposes. Rent paid to Children's by MCW is \$4,480 and \$4,353 in 2020 and 2019, respectively.

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(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 (MRMC 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 2020 and 2019, MCW purchased \$6,831 and \$6,385, respectively, of chilled water and steam service from MRMC Thermal.

On April 4, 2019, MCW provided a financial guarantee to a financial institution for a borrowing of MRMC. The guarantee requires MCW to reimburse the financial institution if MRMC fails to make principal or interest payments when due in accordance with the terms of their borrowing. The guarantee expires when the obligations of MRMC are satisfied. The maximum amount payable under this guarantee is \$10,000. As of June 30, 2020, it is not probable that any amount will be payable under the arrangement and a liability is not recorded within the consolidated statements of financial position.

Members of the MCW 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 2020 and 2019, MCW purchased from these related parties \$0 and \$334, respectively, of employee benefit services; \$5,727 and \$4,633, respectively, of subcontract and contractual fees; and \$416 and \$312, 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) CSG

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 2020 and 2019. MCW's share of CSG's (losses) gains for fiscal years 2020 and 2019 of \$(1,955) and \$4,052, respectively, is recorded in other revenue. CSG has total assets of \$111,484 and \$121,380 and net assets of \$83,352 and \$87,261 at June 30, 2020 and 2019, respectively. MCW's investment in CSG is approximately \$41,676 and \$43,631 as of June 30, 2020 and 2019, respectively, and is included in prepaid expenses and other assets on the consolidated statements of financial position.

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(b) MRMC Land Bank, LLC

On April 13, 2020, MCW became a member of the MRMC Land Bank, LLC, a joint venture with Children's and Froedtert. Each member has a 33.3% ownership interest. The purpose of the joint venture is to acquire land owned by Milwaukee County and any other land on or adjacent to the MRMC Campus that is or becomes available for the purpose of furthering the development of healthcare and educational facilities. MCW made capital contributions of \$2,683 and there were no gains or losses for fiscal year 2020. MCW's investment in MRMC Land Bank, LLC is approximately \$2,683 as of June 30, 2020 and is included in prepaid expenses and other assets on the consolidated statements of financial position.

(c) Other Joint Ventures

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

	Ownership percentage	
	2020	2019
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
FMLH MCW Real Estate Ventures, LLC	50.0	50.0
Froedtert Surgery Center, LLC	49.0	30.0
Drexel Town Square Surgery Center, LLC	49.0	49.0
Froedtert & The Medical College of Wisconsin ACO, LLC	50.0	—
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 from other joint ventures of \$1,563 and \$2,011 as of June 30, 2020 and 2019, respectively. MCW made capital contributions to other joint ventures of \$264 and \$395 in fiscal years 2020 and 2019. MCW's share of gains and losses in other joint ventures for fiscal years 2020 and 2019 of \$2,327 and \$1,316, respectively, is recorded in other revenue. MCW's investment in other joint ventures is approximately \$25,732 and \$21,038 as of June 30, 2020 and 2019, respectively, and is included in prepaid expenses and other assets on the consolidated statements of financial position.

During fiscal year 2020, MCW purchased an additional 19% ownership in the Froedtert Surgery Center, LLC joint venture from Froedtert for \$3,667.

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(5) Investments

The fair value of investments as of June 30, 2020 and 2019 is summarized below:

	<u>2020</u>	<u>2019</u>
Money market funds	\$ 9,814	5,220
Accrued investment income	298	500
U.S. government obligations	73,195	85,105
State and municipal bonds	25	25
Asset- and mortgage-backed securities	1,048	1,379
Bond mutual funds	206,129	266,625
Equity mutual funds	97,249	139,671
Commingled bond funds	163,322	177,142
Commingled equity funds	810,439	702,286
Equity securities	43,415	20,313
Other equity securities	332,031	333,500
Guaranteed investment contracts	<u>1,974</u>	<u>2,376</u>
Total	\$ <u>1,738,939</u>	<u>1,734,142</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. 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. Commingled equity funds are comprised of domestic and foreign equity and equity-like securities.

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

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

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MCW's return on investments as reported in the consolidated financial statements for the years ended June 30, 2020 and 2019 is summarized below:

	Year ended June 30, 2020		
	Without donor restrictions	With donor restrictions	Total
Endowment spendable income	\$ 12,212	2,159	14,371
Endowment investment income required to be reinvested	—	3,822	3,822
Endowment income earned over (deficient of) spendable income under the total return concept	<u>(7,216)</u>	<u>248</u>	<u>(6,968)</u>
Interest and dividends, net of fees, on pooled endowments	4,996	6,229	11,225
Other investment income	<u>8,735</u>	<u>118</u>	<u>8,853</u>
Total interest and dividends, net of fees	13,731	6,347	20,078
Realized gain on investments, net	49,668	7,785	57,453
Unrealized loss on investments, net	<u>(65,838)</u>	<u>(12,757)</u>	<u>(78,595)</u>
	<u>\$ (2,439)</u>	<u>1,375</u>	<u>(1,064)</u>

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

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Investment management and custodial fees incurred in 2020 and 2019 were \$6,318 and \$5,787, 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 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 falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following section describes the valuation methodologies used for financial assets and liabilities measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions. There were no changes in valuation methodologies used for the fiscal year ended June 30, 2020 and 2019.

Cash and cash equivalents: The fair value of cash and cash equivalents is based on observable market quotation prices provided by 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 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 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 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

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accumulated contributions and interest credited to the contracts, less any withdrawals. Contract value approximates fair value. Investments with valuations classified as Level 1 through 3 are considered marketable securities.

MCW applies the measurement provisions of FASB ASC Topic 820 related to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and commingled equity and bond funds. ASC Topic 820 allows MCW to estimate the fair value of an investment using the net asset value per share of the investment as a practical expedient, if that net asset value per share is determined in accordance with ASC Topic 946, *Financial Services-Investment Companies*. Investments in commingled bond and equity funds and other equity securities with a fair value of \$1,305,792 and \$1,212,928 were estimated using the net asset value per share, as a practical expedient, provided by external investment managers as of June 30, 2020 and 2019, respectively. Investments with fair values using the net asset value per share as a practical expedient are considered non-marketable securities. Changes in market conditions and the economic environment may impact the net asset value of the funds and consequently the fair value of MCW's interest in the funds.

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

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

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

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.

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The following tables present assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2020 and 2019:

	June 30, 2020			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 108,228	108,228	—	—
Deposits with bond trustees	8,838	8,838	—	—
Investments:				
Money market funds	9,814	9,814	—	—
Accrued investment income	298	153	145	—
U.S. government obligations	73,195	—	73,195	—
State and municipal bonds	25	—	25	—
Asset- and mortgage-backed securities	1,048	—	1,048	—
Bond mutual funds	206,129	206,129	—	—
Equity mutual funds	97,249	97,249	—	—
Equity securities	43,415	43,415	—	—
Guaranteed investment contracts	1,974	—	—	1,974
Subtotal	433,147	356,760	74,413	1,974
Investments measured at net asset value	1,305,792			
Total investments	1,738,939			
Beneficial interest in charitable trusts	5,499	—	—	5,499
Total assets	\$ 1,861,504	117,066	—	5,499
Liabilities:				
Deferred compensation	\$ 4,634	2,660	—	1,974
Interest rate swap	20,554	—	—	20,554
Total liabilities	\$ 25,188	2,660	—	22,528
Investments measured at net asset value	Net asset value	Unfunded commitments	Redemption frequency	Redemption notice period
Commingled bond funds	\$ 163,322	—	Monthly	10–45 days
Commingled equity funds	810,439	—	Monthly, quarterly, annually	4–180 days
Other equity securities	332,031	83,927	Monthly, quarterly, annually	30–180 days
Total investments measured at net asset value	\$ 1,305,792			

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	June 30, 2019			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Cash and cash equivalents	\$ 102,139	102,139	—	—
Deposits with bond trustees	23,568	23,568	—	—
Investments:				
Money market funds	5,220	5,220	—	—
Accrued investment income	500	319	181	—
U.S. government obligations	85,105	—	85,105	—
State and municipal bonds	25	—	25	—
Asset- and mortgage-backed securities	1,379	—	1,379	—
Bond mutual funds	266,625	266,625	—	—
Equity mutual funds	139,671	139,671	—	—
Equity securities	20,313	20,313	—	—
Guaranteed investment contracts	2,376	—	—	2,376
Subtotal	521,214	432,148	86,690	2,376
Investments measured at net asset value	<u>1,212,928</u>			
Total investments	1,734,142			
Beneficial interest in charitable trusts	4,212	—	—	4,212
Total assets	<u>\$ 1,864,061</u>	<u>125,707</u>	<u>—</u>	<u>4,212</u>
Liabilities:				
Deferred compensation	\$ 5,744	3,368	—	2,376
Interest rate swap	14,978	—	—	14,978
Total liabilities	<u>\$ 20,722</u>	<u>3,368</u>	<u>—</u>	<u>17,354</u>

<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	\$ 177,142	—	Monthly	10–45 days
Commingled equity funds	702,286	—	Monthly, quarterly, annually	4–180 days
Other equity securities	333,500	45,563	Monthly, quarterly, annually	30–180 days
Total investments measured at net asset value	<u>\$ 1,212,928</u>			

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Other equity securities include investments of \$81,652 and \$64,511 as of June 30, 2020 and 2019, 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, 2020 and 2019.

	Assets		Liabilities	
	Guaranteed investment contracts	Beneficial interest in charitable trusts	Interest rate swap	Deferred compensation
Balance as of July 1, 2019	\$ 2,376	4,212	14,978	2,376
Purchases	—	1,302	—	—
Sales	—	—	—	—
Net realized loss	—	—	—	—
Net change in unrealized appreciation	(402)	(15)	5,576	(402)
Balance as of June 30, 2020	\$ 1,974	5,499	20,554	1,974
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, 2020	\$ (402)	—	5,576	(402)

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	Assets		Liabilities	
	Guaranteed investment contracts	Beneficial interest in charitable trusts	Interest rate swap	Deferred compensation
Balance as of July 1, 2018	\$ 2,732	4,326	10,867	2,732
Purchases	—	—	—	—
Sales	—	—	—	—
Net realized loss	—	(42)	—	—
Net change in unrealized appreciation	(356)	(72)	4,111	(356)
Balance as of June 30, 2019	\$ 2,376	4,212	14,978	2,376
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, 2020	\$ (356)	—	4,111	(356)

There are no transfers in or out of Level 3 for the years ended June 30, 2020 and 2019.

(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.

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(In thousands)

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

(a) Interpretation of Relevant Law

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

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

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

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(c) Strategies Employed for Achieving Objectives

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

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

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

Spendable income funds are considered appropriated for expenditure when they are expended for the use and purpose for which the endowment 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 assets by net asset class (excluding pledges receivable of \$12,945 and \$10,380 respectively) as of June 30, 2020 and 2019 in total and by type is summarized below:

	2020		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowments:			
Advancing a Healthier Wisconsin:			
Perpetual in nature	\$ —	290,478	290,478
Restricted by time or purpose	—	148,801	148,801
Other endowments:			
Perpetual in nature	—	115,502	115,502
Restricted by time or purpose	—	56,648	56,648
Endowments designated by the Board of Trustees	<u>622,285</u>	<u>—</u>	<u>622,285</u>
Total	<u>\$ 622,285</u>	<u>611,429</u>	<u>1,233,714</u>

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

(f) Changes in Endowment Net Assets

Rollforwards of the beginning and ending balances of endowments by net asset class for the years ended June 30, 2020 and 2019 are as follows:

	2020		
	Without donor restrictions	With donor restrictions	Total
Interest and dividend income	\$ 5,244	5,981	11,225
Realized gain on investments	7,067	7,785	14,852
Unrealized loss on investments	<u>(10,174)</u>	<u>(12,757)</u>	<u>(22,931)</u>
Total investment return	2,137	1,009	3,146
Contributions	318,704	14,974	333,678
Expenditures	<u>(16,182)</u>	<u>(25,098)</u>	<u>(41,280)</u>
Total change in endowments	304,659	(9,115)	295,544
Net assets, beginning of year	<u>317,626</u>	<u>620,544</u>	<u>938,170</u>
Net assets, end of year	\$ <u><u>622,285</u></u>	<u><u>611,429</u></u>	<u><u>1,233,714</u></u>

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

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

Periodically, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Board of Trustees (pursuant to UPMIFA) requires MCW to retain to preserve the fair value of the original gift in perpetuity. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. For MCW, donor-restricted endowment funds with deficiencies had with an original gift value of \$12,494, a current fair value of \$12,186, and a deficiency of \$308 as of June 30, 2020. This deficiency resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

(8) Patient Services Revenue and Patient Accounts Receivable

Patient services revenue, net of explicit contractual allowances, discounts and implicit price concessions, by major payor source for the years ended June 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Commercial/managed care	\$ 280,608	274,174
Self-pay patients	42,031	39,442
Medicaid	24,592	26,079
Medicare	76,865	71,967
Other	4,515	8,358
Patient services revenue	<u>\$ 428,611</u>	<u>420,020</u>

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MCW grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of net receivables from self-pay patients and third-party payors at June 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Commercial/managed care	\$ 29,366	26,958
Self-pay patients	13,383	12,846
Medicaid	2,086	2,185
Medicare	6,839	6,075
Other	<u>1,198</u>	<u>3,501</u>
Patient accounts receivable, net	\$ <u>52,872</u>	<u>51,565</u>

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

(9) Other Accounts Receivable, Net

Other accounts receivable at June 30, 2020 and 2019 consist of the following:

	<u>2020</u>	<u>2019</u>
Affiliated hospitals	\$ 30,388	39,073
Other	<u>26,740</u>	<u>22,543</u>
Other accounts receivable	57,128	61,616
Allowance for doubtful accounts	<u>(725)</u>	<u>(343)</u>
Other accounts receivable, net	\$ <u>56,403</u>	<u>61,273</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.

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(10) Grants and Contracts Receivable, Net

Grants and contracts receivable at June 30, 2020 and 2019 consist of the following:

	<u>2020</u>	<u>2019</u>
Grants and contracts	\$ 25,638	27,860
Allowance for doubtful accounts	<u>(678)</u>	<u>(127)</u>
Grants and contracts receivable, net	<u>\$ 24,960</u>	<u>27,733</u>

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

Unexpended research and training awards committed to MCW by federal sponsoring agencies were approximately \$101,034 and \$96,140 at June 30, 2020 and 2019, respectively; other committed awards were approximately \$21,048 and \$20,356 at June 30, 2020 and 2019, 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Total contributions receivable	\$ 52,641	57,425
Allowance for uncollectible contributions	(954)	(834)
Adjustment to present value	<u>(3,104)</u>	<u>(3,102)</u>
Contributions receivable, net	<u>\$ 48,583</u>	<u>53,489</u>

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The discount rates used to adjust the contributions receivable to present value range from 0.45% to 3.62% at June 30, 2020 and 2019. Contributions receivable at June 30, 2020 are expected to be collected in future fiscal years as follows:

2021	\$	14,554
2022		10,643
2023		10,619
2024		6,505
2025		5,324
2026 and beyond		<u>4,996</u>
Total	\$	<u><u>52,641</u></u>

(12) Student Loans Receivable, Net

Student loans receivable at June 30, 2020 and 2019 consist of the following loan funds:

	<u>2020</u>	<u>2019</u>
Federal Primary Care Loan Program	\$ 6,086	5,057
Federal Perkins Loan Program	2,779	3,982
Health Professions Student Loan Program	242	—
MCW loans	<u>9,397</u>	<u>7,980</u>
Students loans receivable	18,504	17,019
Allowance for loan loss	<u>(233)</u>	<u>(170)</u>
Student loans receivable, net	\$ <u><u>18,271</u></u>	<u><u>16,849</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.

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The credit risk profiles of the student loans receivable are based on payment activity as of June 30, 2020 and 2019. 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>2020</u>	<u>2019</u>
Student loans receivable:		
Performing	\$ 18,322	16,864
Nonperforming	<u>182</u>	<u>155</u>
Total student loans receivable	\$ <u><u>18,504</u></u>	<u><u>17,019</u></u>

The following table provides an analysis of current student loans receivable, including amounts for students in school, in grace and not past due, and the aging of the past due student loans receivable as of June 30, 2020 and 2019:

	<u>< 270 Days past due</u>	<u>270 Days– 2 years past due</u>	<u>2–5 Years past due</u>	<u>> 5 Years past due</u>	<u>Total past due</u>	<u>Current</u>
June 30, 2020	\$ 355	278	37	145	815	17,689
June 30, 2019	380	84	13	142	619	16,400

The recorded investment in student loans receivable for which an impairment has been recognized is \$815 and \$619 at June 30, 2020 and 2019, respectively. The related allowance for loan loss is \$233 and \$170 at June 30, 2020 and 2019, respectively. The average recorded investment in impaired student loans receivable is \$717 and \$684 during fiscal years 2020 and 2019, respectively. Interest income recognized on student loans receivable is \$367 and \$386 during fiscal years 2020 and 2019, respectively. There are no sales of student loans receivable for the years ended June 30, 2020 and 2019.

(13) Leases

Information as of and for the Year Ended June 30, 2020

MCW is a lessee in several noncancelable operating leases, primarily for land and buildings for clinical, academic, and administrative purposes that expire over the next 13 years. These leases generally contain renewal options for periods ranging from 1 to 5 years. The option period is included in determining the lease term and lease payments if it is reasonably certain to be exercised by MCW or its execution is controlled by the lessor. Payments due under the lease contracts include fixed payments plus, for some of the leases, variable payments. Variable payments generally include payments for MCW's proportionate share of the building's property taxes, insurance, and common area maintenance.

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Lease rental expense for the year ended June 30, 2020 is as follows:

Operating lease rental expense	\$	11,629
Variable rental expense		<u>7,840</u>
Total rental expense	\$	<u><u>19,469</u></u>

ROU assets and long-term lease obligations reported on the consolidated statements of financial position as of June 30, 2020 are as follows:

Operating leases:		
Operating ROU assets	\$	89,687
Operating lease long-term lease obligations		95,950

ROU assets of \$2,511 and \$0 were obtained in exchange for long-term lease obligations on operating leases and finance leases, respectively, for the year ended June 30, 2020. Reductions in ROU assets of \$658 resulted in reductions to long-term lease obligations on operating leases for the year ended June 30, 2020. Amounts disclosed for ROU assets obtained in exchange for long-term lease obligations include amounts added to the carrying amount of ROU assets resulting from lease modifications and reassessments.

Maturities of long-term operating lease obligations under noncancelable leases as of June 30, 2020 are as follows:

2021	\$	12,017
2022		11,700
2023		11,516
2024		11,414
2025		10,980
2026 and beyond		<u>54,361</u>
Total undiscounted long-term operating lease obligations		111,988
Less imputed interest		<u>16,038</u>
Total long-term operating lease obligations	\$	<u><u>95,950</u></u>

As of June 30, 2020, the weighted-average remaining lease term for all operating leases is 10 years.

The weighted average discount rate associated with operating leases as of June 30, 2020 is 3%.

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Information as of and for the Year Ended June 30, 2019

MCW leases land and buildings for clinical, academic, and administrative purposes under operating leases. Rental expense for fiscal year 2019 was \$21,253. Rental expense for leases with scheduled fixed or determinable rent increases in future years were accounted for on an accrual basis.

Future minimum lease payments under operating leases that have initial noncancelable terms in excess of one year at June 30, 2019 prior to adopting ASC 842 were as follows:

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

(14) Land, Buildings, and Equipment, Net

Land, buildings, and equipment is comprised of the following at June 30, 2020 and 2019:

		2020	2019
Land, buildings, and improvements	\$	450,969	427,037
Equipment and furnishings		276,478	264,185
Library books		951	951
Construction in progress		14,551	18,382
		742,949	710,555
Accumulated depreciation and amortization		(446,987)	(419,366)
Land, buildings, and equipment, net	\$	295,962	291,189

At June 30, 2020 and 2019, construction in progress includes capitalized interest of \$277 and \$134, respectively.

On April 14, 2020, MCW acquired 36 acres of land from Milwaukee County under a land purchase agreement (see note 16). MCW had previously leased the land under land lease agreements.

MCW is a party to construction contracts that exist for various building renovation and grounds improvement projects. As of June 30, 2020, MCW's outstanding contractual commitments on these contracts approximates \$5,896.

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(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 2020 and 2019, MCW made contributions to the Program in the amounts of \$751 and \$750, respectively. The Program has net assets without donor restrictions of \$9,695 and \$10,147 as of June 30, 2020 and 2019, respectively.

Investments held in trust for the Program, as reported in investments at fair value on the consolidated statements of financial position, are \$18,691 and \$20,476 as of June 30, 2020 and 2019, respectively.

(16) Long-Term Debt

Long-term debt consists of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Tax-exempt fixed rate Wisconsin Health and Educational Facilities Authority (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 5.18% and 5.15% at June 30, 2020 and 2019, respectively. Interest is payable semiannually	\$ 5,610	5,890
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 (0.13% and 1.93% at June 30, 2020 and 2019, 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, 2020 and 2019. Interest is payable semiannually	1,800	3,510

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	<u>2020</u>	<u>2019</u>
Tax-exempt fixed rate WHEFA Revenue Bonds		
Series 2014 A, with principal payments due annually through 2025. Interest is payable monthly at 2.21%	\$ 9,800	11,610
Tax-exempt fixed rate WHEFA Revenue Bonds		
Series 2014 B, with principal payments due annually through 2027. Interest is payable monthly at 2.36%	12,840	13,065
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 4.50% at June 30, 2020 and 2019 respectively	148,825	151,240
Tax-exempt fixed rate WHEFA Revenue Bonds		
Series 2018, with principal payments due annually through 2033. Interest is payable monthly at 3.05%	55,000	55,000
Taxable variable rate term loan, with principal payments due annually through 2021. Interest is payable monthly at rates reset on a monthly basis (0.93% and 3.18% at June 30, 2020 and 2019, respectively)	2,325	4,585
Note payable, with an effective interest rate of 3.52%. The note is payable to Milwaukee County in annual installment payments through September 2074	8,578	—
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	<u>1,495</u>	<u>1,495</u>
Total long-term debt before unamortized premium and discount and issuance costs	313,773	313,895
Unamortized discount and premium (net) on Series 2008 A	(142)	(174)
Unamortized premium on Series 2010	6	29
Unamortized discount and premium (net) on Series 2016	14,651	15,708
Unamortized issuance costs	<u>(2,024)</u>	<u>(2,188)</u>
Total long-term debt	<u>\$ 326,264</u>	<u>327,270</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, buildings, and equipment. The borrowing agreements contain continuing disclosure requirements and various covenants and restrictions, including a requirement that MCW maintain a minimum debt service

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coverage ratio, a minimum number of days of unrestricted cash on hand, and a maximum debt to capitalization ratio.

The aggregate scheduled principal maturities of long-term debt for each of the five years subsequent to June 30, 2020 and thereafter are as follows:

2021	\$	10,293
2022		10,355
2023		10,707
2024		11,074
2025		11,621
2026 and beyond		<u>259,723</u>
Total	\$	<u><u>313,773</u></u>

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

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

(a) WHEFA Revenue Bond Series 2008

The Series 2008 A bonds, totaling \$83,400, were issued on July 30, 2008 to (i) refund the WHEFA Revenue Bond Series 2004 B1 bonds which had been issued to refund the WHEFA Revenue Bond Series 1993, and to fund construction of a Biomedical Research Facility, certain additional capital projects and a parking structure, (ii) to fund the construction of research capital projects at the Biomedical Research Facility and certain additional capital projects, and (iii) to fund a debt service reserve fund. Certain of the Series 2008 A bonds were advance-refunded by the WHEFA Revenue Bond Series 2016. A portion of the proceeds from the Series 2016 bonds, along with \$7,332 released 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, 2020, the remaining balance of the debt service reserve fund is \$766.

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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, 2020, there were no outstanding liquidity drawings or drawing loans under the Credit Agreement.

(b) WHEFA Revenue Bond Series 2010

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

(c) WHEFA Revenue Bond Series 2014

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

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(d) WHEFA Revenue Bond Series 2016

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

(e) WHEFA Revenue Bond Series 2018

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

(f) Taxable Loans

On November 1, 2013, MCW entered into a Loan Agreement with a financial institution under which a taxable term loan was 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.

On May 1, 2020, MCW entered into a Loan Agreement with a financial institution under which a taxable revolving loan was made to MCW by the financial institution. The revolving loan is for \$150,000 and is used for working capital expenditures. MCW pays a fee of 0.20% quarterly on the unused balance of the revolving loan.

(g) Note Payable to Milwaukee County

On April 14, 2020, MCW entered into a Land Payment Agreement with Milwaukee County in exchange for land that MCW previously leased from Milwaukee County under long-term lease agreements (see note 14). MCW provided a letter of credit issued by a financial institution to Milwaukee County as security for the future installment payments. The land acquired in the purchase is included in the mortgage under the Master Trust Indenture.

(h) 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.

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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 \$6,216 and \$532 were provided as collateral as of June 30, 2020 and 2019, 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 MCW Board of Trustees; however the net assets are without donor restriction and can be used for any institutional purposes by MCW. The designations at June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Designated to function as endowment funds to support the following purposes:		
Research	\$ 316,717	22,305
Professorships	2,012	2,301
Undesignated	<u>303,556</u>	<u>293,020</u>
	622,285	317,626
Designated for the professional liability insurance program	9,716	10,148
Undesignated	<u>480,449</u>	<u>792,070</u>
	\$ <u><u>1,112,450</u></u>	\$ <u><u>1,119,844</u></u>

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Net assets with donor restrictions that are restricted for time, purpose or both at June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Endowments subject to spending policy and appropriation, to support the following purposes (including net accumulated earnings of \$262,849 and 228,671, respectively):		
Advancing a Healthier Wisconsin	\$ 439,279	456,455
Research	57,089	50,929
Professorships	31,697	30,937
Scholarships	32,054	32,011
Education	6,002	5,888
Community engagement	3,242	3,367
Student loans	1,106	1,154
Other	40,960	39,803
	<u>611,429</u>	<u>620,544</u>
Time implied pledges to support the following purposes:		
Research	23,990	27,270
Scholarships	103	179
Education	11,105	14,204
Capital projects	150	590
Community engagement	381	500
Student loans	26	41
Other, including discounts and bad debt allowances	(117)	325
	<u>35,638</u>	<u>43,109</u>
Time implied pledges to support the following purposes in perpetuity:		
Research	7,664	3,777
Professorships	4,338	4,376
Scholarships	449	463
Education	263	399
Other, including discounts and bad debt allowances	231	1,365
	<u>12,945</u>	<u>10,380</u>
Gifts subject to expenditure to support the following purposes:		
Capital projects	26,270	24,048
Student loans	9,216	9,036
	<u>35,486</u>	<u>33,084</u>

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	2020	2019
Charitable gifts that will provide proceeds in the future:		
Trusts and annuities	\$ 6,362	4,646
Life insurance	247	228
	6,609	4,874
	\$ 702,107	711,991

(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. In August 2019, WUHF distributed marketable securities to MCW having an original fair value of \$1,789. WUHF was then dissolved. These assets are referred to as Advancing a Healthier Wisconsin funds (AHW funds) and are classified as net assets with donor restrictions. The AHW funds are proceeds of the conversion of Blue Cross and Blue Shield United of Wisconsin (BCBSUW) from a nonprofit company to a for-profit stock company, as approved by the Wisconsin Commissioner of Insurance in the Findings of Fact, Conclusions of Law, and Order (the Order) issued March 28, 2000. The AHW funds are under the oversight of the MCW Consortium on Public and Community Health, Inc. (the MCW Consortium) and are restricted pursuant to terms of the Order. MCW is entitled to appoint eight of the nine board members of the MCW Consortium (four of whom shall represent MCW).

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

(b) State of Wisconsin Construction and Equipment Grants

On November 17, 2004, the Wisconsin State Building Commission approved the release of a \$25,000 grant to MCW to aid in the construction of a Biomedical Research Facility. On March 31, 2005, MCW entered into a Grant and Land Use Restriction Agreement with the State of Wisconsin Department of Administration to formalize the terms for receipt of these funds. The grant agreement provided support for 28.4% of the eligible construction expenses for the facility, conditioned upon receipt of a requisition documenting that such expenditures had been incurred. As of June 30, 2007, MCW had recognized a contribution with donor restriction for the entire \$25,000 related to the construction grant. The Biomedical Research Facility was placed into service during fiscal year 2007, and MCW began releasing the restriction on the contribution over the 40-year estimated life of the facility. As of June 30, 2020, \$16,701 remains classified as net assets with donor restriction.

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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 donor restriction on the contribution over the estimated life of the related assets. As of June 30, 2020, \$1,882 remains classified as net assets with donor restrictions.

On August 6, 2014 and February 20, 2019, the Wisconsin State Building Commission approved the release of \$5,384 and \$2,000, respectively, of grant funds 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, 2020 and 2019, MCW recognized a contribution with donor restriction of \$0 and \$359, respectively, related to this grant. Portions of the project were completed and placed into service starting in fiscal year 2014, and MCW began releasing the restriction on the contribution over the estimated life of the grant restrictions. As of June 30, 2020, \$6,758 remains classified as net assets with donor restrictions.

(18) Employee Benefit Plans

MCW sponsors a Section 403(b) defined contribution retirement Plan (the Plan). Employees are eligible to voluntarily participate in the Plan immediately upon hire. Voluntary contributions are made solely through participant payroll withholdings (up to the IRS annual limit) and are not matched by MCW. Upon completing two years of services and attaining the age of 21 participants must contribute 6% of their pretax annual compensation (mandatory participation), and can voluntarily contribute more (up to the IRS annual limit). Upon mandatory participation, MCW makes matching contributions of 0% 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 \$42,588 and \$39,654, respectively, for the years ended June 30, 2020 and 2019.

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

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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 \$4,665 and \$5,698 at June 30, 2020 and 2019, respectively, are reflected in cash and cash equivalents and investments at fair value. Accrued benefits totaling approximately \$4,634 and \$5,744 at June 30, 2020 and 2019, 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 \$50,895 and \$1,131, respectively, during the year ended June 30, 2020 and \$54,746 and \$1,801, respectively, during the year ended June 30, 2019.

(19) Functional Expenses

Expenses classified by both nature and function for the year ended June 30, 2020 and 2019 are as follows:

	Year ended June 30, 2020						
	Program activities				Supporting activities		Total expenses
	Patient care	Research	Education	Community engagement	Institutional support	Fundraising	
Faculty salaries	\$ 373,324	60,738	39,138	2,792	4,215	417	480,624
Staff salaries	154,376	81,812	21,330	2,745	42,732	2,348	305,343
Fringe benefits	92,212	29,041	11,337	1,126	12,113	594	146,423
Services, supplies and other	62,964	37,918	19,046	1,155	26,173	1,947	149,203
Rent and occupancy	15,544	11,966	3,869	206	8,045	159	39,789
Subcontracts	—	30,941	1,968	4,389	—	—	37,298
Depreciation and amortization	8,295	19,584	5,196	207	3,026	146	36,454
Interest on indebtedness	4,124	4,672	1,061	34	816	—	10,707
Total expenses	\$ 710,839	276,672	102,945	12,654	97,120	5,611	1,205,841

	Year ended June 30, 2019						
	Program activities				Supporting activities		Total expenses
	Patient care	Research	Education	Community engagement	Institutional support	Fundraising	
Faculty salaries	\$ 352,127	58,731	38,586	2,768	3,508	441	456,161
Staff salaries	149,070	77,925	20,730	2,942	44,045	2,715	297,427
Fringe benefits	88,233	29,717	11,281	1,280	12,469	691	143,671
Services, supplies and other	64,156	37,728	18,184	1,452	27,789	2,566	151,875
Rent and occupancy	17,115	11,898	5,206	228	6,510	154	41,111
Subcontracts	—	25,479	2,134	4,097	—	—	31,710
Depreciation and amortization	9,001	14,836	3,595	260	7,984	128	35,804
Interest on indebtedness	3,862	4,485	976	26	1,102	—	10,451
Total expenses	\$ 683,564	260,799	100,692	13,053	103,407	6,695	1,168,210

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

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

(20) Availability of Resources

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

Financial assets expected to be available within one year of June 30, 2020 and 2019 for general expenditure are as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 108,228	102,139
Investments, at fair value	1,738,939	1,734,142
Receivables:		
Patient accounts, net	52,872	51,565
Other accounts, net	56,403	61,273
Contributions, net	<u>48,583</u>	<u>53,489</u>
Financial assets at June 30	2,005,025	2,002,608
Less financial assets unavailable for general expenditure within one year due to:		
Restrictions:		
Endowments, net of funds to be appropriated for expenditure within one year	513,261	522,185
Funds functioning as endowments, net of funds to be appropriated for expenditure within one year	548,117	260,009
Restricted investments	34,509	30,727
Pledges receivable, net of amounts to be received within one year	35,029	41,759

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	<u>2020</u>	<u>2019</u>
Liquidity:		
Unrestricted investments with liquidity horizons greater than one year	\$ <u>19,873</u>	<u>31,552</u>
Financial assets available to meet cash needs for general expenditure within one year	\$ <u>854,236</u>	<u>1,116,376</u>

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

(21) Commitments and Contingent Liabilities

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

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

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

(22) Business Risks and Uncertainties

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

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

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(23) Coronavirus 2019

On March 11, 2020, the World Health Organization designated Coronavirus 2019 (COVID-19) as a global pandemic. Patient activity and related revenues for most services were significantly impacted starting in mid-March as various policies were implemented by federal, state and local governments in response to the COVID-19 pandemic that caused many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective surgical procedures.

MCW's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. Precautionary steps to enhance operational and financial flexibility, and react to the risks the COVID-19 pandemic presents to the business, included the following:

- Implemented certain cost reduction initiatives;
- Reduced certain planned projects and capital expenditures;
- On May 1, 2020, received a bank commitment for a \$150,000 revolving loan; and
- Assessed the various federal and state stimulus options available to MCW as noted below.

In March 2020, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law providing temporary and limited relief to hospitals and healthcare providers during the COVID-19 outbreak, appropriations were made for hospitals and healthcare providers to cover expenses and lost revenue associated with the treatment of COVID-19 patients, expanding the Medicare Advanced and Accelerated payment program, providing employee retention tax credits to employers affected by COVID-19, eliminating the 2% reduction in Medicare payments from sequestration through 2020, creating an add-on payment for inpatient hospitals treating COVID-19 patients, and delaying a reduction in Medicaid funding for Medicare disproportionate share hospitals.

As of June 30, 2020, MCW received or accrued \$19,063 in general distributions, \$2,165 in employee retention credits, \$1,059 in reimbursement of unemployment contributions and \$82 in higher education relief funds under the CARES Act. These funds are not subject to repayment, provided MCW is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for healthcare-related expenses or lost revenue attributable to COVID-19. Such payments are accounted for as government grants and are recognized on a systematic and rational basis as other income once there is reasonable assurance that the applicable terms and conditions required to retain the funds will be met. Based on analysis of the compliance and reporting requirements of the CARES Act and the state relief program, and the impact of the pandemic on operating results through the end of 2020, MCW has recorded \$22,369 as coronavirus relief funds revenue in the consolidated statements of activities.

Effective September 19, 2020, a new post-payment notice of reporting requirements for CARES Act funds was released that provided direction that is substantially different from previous guidance. MCW has evaluated this notice and concluded it is a type II subsequent event under GAAP. Therefore, there is no adjustment to the recognition of coronavirus relief funds revenue as of June 30, 2020 based on this new guidance and any changes would be reflected in 2021 results.

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In addition, MCW received approximately \$9,000 of payments under the Medicare Advanced Payment Program (APP) which allows eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. After 120 days of receipt (preliminarily beginning in August 2020), claims for services provided to Medicare beneficiaries will be applied against the advance payment balance. Any unapplied advance payment amounts must be paid in full within one year from receipt of the advance payments for acute care hospitals and within 210 days for other health care providers. As of June 30, 2020, the APP payments are included in accounts payable on the consolidated statement of financial position. Effective September 30, 2020, a short-term federal spending bill was signed that included extending initial repayment terms to start one year post receipt up to twenty-nine months. MCW has concluded that this is also a type II subsequent event.

MCW has also deferred employment tax deposits and payments of \$8,062 as of June 30, 2020 under the IRS deferral of employment tax deposits and payments. The program allows MCW to defer deposits of the employer's share of social security tax due and payments of the tax imposed on wages paid during the period from March 27, 2020 to December 31, 2020. The tax deposits and payments deferred are included in accrued payroll and related liabilities on the consolidated statement of financial position.

The COVID-19 pandemic has affected commerce and financial markets globally. Although COVID-19 initially produced market conditions that adversely affected the fair value of the MCW's investments, the fair value substantially recovered by June 30, 2020. It is possible that COVID-19 will impact the fair value of MCW's investments in the future.

The extent of the COVID-19 pandemic's adverse impact on operating results and financial condition of MCW has been and will continue to be driven by many factors, most of which are beyond MCW's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed or recommended suspensions of elective procedures, continued declines on patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, changes in professional and general liability exposure, and volatility of global financial markets. Because of these and other uncertainties, MCW cannot estimate the length or severity of the impact of the COVID-19 pandemic on the business and the results of operations.

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(24) Financial Responsibility Standards

MCW participates in federal Title IV student financial assistance programs, which require it to meet standards of financial responsibility based on criteria determined by the U.S. Department of Education (ED), as set forth in 34 CFR 668.171. The criteria for private institutions include the annual calculation by ED of a financial responsibility composite score, as further outlined in 34 CFR 668.172, using audited financial statements submitted through ED's eZ-Audit system. The composite score has been and will continue to be based on three ratios: Primary Reserve, Equity, and Net Income. These ratios utilize the following financial data of MCW, which are not otherwise presented in the financial statements or other notes to the financial statements, as of and for the year ended June 30, 2020:

<u>Required input per standards</u>	<u>Ratio(s) used</u>	<u>Input amount</u>	<u>Amount not used as input on supplementary schedule</u>	<u>Reference</u>
AHW endowments restricted in perpetuity			\$ 290,478	Note 7(e), Endowment Net Asset Classification
Other endowments restricted in perpetuity			115,502	Note 7(e), Endowment Net Asset Classification
Total term endowments with donor restrictions	Primary reserve	\$ 405,980		
Gifts restricted for student loans			9,216	Note 17, Net Assets
Time implied pledges restricted in perpetuity			12,945	Note 17, Net Assets
Total net assets with donor restrictions restricted in perpetuity	Primary reserve	22,161		
AHW endowments restricted by time or purpose			148,801	Note 7(e), Endowment Net Asset Classification
Other endowments restricted by time or purpose			56,648	Note 7(e), Endowment Net Asset Classification
Time implied pledges restricted only for time			35,638	Note 17, Net Assets
Gifts restricted for capital projects			26,270	Note 17, Net Assets
Total net assets with donor restrictions other, for purpose or time	Primary reserve	267,357		
Froedtert account receivables			29,460	Note 3(a), Related-Party Transactions
F&MCW Community Physicians account receivables			13,943	Note 3(a), Related-Party Transactions
CSG notes receivable			28,132	Consolidated Statement of Financial Position
Total secured and unsecured related party receivables	Primary reserve	71,535		

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<u>Required input per standards</u>	<u>Ratio(s) used</u>	<u>Input amount</u>	<u>Amount not used as input on supplementary schedule</u>	<u>Reference</u>
Froedtert account receivables			\$ 29,460	Note 3(a), Related-Party Transactions
F&MCW Community Physicians account receivables			13,943	Note 3(a), Related-Party Transactions
CSG notes receivable			5,471	Note 3(b), Related-Party Transactions
Total unsecured related party receivables	Primary reserve	\$ 48,874		Equity
Goodwill			1,149	Not otherwise presented
Deferred and capitalized patent costs, net			4,939	Not otherwise presented
Total intangible assets	Equity	6,088		
Long-term debt for the purchase of property plant and equipment	Primary reserve	295,962		Not otherwise presented
Long-term debt not for the purchase of property, plant and equipment or liability greater than asset value	Primary reserve	30,302		Not otherwise presented
Total long-term debt			326,264	Consolidated Statement of Financial Position
Loss on the sale of land, buildings and equipment			(439)	Consolidated Statement of Activities
Unrealized loss on interest rate swap			(5,576)	Consolidated Statement of Activities
Other losses			(642)	Consolidated Statement of Activities
Net investment loss			—	Consolidated Statement of Activities
Total nonoperating and net investment loss	Primary reserve	(6,657)		
Total revenues and net assets released from donor restrictions			1,228,490	Consolidated Statement of Activities
Add realized gain on investments, net			49,668	Consolidated Statement of Activities
Add unrealized loss on investments, net			(65,838)	Consolidated Statement of Activities

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(In thousands)

<u>Required input per standards</u>	<u>Ratio(s) used</u>	<u>Input amount</u>	<u>Amount not used as input on supplementary schedule</u>	<u>Reference</u>
Add endowment income earned deficient of spendable income under the total return concept			\$ (7,216)	Consolidated Statement of Activities
Less endowment spendable income released from restrictions reported separately			(5,871)	Not otherwise presented
Total operating revenue and other additions (gains)	Net income	\$ 1,199,233		
Endowment spendable income released from restrictions	Net income	5,871		Not otherwise presented

(25) Subsequent Events

In connection with the preparation of the consolidated 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, 2020 through October 14, 2020, which was the date the consolidated financial statements were available to be issued.

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

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Supplementary Schedule of Financial Responsibility Data

As of and for the year ended June 30, 2020

(In thousands)

Financial element	Amount reported in financial statements or disclosed under GAAP	Amount used for financial responsibility ratio input	Location in financial statements or related notes
Primary Reserve Ratio: Expendable Net Assets			
Net assets without donor restriction	\$ 1,112,450		Consolidated Statement of Financial Position
Net assets with donor restriction	702,107		Consolidated Statement of Financial Position
Annuities with donor restrictions	6,362		Note 17, Net Assets
Life income funds with donor restrictions	247		Note 17, Net Assets
Term endowments with donor restrictions		405,980	Note 24, Financial Responsibility Standards
Net assets with donor restrictions: restricted in perpetuity		22,161	Note 24, Financial Responsibility Standards
Net assets with donor restrictions: other, for purpose or time		267,357	Note 24, Financial Responsibility Standards
Secured and unsecured related party receivables		71,535	Note 24, Financial Responsibility Standards
Unsecured related party receivable		48,874	Note 24, Financial Responsibility Standards
Property, plant and equipment, net (includes construction in progress and capital leases)	295,962		Consolidated Statement of Financial Position – Land, building and equipment, net
Property, plant and equipment – post-implementation with outstanding debt (includes capital leases)		295,962	Consolidated Statement of Financial Position – Land, building and equipment, net
Construction in progress			
Lease right-of-use assets, net	89,687		Consolidated Statement of Financial Position
Lease right-of-use assets post-implementation	89,687		Consolidated Statement of Financial Position
Intangible assets		6,088	Note 24, Financial Responsibility Standards
Post-employment and pension liabilities	4,634		Note 18, Employee Benefit Plans – deferred compensation payable
Total long-term debt – for long term purposes	326,264		Consolidated Statement of Financial Position
Total long-term debt – for long term purposes post-implementation		295,962	Note 24, Financial Responsibility Standards
Lease right-of-use liability	95,950		Consolidated Statement of Financial Position
Post-implementation lease right-of-use liabilities	95,950		Consolidated Statement of Financial Position
Primary Reserve Ratio: Total Expenses and Losses			
Total expenses without donor restrictions	\$ 1,205,841		Consolidated Statement of Activities
Non-operating and net investment loss		(6,657)	Note 24, Financial Responsibility Standards
Equity Ratio: Modified Net Assets			
Net assets without donor restriction	\$ 1,112,450		Consolidated Statement of Financial Position
Net assets with donor restriction	702,107		Consolidated Statement of Financial Position
Intangible assets		6,088	Note 24, Financial Responsibility Standards
Unsecured related party receivable		48,874	Note 24, Financial Responsibility Standards
Equity Ratio: Modified Assets			
Total assets	\$ 2,560,360		Consolidated Statement of Financial Position
Intangible assets		6,088	Note 24, Financial Responsibility Standards
Unsecured related party receivable		48,874	Note 24, Financial Responsibility Standards
Net Income Ratio: Change in Net Assets Without Donor Restrictions			
Change in net assets without donor restrictions	\$ (7,394)		Consolidated Statement of Activities
Net Income Ratio: Total Revenues and Gains			
Total operating revenue and other additions (gains)		1,199,233	Note 24, Financial Responsibility Standards
Investment return appropriated for spending		5,871	Note 24, Financial Responsibility Standards

See accompanying independent auditors' report.

THE MEDICAL COLLEGE OF WISCONSIN, INC.
Schedule of Expenditures of Federal and State Awards
Year ended June 30, 2020

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	12.420	—	\$ —	2,263,080
Children's Hospital of Boston	12.RD	GENFD0001693081	—	300
Indiana University	12.RD	Various	393,855	1,070,092
National Trauma Institute	12.RD	NTI-CLOTT17-06	—	11,199
Prevent Biometrics, Inc.	12.RD	N/A	123,468	513,296
University of California-San Francisco	12.RD	Various	—	208,592
Department of the Army	12.431	—	—	263,388
Children's Hospital of Boston	12.RD	TEAMMATE-002	—	14,777
Christopher & Dana Reeve Foundation	12.RD	CTN1-2020(SK)	—	539
InnoVital Systems, Inc.	12.RD	S208-03-WI-01	—	12,654
Southwest Research Institute	12.RD	L99043RI	—	147,558
University of California-San Francisco	12.RD	11238sc	—	102,429
University of Colorado at Denver	12.RD	FY18.794.019	—	11,571
Total Department of the Army	12.RD	—	—	552,916
Department of the Navy	12.420	—	—	14,652
Fundacion Oceanografica de la Comunitat Valenciana	12.RD	GRANT12802991	—	1,310,920
Johns Hopkins University	12.RD	APL No. 151534	—	379,930
National Marrow Donor Program	12.RD	Various	—	34,823
University of Pittsburgh	12.RD	0043845-12	—	—
Total Department of the Navy	12.RD	—	—	1,740,325
Uniformed Services University of the Health Sciences	12.420	—	—	58,299
Indiana University	12.RD	IN-4486955-MCW	—	—
Total U.S. Department of Defense	12.RD	—	517,323	6,418,099
U.S. Department of Justice:				
Office of Justice Programs	16.DOJ	—	—	75,885
Office of Justice Programs	16.817	—	10,500	25,528
Children's Hospital of Wisconsin	16.RD	#2018-V3-GX-K033-A1	—	142,801
Michigan State University	16.RD	RC105656 MCW	—	20,056
Milwaukee County Department of Health and Human Services	16.RD	HD19-032019-A	—	42,292
State of Wisconsin	16.RD	Various	—	190,544
West Allis Health Department	16.RD	2018-AR-BX-K106	—	156,322
Total Office of Justice Programs	16.RD	—	10,500	653,428
Office on Violence Against Women	16.RD	2016-GT-01-12480	—	15,282
State of Wisconsin	16.RD	—	—	—
Total U.S. Department of Justice	16.RD	—	10,500	668,710
U.S. Department of Transportation:				
Federal Aviation Administration	20.108	—	—	193,790
National Highway Traffic Safety Administration (NHTSA)	20.DOT	—	—	979,893
Total U.S. Department of Transportation	20.RD	—	—	1,173,683
National Aeronautics and Space Administration	43.003	—	130,530	561,637
National Endowment for the Humanities	45.162	—	—	19,377
National Science Foundation	47.049	—	—	101,050
National Science Foundation	47.074	—	—	173,318
COVID-19 National Science Foundation	47.074	—	—	11,606
Total Federal CFDA number 47.074	—	—	—	184,924
National Science Foundation	47.076	—	—	66,683
3Derm	47.RD	002	—	3,078
Total National Science Foundation	47.RD	—	—	355,735
U.S. Department of Veterans Affairs				
Wisconsin Corporation for Biomedical Research	64.RD	PO Number 19-17	—	1,191,164
Total U.S. Department of Veterans Affairs	64.RD	—	—	1,254,429
U.S. Department of Health and Human Services:				
Agency for Healthcare Research and Quality:				
Mayo Clinic Rochester	93.RD	MED-230704-01, PO 66109532	—	320
University of Wisconsin-Madison	93.RD	0000000391	—	53,889
Total Agency for Healthcare Research and Quality	93.RD	—	—	54,209
Centers for Disease Control and Prevention				
Children's Hospital of Wisconsin	93.136	—	378,585	611,712
Northwestern University	93.RD	N/A	—	1,600
State of Wisconsin	93.RD	60041262 MCW	—	16,713
University of Kansas Medical Center Research Institute Inc.	93.RD	Various	—	413,611
University of Kansas Medical Center Research Institute Inc.	93.RD	Z9L00010	—	75,757
Total Centers for Disease Control and Prevention	93.RD	—	378,585	1,119,393
Centers for Medicare and Medicaid Services				
State of Wisconsin	93.RD	435400-G19-GrMedEdRes-00	—	45,187
The American College of Cardiology	93.RD	3098 WI 01	—	157,722
Total Centers for Medicare and Medicaid Services	93.RD	—	—	202,909
Administration for Community Living				
Medical University of South Carolina	93.RD	MUSC18-112-8D604	—	25,869
Food and Drug Administration				
New York Medical College	93.FDA	—	\$ —	18,777
New York Medical College	93.RD	Various	—	19,709

THE MEDICAL COLLEGE OF WISCONSIN, INC.
Schedule of Expenditures of Federal and State Awards
Year ended June 30, 2020

Federal grantor/pass-through grantor/cluster title	Federal CFDA number	Pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Total Food and Drug Administration	93.RD	—	—	38,486
Health Resources and Services Administration (HRSA)	93.HRSA	—	1,983,086	4,034,202
Health Resources and Services Administration (HRSA)	93.127	—	179,189	233,200
Health Resources and Services Administration (HRSA)	93.186	—	66,031	461,870
Health Resources and Services Administration (HRSA)	93.247	—	77,111	306,943
Children's Hospital of Wisconsin	93.RD	4500002633	—	53,491
Cincinnati Children's Hospital Medical Center	93.RD	Various	—	233,609
University of Buffalo	93.RD	R1192806	—	43,814
Total Health Resources and Services Administration (HRSA)	93.RD	—	2,305,417	5,367,129
National Institutes of Health (NIH)	93.NIH	—	7,973	424,815
National Institutes of Health (NIH)	93.113	—	164,080	520,641
National Institutes of Health (NIH)	93.121	—	—	149,788
National Institutes of Health (NIH)	93.173	—	121,989	809,656
National Institutes of Health (NIH)	93.213	—	—	152,857
National Institutes of Health (NIH)	93.233	—	—	320,739
National Institutes of Health (NIH)	93.242	—	206,116	2,163,581
National Institutes of Health (NIH)	93.279	—	639,397	1,938,458
National Institutes of Health (NIH)	93.286	—	—	5,064
National Institutes of Health (NIH)	93.307	—	598,561	1,599,331
National Institutes of Health (NIH)	93.310	—	224,605	1,272,238
National Institutes of Health (NIH)	93.350	—	593,574	3,766,147
National Institutes of Health (NIH)	93.351	—	—	3,852,776
National Institutes of Health (NIH)	93.353	—	685,541	2,138,414
National Institutes of Health (NIH)	93.361	—	190,178	409,899
National Institutes of Health (NIH)	93.393	—	563,295	3,556,215
National Institutes of Health (NIH)	93.394	—	87,195	1,342,929
National Institutes of Health (NIH)	93.395	—	2,729,047	6,520,268
National Institutes of Health (NIH)	93.396	—	113,347	3,053,731
National Institutes of Health (NIH)	93.398	—	2,825	326,914
National Institutes of Health (NIH)	93.837	—	1,950,963	20,357,241
National Institutes of Health (NIH)	93.838	—	29,284	1,520,307
National Institutes of Health (NIH)	93.839	—	9,383,957	13,119,638
National Institutes of Health (NIH)	93.846	—	107,232	597,757
National Institutes of Health (NIH)	93.847	—	941,831	6,952,500
National Institutes of Health (NIH)	93.853	—	185,247	4,664,889
National Institutes of Health (NIH)	93.855	—	945,710	6,553,159
National Institutes of Health (NIH)	93.859	—	170,900	5,960,511
National Institutes of Health (NIH)	93.865	—	603,350	1,558,978
National Institutes of Health (NIH)	93.866	—	548,092	1,904,630
National Institutes of Health (NIH)	93.867	—	626,822	3,999,143
Advanced Medical Electronics Corp.	93.RD	AME18-mTBI-Detection-07	—	78,764
Alliance for Clinical Trials in Oncology Foundation	93.RD	N/A	—	(457,997)
Ascending Hearing Technologies, LLC	93.RD	N/A	—	36,777
Beckman Research Institute of the City of Hope	93.RD	61998.2006995.669306	—	3,273
Board of Regents of the University of Oklahoma	93.RD	RS20182223-01	—	197,699
Brigham and Women's Hospital Inc	93.RD	114117	—	10,482
California Institute of Technology	93.RD	S455213	—	263,363
Case Western Reserve University	93.RD	RES510758	18,671	37,438
Childrens Hospital Los Angeles	93.RD	Various	—	17,860
Children's Hospital of Boston	93.RD	Various	—	142,521
Children's Hospital of Philadelphia	93.RD	Various	—	49,705
Children's Mercy Hospitals and Clinics	93.RD	Various	—	42,068
Cleveland Clinic Lerner College of Medicine of CWRU	93.RD	Various	—	35,272
CNMC-Children's Research Institute	93.RD	30004942-07	—	23,075
Columbia University	93.RD	Various	—	132,850
CyteGen Corporation	93.RD	Various	—	8,614
Dignity Health dba St. Joseph's Hospital and Medical Center	93.RD	32715MCW	—	36,040
Duke University	93.RD	Various	—	146,761
ECOG-ACRIN	93.RD	Various	—	(343,336)
Fred Hutchinson Cancer Research Center	93.RD	Various	—	57,329
Great Lakes Inter-Tribal Council, Inc	93.RD	N/A	—	242,943
Health Research Inc	93.RD	5991-01	—	32,964
Hospital for Special Surgery	93.RD	002	—	29,978
Indiana University	93.RD	IN-4689862-MCW	—	3,866
Innovation Pathways	93.RD	N/A	—	601,996
Institute For Clinical Research, Inc	93.RD	M54-WI-052-1101-3	—	30,112
Jaeb Center for Health Research Inc	93.RD	N/A	—	36,507
Johns Hopkins University	93.RD	Various	—	8,713
Kitware, Inc.	93.RD	K002587-00-S02	—	25,719
Los Angeles Biomedical Research Institute at Harbor-UCLA Medical Center	93.RD	R01HL127237	—	8,331
Marquette University	93.RD	Various	—	615,730
Marshfield Clinic Research Foundation	93.RD	27759	17,108	2,477,903
Massachusetts General Hospital	93.RD	Various	—	(4,070)
Mayo Clinic Jacksonville	93.RD	MED-235640-02	—	4,798
Mayo Clinic Rochester	93.RD	Various	—	35,095
National Marrow Donor Program	93.RD	Various	—	(50,830)
Nationwide Children's Hospital	93.RD	Various	—	324,911
New England Research Institutes, Inc.	93.RD	Various	—	472,358
Northwestern University	93.RD	Various	—	129,969
NRG Oncology Foundation, Inc.	93.RD	Various	—	155,542
NYU Winthrop Hospital	93.RD	PO# M200323081	—	95,802
Oregon Health & Science University	93.RD	1011985_Wisconsin	—	28,914
Pennsylvania State University	93.RD	MCWEY023533	—	5,795
Prism Clinical Imaging	93.RD	N/A	\$	(2,209)
Rush University Medical Center	93.RD	18112701-Sub07	—	12,215
Rutgers, The State University	93.RD	821367	—	218

THE MEDICAL COLLEGE OF WISCONSIN, INC.
 Schedule of Expenditures of Federal and State Awards
 Year ended June 30, 2020

Federal grantor/pass-through grantor/cluster title	Federal CFDA number	Pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Seattle Children's Research Institute	93.RD	11019SUB	—	20,351
Stanford University	93.RD	61637934-131084	—	57,441
The Mind Research Network	93.RD	6010509_SubN5	—	4,484
Thomas Jefferson University	93.RD	080-05001-S33301	—	131,753
Translational Imaging Innovations, Inc.	93.RD	LATTICE SBIR REY03040801	—	50,813
Tufts University School of Medicine	93.RD	HH4091; 100970-00001	—	203,569
University of Alabama at Birmingham	93.RD	Various	—	16,854
University of Arizona	93.RD	Various	—	33,234
University of California-Irvine	93.RD	Various	—	108,380
University of California-Los Angeles	93.RD	Various	—	260,892
University of California-San Francisco	93.RD	Various	—	240,809
University of Chicago	93.RD	Various	—	111,665
University of Cincinnati	93.RD	011414-137497	—	4,141
University of Florida	93.RD	Various	—	31,780
University of Illinois	93.RD	Various	—	46,086
University of Illinois-Chicago	93.RD	16955-01	—	3,725
University of Iowa	93.RD	Various	—	32,832
University of Kansas Medical Center Research Institute Inc.	93.RD	Various	—	7,464
University of Michigan	93.RD	Various	—	51,566
University of Minnesota	93.RD	Various	—	184,336
University of North Carolina at Chapel Hill	93.RD	5114019	—	27,524
University of Pennsylvania	93.RD	Various	—	304,123
University of Pittsburgh	93.RD	Various	—	86,556
University of South Florida	93.RD	Site 3302	—	6,672
University of Texas Medical Branch at Galveston	93.RD	Various	—	51,627
University of Texas-Health Science Center at Houston	93.RD	0014326C	—	11,195
University of Virginia	93.RD	GB10094.PO#2200832	—	10,680
University of Washington	93.RD	UWSC8718; BP010465	—	40,115
University of Wisconsin-Madison	93.RD	Various	—	287,490
University of Wisconsin-Milwaukee	93.RD	Various	—	74,610
Vanderbilt University Medical Center	93.RD	Various	—	75,558
Versiti Wisconsin, Inc.	93.RD	Various	—	299,032
Virginia Commonwealth University	93.RD	FP00004439_SA001	—	1,286
Wake Forest University	93.RD	WFUHS 113519	—	12,619
Wayne State University	93.RD	Various	—	30,958
Wisconsin Corporation for Biomedical Research	93.RD	5018FEDSciINVESTED	—	7,164
Yale University	93.RD	GR100921 (CON-80000970)	—	(1,059)
Total National Institutes of Health	93.RD	—	22,456,890	110,283,367
Office of Assistant Secretary for Health: Marquette University	93.RD	001592-02-03	—	10,268
Immediate Office of the Secretary: Atox Bio Ltd	93.RD	AB103	—	15,200
Janssen Research & Development, LLC	93.RD	C2019003234	—	239,870
Total Office of the Secretary	93.RD	—	—	255,070
Total U.S. Department of Health and Human Services	93.RD	—	25,140,892	117,356,700
Total Research and Development Cluster			25,799,245	127,808,370
Total major federal program			25,799,245	127,808,370
Nonmajor federal programs:				
Student Financial Assistance Cluster (notes 3 and 5):				
U.S. Department of Education:				
Federal Perkins Loan Program	84.038	—	—	3,592,838
Federal Direct Loan Program	84.268	—	—	46,480,462
Total U.S. Department of Education			—	50,073,300
U.S. Department of Health and Human Services:				
Health Professions Student Loans	93.342	—	—	241,987
Federal Primary Care Loans	93.342	—	—	6,315,215
Total U.S. Department of Health and Human Services			—	6,557,202
Total Student Financial Assistance Cluster			—	56,630,502
U.S. Department of Justice:				
Office of Justice Programs:				
City of Milwaukee	16.609	E0000014927	—	28,546
State of Wisconsin	16.812	2016-SR-01-12816	—	7,513
Total U.S. Department of Justice			—	36,059
National Aeronautics And Space Administration: WI Space Grant Consortium	43.008	HEI19_4.0	—	7,495
COVID-19 U.S. Department of Education – Higher Education Relief Funds from CARES Act	84.425	—	—	82,320

THE MEDICAL COLLEGE OF WISCONSIN, INC.
Schedule of Expenditures of Federal and State Awards
Year ended June 30, 2020

Federal grantor/pass-through grantor/cluster title	Federal CFDA number	Pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
U.S. Department of Health and Human Services:				
Centers for Disease Control and Prevention:				
State of Wisconsin	93.069	435100-G20-EMSTrauma-01	\$ —	49,886
State of Wisconsin	93.074	Various	—	(6)
Southeast Wisconsin Healthcare Emergency Readiness Coalition, Inc.	93.074	N/A	—	48,994
Total Federal CFDA number 93.074			—	48,988
State of Wisconsin	93.136	Various	—	96,450
State of Wisconsin	93.940	Various	9,044	12,788
State of Wisconsin	93.977	155027	—	59,245
Total Centers for Disease Control and Prevention			9,044	267,357
Administration for Children and Families:				
State of Wisconsin	93.092	159364	—	112,663
State of Wisconsin	93.566	Various	—	56,341
State of Wisconsin	93.576	Various	—	16,096
State of Wisconsin	93.643	N/A	—	1,450
Total Administration for Children and Families			—	186,550
Health Resources and Services Administration (HRSA)	93.153	—	682,177	1,065,988
COVID-19 Health Resources and Services Administration (HRSA)	93.153	—	—	3,600
Total Federal CFDA number 93.153			682,177	1,069,588
Health Resources and Services Administration (HRSA)	93.918	—	87,570	111,010
State of Wisconsin	93.110	152018	—	118,839
Immune Deficiency Foundation	93.110	Various	—	29,622
Total Federal CFDA number 93.110			—	148,461
University of California-San Francisco	93.145	Various	—	12,631
State of Wisconsin	93.917	Various	439,914	1,474,376
Marquette University	93.969	15-285-003-7	—	29,110
State of Wisconsin	93.994	Various	—	149,381
Total Health Resources and Services Administration (HRSA)			1,209,661	2,994,557
Centers for Medicare and Medicaid Services				
State of Wisconsin	93.778	159363	—	9,668
Substance Abuse And Mental Health Services Administration				
State of Wisconsin	93.243	Various	—	37,956
Total U.S. Department of Health and Human Services			1,218,705	3,496,088
Agency For International Development:				
Consortium of Universities for Global Health	98.001	0002	—	1,673
Total nonmajor federal programs			1,218,705	60,254,137
Total expenditures of federal awards			27,017,950	188,062,507
Wisconsin Department of Health Services:				
Division of Public Health		435.128010	—	166,966
Division of Public Health		435.128012	—	211,465
Division of Public Health		435.159363	—	125,737
Division of Public Health		43500-0000022719	—	34,043
Division of Public Health		40625	—	2,909
Division of Public Health		435100-G19-MedEduProGr_00	—	101,373
Division of Public Health		155201	—	832,464
Division of Public Health		435.155958	—	41,086
University of Wisconsin-Madison		851K992	—	4,870
University of Wisconsin-Madison		0000000353	—	13,789
University of Wisconsin-Madison		851K981	—	91,584
Wisconsin Department of Corrections		None	—	85,061
Wisconsin Department of Corrections		410021-W19-ELB6762-GEN-04	—	3,328
Total state expenditures			—	1,714,675
Total expenditures of federal awards and state expenditures			\$ 27,017,950	189,777,182

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, 2020

(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, 2020 and should be read in conjunction with MCW's consolidated financial statements. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *State Single Audit Guidelines for Wisconsin*.

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

- Major and nonmajor federal programs and state expenditures
- Primary federal and state 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 non-sponsored 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, 2020

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 non-sponsored 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, 2020, MCW charged facilities and administrative costs of \$31,389,423 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, Primary Care, and Health Professions Student 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.

(5) Federal Government Student Loan Programs

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

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2020

to the Perkins Loan Program is based on disbursements, and no disbursements occurred during the year ended June 30, 2020.

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, Primary Care, and Health Professions Student Loan Programs was \$2,750,475, \$6,031,733, and \$241,987 respectively, at June 30, 2020.

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, 2020.

(6) State of Wisconsin Appropriations and Department of Medicaid Services

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 \$4,836,421 for the year ended June 30, 2020. 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, 2020. MCW also receives annual appropriations from the State of Wisconsin to support breast and prostate cancer research. MCW expended \$94,128 of the cancer research appropriations during the year ended June 30, 2020. These appropriations and the related expenditures have been excluded from the scope of this audit. The State of Wisconsin statutes mandate that the Legislative Audit Bureau perform an annual audit on the family medicine and practice funds and that the Higher Education Advisory Board review the request for the tuition capitation funds each semester, prior to the release of the funds. MCW must annually report to the legislature and to the governor on the cancer research programs it has conducted. These actions thereby satisfy the state audit requirement.

MCW receives funds from the State of Wisconsin Division of Medicaid Services (Division) to support the General Surgery Resident Training Program and the Central Wisconsin Psychiatry Resident Training Program. The funding was \$384,503 and \$231,232, respectively, for the year ended June 30, 2020. This funding and the related expenditures have been excluded from the scope of this audit. MCW must annually report to the Division a full accounting of all funds received and expenditures. These actions thereby satisfy the state requirement.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2020

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

MCW's settlement of State of Wisconsin Department of Health Services (DHS) cost reimbursement awards presented in the Schedule for the year ended June 30, 2020 is summarized as follows:

DHS identification number (CARS profile)	CARS profile name	Award amount	Award period	Expenditures reported to DHS for payment	Total program expenses	Total management and general expense allocated to program	Total allowable costs
128010	Congenital Disorders	\$ 168,974	7/1/18-6/30/19	\$ 168,725	46,024	338	46,362
128010	Congenital Disorders	168,974	7/1/19-6/30/20	168,974	111,293	9,311	120,604
128012	Congenital Disorders 2	330,229	7/1/18-6/30/19	329,011	89,939	—	89,939
128012	Congenital Disorders 2	330,229	7/1/19-6/30/20	328,425	112,084	9,441	121,525
150426	1815 Diabetes	13,306	10/1/18-6/30/19	7,484	5,940	1,544	7,484
150426	1815 Diabetes	19,665	7/1/19-6/30/20	9,382	6,290	1,635	7,925
150427	1815 Heart Disease Prev	13,305	10/1/18-6/30/19	7,210	5,722	1,488	7,210
150427	1815 Heart Disease Prev	19,664	7/1/19-6/30/20	9,333	6,251	1,625	7,876
152017	Maternal and Child Health Services Violent Death Reporting System	24,184	9/1/18-8/31/19	24,155	6,917	552	7,469
152018	Pediatric Mental Health Care Access	90,000	10/1/18-9/30/19	78,941	23,548	6,122	29,670
152018	Pediatric Mental Health Care Access	240,000	10/1/19-9/30/20	88,726	70,769	18,400	89,169
155027	Infertility Prevention	75,000	1/1/19-12/31/19	75,000	27,013	7,024	34,037
155027	Infertility Prevention	64,753	1/1/20-12/31/20	25,162	22,917	2,292	25,209
155066	National Violent Death Reporting System	102,554	9/1/18-8/31/19	102,268	63,745	1,025	64,770
155080	Rape Prevention and Education	31,683	2/1/19-1/31/20	31,680	28,800	2,880	31,680
155201	Child Psychiatry Consultation Program GPR	864,500	7/1/19-6/30/20	832,129	765,032	67,432	832,464
155915	HIV Home/Community Care (Ryan White)	768,394	4/1/18-3/31/19	737,376	(283)	(28)	(311)
155915	HIV Home/Community Care (Ryan White)	849,395	4/1/19-3/31/20	822,531	572,548	57,255	629,803
155915	HIV Home/Community Care (Ryan White)	1,014,878	4/1/20-3/31/21	—	196,909	19,691	216,600
155919	HIV Home/Community Care (Ryan White)	535,291	4/1/19-3/31/20	535,291	493,918	41,373	535,291
155919	HIV Home/Community Care (Ryan White)	535,290	4/1/20-3/31/21	—	34,447	3,445	37,892
155958	HIV Prevention Targeted	120,000	1/1/19-12/31/19	108,457	98,597	9,860	108,457
155958	HIV Prevention Targeted	94,190	1/1/20-12/31/20	1,711	1,566	157	1,723
155959	HIV Demonstration Project	45,000	1/1/19-12/31/19	11,706	10,642	1,064	11,706
155959	HIV Demonstration Project	120,000	1/1/20-12/31/20	53,184	48,432	4,843	53,275
155991	Ryan White Minority AIDS Initiative	57,221	4/1/19-3/31/20	56,921	38,042	3,804	41,846
155991	Ryan White Minority AIDS Initiative	53,738	4/1/20-3/31/21	—	12,051	1,205	13,256
159363	Adolescent Pregnancy	80,620	1/1/19-12/31/19	80,362	73,056	7,306	80,362
159363	Adolescent Pregnancy	80,620	1/1/20-12/31/20	54,770	50,039	5,004	55,043
159364	Reproduction Health Personal Responsibility Educational Program-Federal	85,000	1/1/19-12/31/19	82,891	75,356	7,536	82,892
159364	Reproduction Health Personal Responsibility Educational Program-Federal	85,000	1/1/20-12/31/20	29,531	27,065	2,706	29,771
				<u>\$ 4,861,336</u>	<u>3,124,669</u>	<u>296,330</u>	<u>3,420,999</u>



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

The Board of Trustees
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. (MCW), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statement 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 14, 2020, which included an emphasis of matter paragraph that described the change in MCW's recognition of leases and restricted cash as discussed in notes 2(l) and 2(t) to those consolidated financial statements due to the adoption of Accounting Standards Codification Topic 842, *Leases* and Accounting Standards Update No. 2016-18, *Restricted Cash*. Our opinion was not modified as a result of this matter.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 14, 2020



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

The Board of Trustees
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, 2020. 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; 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, Inc. 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, 2020.



Report on Internal Control over Compliance

Management of The Medical College of Wisconsin, Inc. 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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



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

We have audited the consolidated financial statements of The Medical College of Wisconsin, Inc. as of and for the year ended June 30, 2020, and have issued our report thereon dated October 14, 2020, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the Uniform Guidance and the *State Single Audit Guidelines for Wisconsin* and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and the schedule of expenditures of state awards are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Milwaukee, Wisconsin
June 7, 2021

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2020

(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 Programs – State ID Number 435.128010 & 435.128012.

Division of Public Health – Personal Responsibility Education Program – State ID Number 435.159363
- I. Dollar threshold used to distinguish between Type A and Type B programs: *Federal Awards - \$3,000,000; State Awards - \$250,000*
- J. Auditee qualified as low risk auditee: Federal: **Yes**; State: **Yes**

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

None

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2020

(3) Findings and Questioned Costs Relating to Federal Awards

None

(4) Findings and Questioned Costs Relating to State Awards

None

(5) Other Issues

- A. Does the auditors' report or notes to the financial statements include disclosure with regard to substantial doubt as to the auditees' ability to continue as a going concern? **No**
- B. Does the audit report show audit issues (i.e., material noncompliance, nonmaterial noncompliance, questioned costs, material weakness, significant deficiencies, management letter comment, excess revenue, or excess reserve) related to grants/contract with funding agencies that require audits to be in accordance with the *State Single Audit Guidelines*: **No**
- C. Was a management letter or other document conveying audit comments issued as a result of this audit? **No**
- D. Date of Report: June 7, 2021