



THE MEDICAL COLLEGE OF WISCONSIN, INC.

(E.I.N.: 390806261)

Audit Reports in Accordance with
Government Auditing Standards and
Uniform Guidance

June 30, 2023

(With Independent Auditors' Report Thereon)

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Table of Contents

	Page
Independent Auditors' Report	1
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities and Changes in Net Assets	4
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7
Supplementary Schedule of Financial Responsibility Data (Schedule 1)	50
Schedule of Expenditures of Federal and State Awards	51
Notes to Schedule of Expenditures of Federal and State Awards	55
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	60
Independent Auditors' Report on Compliance for Each Major Federal and State Program and Report on Internal Control Over Compliance	62
Schedule of Findings and Questioned Costs	65
Summary Schedule of Prior Audit Findings	67



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

Independent Auditors' Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of The Medical College of Wisconsin, Inc. (MCW), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of MCW as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of MCW and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about MCW's ability to continue as a going concern for one year after the date the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.



In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 MCW's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about MCW's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary schedule of financial responsibility data as of and for the year ended June 30, 2023 is presented for purposes of additional analysis as required by the U.S Department of Education, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary schedule of financial responsibility data is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2023 on our consideration of MCW'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 MCW'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 System's internal control over financial reporting and compliance.

KPMG LLP

Milwaukee, Wisconsin
October 26, 2023

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Consolidated Statements of Financial Position

June 30, 2023 and 2022

(In thousands)

Assets	2023	2022
Cash and cash equivalents	\$ 132,701	148,631
Deposits with bond trustees	138,450	170,277
Investments, at fair value	2,103,720	1,925,663
Receivables:		
Patient accounts	75,016	61,379
Other accounts, net	97,604	95,155
Grants and contracts, net	32,226	36,435
Contributions, net	52,698	57,234
Student loans, net	21,969	20,858
Total receivables	279,513	271,061
Prepaid expenses and other assets	50,815	50,973
Right-of-use assets-operating leases	53,835	62,322
Land, buildings, and equipment, net	302,825	282,623
Total assets	\$ 3,061,859	2,911,550
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 67,154	70,172
Accrued payroll and related liabilities	157,773	173,406
Deferred revenue	66,882	61,739
Estimated liability for unpaid professional liability claims	7,972	9,340
Long-term operating lease obligations	60,344	68,845
Long-term debt	476,436	488,747
Interest rate swap	3,769	7,449
Other liabilities	10,317	12,893
Total liabilities	850,647	892,591
Net assets:		
Without donor restrictions	1,391,224	1,243,304
With donor restrictions	819,988	775,655
Total net assets	2,211,212	2,018,959
Total liabilities and net assets	\$ 3,061,859	2,911,550

See accompanying notes to consolidated financial statements.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Consolidated Statements of Activities and Changes in Net Assets

Years ended June 30, 2023 and 2022

(In thousands)

	2023	2022
Net assets without donor restrictions:		
Revenue:		
Patient services	\$ 495,259	489,626
Children's Specialty Group contract fees	221,345	210,561
Clinical services contract fees	99,220	95,208
Affiliate hospital contracts	237,461	220,347
Children's Research Institute contract fees	8,966	8,921
Grants and contracts	189,614	174,117
Facilities and administrative cost recovery on grants and contracts	46,291	43,682
Coronavirus relief funds	—	4,690
Tuition and fees	67,979	63,782
Endowment spendable income	36,600	16,290
Other investment income	7,375	7,914
Contributions	4,084	6,794
State of Wisconsin appropriation	5,706	5,480
Other	10,712	12,932
Total revenue	1,430,612	1,360,344
Net assets released from donor restrictions	46,872	37,352
Total revenue and net assets released from donor restrictions	1,477,484	1,397,696
Expense:		
Faculty salaries	565,927	544,746
Staff salaries	374,319	344,354
Fringe benefits	178,419	172,289
Services, supplies, and other	193,546	167,754
Rent and occupancy	42,553	38,880
Subcontracts	45,782	43,483
Depreciation and amortization	34,201	35,175
Interest on indebtedness	10,394	10,477
Total expense	1,445,141	1,357,158
Revenue and net assets released from donor restrictions in excess of expense before gains and losses	32,343	40,538
Gains and losses:		
Realized gain on investments, net	26,105	146,416
Unrealized gain (loss) on investments, net	114,825	(394,690)
Endowment loss net of spendable income	(30,188)	(12,505)
Loss on extinguishment of debt	—	(166)
Change in fair value of interest rate swap	3,680	7,889
Other gains (losses), net	1,155	(3,457)
Gains (losses), net	115,577	(256,513)
Increase (decrease) in net assets without donor restrictions	147,920	(215,975)

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Consolidated Statements of Activities and Changes in Net Assets

Years ended June 30, 2023 and 2022

(In thousands)

	<u>2023</u>	<u>2022</u>
Net assets with donor restrictions:		
Contributions	\$ 17,009	29,747
Investment income, net	6,305	7,484
Realized gain on investments, net	17,694	65,612
Unrealized gain (loss) on investments, net	50,659	(183,708)
Net assets released from donor restrictions	(46,872)	(37,352)
Change in fair value of charitable trusts	(462)	(337)
Increase (decrease) in net assets with donor restrictions	<u>44,333</u>	<u>(118,554)</u>
Increase (decrease) in net assets	192,253	(334,529)
Net assets at beginning of year	<u>2,018,959</u>	<u>2,353,488</u>
Net assets at end of year	<u>\$ 2,211,212</u>	<u>2,018,959</u>

See accompanying notes to consolidated financial statements.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2023 and 2022

(In thousands)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 192,253	(334,529)
Adjustments to reconcile change in net assets to cash flow used in operations:		
Depreciation and amortization	34,201	35,175
Contributions restricted for long-term investment	(11,063)	(16,891)
Gain on sale of land, buildings, and equipment	(1,192)	(579)
Loss on extinguishment of debt	—	166
Gain on investments in joint ventures, net	(2,296)	(4,055)
Realized and unrealized (gain) loss on investments, net	(209,283)	366,370
Change in fair value of interest rate swap	(3,680)	(7,889)
Decrease (increase) in receivables	(8,452)	(28,008)
Increase in prepaid expenses and other assets	(3,375)	(2,045)
Decrease in beneficial interest in charitable trusts	1,208	402
Decrease in accounts payable and accrued payroll and related liabilities	(9,528)	(77,500)
Increase in deferred revenue	5,143	31,278
(Decrease) increase in estimated liability for unpaid professional liability claims	(1,368)	298
(Decrease) increase in refundable advance for U.S. government-sponsored loan funds	(823)	2,503
Payments on operating leases	(9,492)	(9,854)
(Decrease) increase in other liabilities	(813)	16
Net cash used in operating activities	<u>(28,560)</u>	<u>(45,142)</u>
Cash flows from investing activities:		
Purchases of marketable securities	(705,636)	(1,654,411)
Proceeds from sales and maturities of marketable investments	726,712	1,583,233
Purchases of non-marketable securities	(284,066)	(799,544)
Proceeds from sales and maturities of non-marketable investments	294,571	833,920
Purchases of deposits with bond trustees	(85,053)	(381,665)
Proceeds from sales of deposits with bond trustees	116,880	215,075
Capital expenditures	(55,310)	(33,360)
Proceeds from sale of land, buildings, and equipment	1,485	735
Capital contributions to investments in joint ventures	(1,532)	(1,098)
Distributions from investments in joint ventures	4,223	48,411
Net cash provided by (used in) investing activities	<u>12,274</u>	<u>(188,704)</u>
Cash flows from financing activities:		
Restricted contributions and investment income	11,063	16,891
Proceeds from long-term debt	—	193,207
Payments of debt issuance costs	—	(1,535)
Repayments of long-term debt	(10,707)	(15,670)
Extinguishment of debt	—	(15)
Net cash provided by financing activities	<u>356</u>	<u>192,878</u>
Net decrease in cash and cash equivalents	<u>(15,930)</u>	<u>(40,968)</u>
Cash and cash equivalents at beginning of year	<u>148,631</u>	<u>189,599</u>
Cash and cash equivalents at end of year	\$ <u><u>132,701</u></u>	\$ <u><u>148,631</u></u>
Supplemental data:		
Cash paid for interest (net of amounts capitalized of \$6,067 and \$2,627 in 2023 and 2022, respectively)	\$ 11,201	10,752
Noncash acquisition of right-of-use assets in exchange for long-term lease obligations	484	721

See accompanying notes to consolidated financial statements.

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(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 graduate studies and a school of pharmacy. The medical and graduate studies schools are comprised of 7 basic science departments, 21 clinical departments, and 14 centers and institutes, and offer master's and doctoral degrees, certificate programs and post-doctoral educational opportunities. The school of pharmacy focuses on high-end, consultative care, particularly for acute, primary and preventative needs and offers a doctor of pharmacy degree. Medical educational activities are performed at or near MCW's main campus in Milwaukee, Wisconsin or at regional campuses located in Green Bay and central Wisconsin. Graduate studies and pharmacy educational 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, advanced practice providers and allied health professionals (collectively medical professionals) provide medical care. MCW also has affiliations with a number of hospitals in which MCW's medical professionals provide services to patients, education to medical students, and training to residents and fellows (graduate medical education). As of June 30, 2023, MCW's Medical College Physicians Practice Plan had 1,270 practicing faculty and staff physicians, 625 practicing advanced practice providers and 57 allied health professionals.

The consolidated financial statements include the accounts of the various academic and administrative divisions, and 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. 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.

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(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 the MCW 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

MCW's Medical College Physicians Practice Plan sets forth the provisions under which medical professionals provide professional services to patients and provides for the allocation of all fees generated from such services. MCW medical professionals 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 services 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.

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

(d) Contributions Revenue and Contributions Receivable, Net

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized as revenue until the conditions that represent a barrier are overcome and MCW is entitled to the assets promised. Contributions of assets other than cash are recorded at 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 at the time of the gift. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectable 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 year as the contributions are received are included in revenues of net assets without donor restrictions.

Contributions of land, buildings, 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) Revenue and Net Assets Released from Donor Restrictions in Excess of Expense

Revenue in excess of expense in the consolidated statements of activities and changes in net assets reflect all transactions increasing or decreasing net assets without donor restrictions except those gains and losses that are ancillary to the core operations of MCW.

(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. Charitable gift annuity agreements are administered by a third-party trustee that holds the assets and makes required future payments to the donors until termination. The present value of the estimated future payments is included in contributions receivable. At termination of each annuity the remaining assets will be distributed to MCW.

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 assets of the Trusts in accordance with the agreements of the Trusts. 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 on the consolidated statements of financial position. The adjustments to the fair values of the Trusts are recognized as a change in net assets with donor restrictions in the consolidated statements of activities and changes in net assets.

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(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 2023 and 2022 were \$7,419 and \$6,127, 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. Short-term, highly liquid investments held by external investment managers or trustees are classified as investments or deposits with bond trustees on the consolidated statements of financial position. 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 in excess of 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 \$3,854 and \$4,912 as of June 30, 2023 and 2022, respectively, of cash and cash equivalents restricted for the purpose of providing loans to students (see note 2(k)).

(i) 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.

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

(j) 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, hedge funds, private assets, guaranteed investment contracts, and accrued interest and dividends thereon, and are reported at fair value. Realized gain or loss on the sale of investments is 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 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 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 on the consolidated statements of financial position and in the consolidated statements of activities and changes in net assets.

(k) Student Loans Receivable, Net

MCW issues loans to eligible students under federal and MCW student loan program guidelines. The Federal Perkins, Primary Care, and Health Professions Student Loan Programs and MCW student loans are administered directly by MCW and the balances and transactions relating to these programs are included in MCW's consolidated financial statements. Under the Federal Perkins Loan Program Extension Act of 2015, no new Federal Perkins Loans were made to medical students after June 30, 2017. Medical students are eligible for the Primary Care Student Loan Program and pharmacy students are eligible for the Health Professions Student Loan Program.

MCW students are eligible under certain federal student loan programs to receive federally guaranteed loans from the Department of Education's Direct Loan Program. 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, 2023.

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

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 right-of-use (ROU) asset and a long-term lease obligation are recorded at the commencement of the lease and are included in 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

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

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 rate 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 in the consolidated statements of activities and changes in net assets 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. These 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. 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.

(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, 2023 and 2022.

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

Funds provided by the U.S. government under the Federal Perkins, Primary Care, and Health Professions Student Loan Programs are loaned to qualified students. Receipts of principal and interest payments through the Primary Care Loan Program are used to finance future loans to students. Under the Federal Perkins Loan Program Extension Act of 2015, receipts of principal and interest payments

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

through the Federal Perkins Loan Program are retained until the government issues Excess Cash Return notices. Funds provided by the U.S. government and earnings thereon are ultimately refundable to the government and, therefore, are presented as a liability and are included in other liabilities on the consolidated statements of financial position.

(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 as interest expense 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 and changes in net assets. 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.

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, 2023 and 2022.

(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 and changes in net assets in the current year.

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

(3) Affiliate and Related-Party Transactions

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

(a) *Froedtert Health, Inc.*

MCW contracts with Froedtert to receive payment for services performed by MCW medical professionals at hospital and clinic sites. During 2023 and 2022, MCW recognized affiliate hospital contract revenue of approximately \$166,433 and \$152,293, 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, 2023 and 2022 is \$50,866 and \$47,269, respectively.

Many medical professionals render professional medical services to patients at Froedtert. MCW leases space from Froedtert for clinical services, administration and research activities. Rent paid to Froedtert by MCW is \$5,329 and \$4,931 in 2023 and 2022, respectively. Other direct costs for supplies and general services related to professional medical services at Froedtert are incurred by MCW directly. MCW also leases clinical space to Froedtert under operating leases. Rental income received from Froedtert by MCW is \$3,452 and \$3,356 in 2023 and 2022, respectively.

On January 30, 2013, MCW entered into a definitive agreement with Froedtert to form a joint clinical practice group effective July 1, 2013 named Froedtert & The Medical College of Wisconsin Community Physicians (FH-MCW Community Physicians). FH-MCW Community Physicians combines many of the community-based practices of Froedtert and MCW's Medical College Physicians. MCW has a 50% interest in the governance of the entity, but Froedtert is the sole financial member. MCW receives payments for MCW medical professionals 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 2023 and 2022, MCW recognized \$94,743 and \$87,186, 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, 2023 and 2022 is \$12,944 and \$16,946, 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 2023 and 2022, \$12,746 and \$13,565, respectively, was recorded in services, supplies, and other expense. The outstanding balance of accounts payable to FH-MCW Community Physicians as of June 30, 2023 and 2022 is \$2,013 and \$2,235, respectively.

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

MCW entered into an Operations Agreement with Children's Wisconsin to form Children's Specialty Group, Inc. (CSG), a provider of pediatric specialty health care services, on July 1, 2000. Effective July 1, 2021, MCW restructured its longstanding academic and clinical affiliation with Children's Wisconsin. The CSG articles of incorporation and bylaws have been modified to reflect the new

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

governance structure where MCW and Children's Wisconsin remain as the two members. In addition, Children's Wisconsin remains MCW's primary pediatric teaching affiliate.

MCW received a one-time mission support payment of \$30,000 from Children's Wisconsin in 2022 that was recorded as deferred revenue on the consolidated statements of financial position. The restructured definitive agreements require MCW to repay the one-time mission support payment if the definitive agreements are terminated due to MCW's breach. The amount of the repayment is prorated over the initial 10 years of the agreement. The one-time mission support is being released to revenue over the life of the prepayment obligation. In 2023 and 2022, \$3,000 of the one-time mission support was recorded as affiliate hospital contract revenue on the consolidated statements of activities and changes in net assets.

Under the definitive agreements, Children's Wisconsin provides MCW with fixed and variable mission support. Fixed and variable mission support of \$44,252 and \$40,390 was recorded as affiliate hospital contract revenue on the consolidated statements of activities and changes in net assets in 2023 and 2022, respectively.

MCW retains employment of the pediatric medical professionals that it employed prior to July 1, 2021 in the pediatric practice plan and continues to lease the pediatric medical professionals exclusively to CSG for the professional services performed on behalf CSG. Additionally, CSG has contracted with MCW to perform patient billing services for professional services performed by its leased medical professionals. The outstanding balance of accounts payable to CSG for collections on patient billing services as of June 30, 2023 and 2022 is \$18,636 and \$17,762, respectively. MCW also leases the services of faculty and staff to CSG for clinical activities and clinical administration. CSG also supports pediatric research and academic activities. In 2023 and 2022, MCW recognized \$208,854 and \$199,290, respectively, of CSG contract fees on the consolidated statements of activities and changes in net assets related to these services.

CSG has contracted with MCW to incur certain services, supplies and other expenses. These expenses are reimbursed by CSG and the related revenue is recorded as CSG contract fees on the consolidated statements of activities and changes in net assets. In 2023 and 2022, MCW recognized \$12,491 and \$11,271, respectively of CSG contract fees related to these services. MCW provides invoicing and collection services for CSG related to its affiliate hospital contracts. The outstanding balance of accounts payable to CSG for collections on CSG affiliate hospital contracts as of June 30, 2023 and 2022 is \$1,623 and \$746, respectively.

The outstanding balance of the accounts receivable from Children's Wisconsin at June 30, 2023 and 2022 is \$25,654 and \$21,811, respectively.

(c) Related Parties

MCW is a member of the Milwaukee Regional Medical Center (MRMC), a consortium of health care and related institutions located on the Milwaukee Regional Medical Center Campus (MRMC Campus), Milwaukee Regional Medical Center Thermal Services, Inc. (MRMC Thermal), Milwaukee Regional Medical Center Water Services, Inc. (MRMC Water) and Milwaukee Regional Medical Center

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

Infrastructure, LLC (MRMC Infrastructure) are wholly owned subsidiaries of MRMC that provide services to MCW.

On March 31, 2016, MCW entered into an agreement with the MRMC Thermal to obtain chilled water and steam service for a period of 30 years. On March 31, 2022, MCW entered into an agreement with MRMC Water to obtain the supply of water and the provision of sanitary and storm sewer water discharge access for a period of 30 years. On May 31, 2022, MCW entered into an agreement with MRMC Infrastructure that provides permitted access and certain transportation and utility infrastructure improvements on the MRMC campus for a period of 30 years. Under the agreements, MCW must make specified minimum payments regardless of the amount of actual services used. The minimum payments are based on fixed costs associated with providing the services and are updated periodically. In 2023 and 2022, MCW purchased \$9,674 and \$7,705, respectively, of services from MRMC's subsidiaries.

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 2023 and 2022, MCW purchased from these related parties \$7,505 and \$8,318, respectively, of subcontract and contractual fees, \$303 and \$282, respectively, of building services equipment and \$395 and \$377, respectively, of investment management fees. 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 marketplace.

(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.

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

	Ownership percentage	
	2023	2022
APM Wisconsin MSO LLC	— %	49.0 %
Children's Health Network of Wisconsin, LLC	50.0	50.0
Drexel Town Square Surgery Center, LLC	49.0	49.0
FMLH MCW Real Estate Ventures, LLC	50.0	50.0
Fresenius Medical Care Midwest Dialysis, LLC	10.0	10.0
Froedtert & The Medical College of Wisconsin ACO, LLC	50.0	50.0
Froedtert & The Medical College of Wisconsin Network, LLC	50.0	50.0
Froedtert Surgery Center, LLC	49.0	49.0
MRMC Land Bank, LLC	33.3	33.3
Wisconsin Renal Care Group, LLC	10.0	10.0

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

MCW received capital distributions from other joint ventures of \$4,223 and \$3,397 as of June 30, 2023 and 2022, respectively. MCW made capital contributions to other joint ventures of \$1,532 and \$1,098 in 2023 and 2022, respectively. MCW's share of gains and losses in other joint ventures for 2023 and 2022 of \$2,296 and \$4,055, respectively, is recorded in other revenue. MCW's investment in other joint ventures is approximately \$27,875 and \$29,591 as of June 30, 2023 and 2022, respectively, and is included in prepaid expenses and other assets on the consolidated statements of financial position.

(5) Investments

The fair value of investments as of June 30, 2023 and 2022 is summarized below:

	<u>2023</u>	<u>2022</u>
Money market funds	\$ 87,159	63,167
U.S. government obligations	26,021	77,520
Corporate bonds	48,380	—
Bond and equity mutual funds	393,120	376,222
Commingled bond and equity funds	1,026,592	928,943
Equity securities	791	25,796
Hedge funds	270,993	237,623
Private assets	247,977	214,224
Other	<u>2,687</u>	<u>2,168</u>
Total	\$ <u>2,103,720</u>	<u>1,925,663</u>

Commingled bond and equity funds are comprised of domestic and foreign investment grade or below investment grade public and private issue debt and debt-like securities, and domestic and foreign equity and equity-like securities.

Hedge funds are comprised of investments in exempted companies which invest in debt and equity securities using a long/short, event-driven, or multi-strategy approach.

Private assets are comprised of ownership interests in limited partnerships. MCW owns less than 10% of each limited partnership.

Other includes accrued investment income, state and municipal bonds, corporate bonds, asset- and mortgage-backed securities and guaranteed investment contracts. 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. Guaranteed investment contracts are comprised of fixed annuities issued by insurance companies.

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

MCW's return on investments as reported in the consolidated financial statements for the years ended June 30, 2023 and 2022 is summarized below:

	Year ended June 30, 2023		
	Without donor restrictions	With donor restrictions	Total
Endowment spendable income	\$ 36,600	2,367	38,967
Endowment investment income required to be reinvested	—	3,188	3,188
Endowment income earned (deficient of) over spendable income under the total return concept	<u>(30,188)</u>	<u>524</u>	<u>(29,664)</u>
Interest and dividends, net of fees, on pooled endowments	6,412	6,079	12,491
Other investment income	<u>7,375</u>	<u>226</u>	<u>7,601</u>
Total interest and dividends, net of fees	13,787	6,305	20,092
Realized gain on investments, net	26,105	17,694	43,799
Unrealized loss on investments, net	<u>114,825</u>	<u>50,659</u>	<u>165,484</u>
	<u>\$ 154,717</u>	<u>74,658</u>	<u>229,375</u>

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

	Year ended June 30, 2022		
	Without donor restrictions	With donor restrictions	Total
Endowment spendable income	\$ 16,290	2,338	18,628
Endowment investment income required to be reinvested	—	2,998	2,998
Endowment income earned (deficient of) over spendable income under the total return concept	<u>(12,505)</u>	<u>2,008</u>	<u>(10,497)</u>
Interest and dividends, net of fees, on pooled endowments	3,785	7,344	11,129
Other investment income	<u>7,914</u>	<u>140</u>	<u>8,054</u>
Total interest and dividends, net of fees	11,699	7,484	19,183
Realized gain on investments, net	146,416	65,612	212,028
Unrealized loss on investments, net	<u>(394,690)</u>	<u>(183,708)</u>	<u>(578,398)</u>
	<u>\$ (236,575)</u>	<u>(110,612)</u>	<u>(347,187)</u>

Investment management and custodial fees incurred in 2023 and 2022 were \$7,517 and \$9,126, 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.

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

The following section describes the valuation methodologies used for financial assets and liabilities measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions. There were no changes in valuation methodologies used for the years ended June 30, 2023 and 2022.

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's financial institution using a variety of pricing sources. Each bond trustee's 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 funds, 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 accumulated contributions and interest credited to the contracts, less any withdrawals. Contract value approximates fair value. Investments with valuations classified as Level 1, 2 or 3 are considered marketable securities.

MCW applies the measurement provisions of ASC Topic 820 related to certain investments in funds that do not have readily determinable fair values including private assets, hedge funds, 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, hedge funds and private assets with a fair value of \$1,545,562 and \$1,380,790 were estimated using the net asset value per share, as a practical expedient, provided by external investment managers as of June 30, 2023 and 2022, 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.

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

The primary investment objective for the hedge funds 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.

Private assets include investments in private equity, private credit 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, specialty finance or direct lending, equity securities, 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.

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 on 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. Effective July 1, 2023, the publication of LIBOR rates has been discontinued. The fallback rates for all LIBOR tenors are now based on the Secured Overnight Financing Rate (SOFR) plus a fixed spread adjustment. 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.

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

The following tables present assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2023 and 2022:

	June 30, 2023			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 132,701	132,701	—	—
Deposits with bond trustees	138,450	138,450	—	—
Investments:				
Money market funds	87,159	87,159	—	—
U.S. government obligations	26,021	—	26,021	—
Corporate bonds	48,380	—	48,380	—
Bond and equity mutual funds	393,120	393,120	—	—
Equity securities	791	791	—	—
Other	2,687	688	849	1,150
Subtotal	558,158	481,758	75,250	1,150
Investments measured at net asset value	1,545,562			
Total investments	2,103,720			
Beneficial interest in charitable trusts	4,551	—	—	4,551
Total assets	<u>\$ 2,379,422</u>	<u>752,909</u>	<u>75,250</u>	<u>5,701</u>
Liabilities:				
Deferred compensation	\$ 4,057	2,907	—	1,150
Interest rate swap	3,769	—	—	3,769
Total liabilities	<u>\$ 7,826</u>	<u>2,907</u>	<u>—</u>	<u>4,919</u>

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

Investments measured at net asset value	June 30, 2023			
	Net asset value	Unfunded commitments	Redemption frequency	Redemption notice period
Commingled bond and equity funds	\$ 1,026,592	—	Monthly, quarterly, semi-annually, annually	4–180 days
Hedge funds	270,993	—	Quarterly, annually	45–90 days
Private assets	247,977	216,934	—	—
Total investments measured at net asset value	<u>\$ 1,545,562</u>			

	June 30, 2022			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 148,631	148,631	—	—
Deposits with bond trustees	170,277	170,277	—	—
Investments:				
Money market funds	63,167	63,167	—	—
U.S. government obligations	77,520	—	77,520	—
Bond and equity mutual funds	376,222	376,222	—	—
Equity securities	25,796	25,796	—	—
Other	2,168	308	716	1,144
Subtotal	544,873	465,493	78,236	1,144
Investments measured at net asset value	<u>1,380,790</u>	—	—	—
Total investments	1,925,663	—	—	—
Beneficial interest in charitable trusts	5,759	—	—	5,759
Total assets	<u>\$ 2,250,330</u>	<u>784,401</u>	<u>78,236</u>	<u>6,903</u>
Liabilities:				
Deferred compensation	\$ 3,702	2,558	—	1,144
Interest rate swap	7,449	—	—	7,449
Total liabilities	<u>\$ 11,151</u>	<u>2,558</u>	<u>—</u>	<u>8,593</u>

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

Investments measured at net asset value	June 30, 2022			
	Net asset value	Unfunded commitments	Redemption frequency	Redemption notice period
Commingled bond and equity funds	\$ 928,943	—	Monthly, quarterly, annually	4–180 days
Hedge funds	237,623	—	Quarterly, annually	45–90 days
Private assets	<u>214,224</u>	88,810	—	—
Total investments measured at net asset value	<u>\$ 1,380,790</u>			

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, 2023 and 2022.

	Assets		Liabilities	
	Guaranteed investment contracts	Beneficial interest in charitable trusts	Interest rate swap	Deferred compensation
Balance as of July 1, 2022	\$ 1,144	5,759	7,449	1,144
Purchases	—	—	—	—
Sales	—	—	—	—
Net realized loss	—	—	—	—
Net change in unrealized appreciation	<u>6</u>	<u>(1,208)</u>	<u>(3,680)</u>	<u>6</u>
Balance as of June 30, 2023	<u>\$ 1,150</u>	<u>4,551</u>	<u>3,769</u>	<u>1,150</u>

The amount of total losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held as of June 30, 2023

\$	6	(1,208)	(3,680)	6
----	---	---------	---------	---

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

	Assets		Liabilities	
	Guaranteed investment contracts	Beneficial interest in charitable trusts	Interest rate swap	Deferred compensation
Balance as of July 1, 2021	\$ 1,900	6,160	15,338	1,900
Purchases	—	—	—	—
Sales	—	—	—	—
Net realized loss	—	(26)	—	—
Net change in unrealized appreciation	(756)	(375)	(7,889)	(756)
Balance as of June 30, 2022	\$ 1,144	5,759	7,449	1,144
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, 2022	\$ (756)	(401)	(7,889)	(756)

There were no transfers in or out of Level 3 for the years ended June 30, 2023 and 2022.

(7) Endowment Net Asset Classification

MCW's endowment is comprised of approximately 595 individual funds as of June 30, 2023 established for the following purposes:

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

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

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

(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 or deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of MCW.
- The investment policy of MCW.

(b) Return Objectives and Risk Parameters

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

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

(c) Strategies Employed for Achieving Objectives

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

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

(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.

Spendable income is calculated as the product of the quarterly distribution rate and the number of shares held at the end of one quarter prior to the present quarter. The quarterly distribution rate is calculated as the product of 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 distribution rate cannot exceed one-quarter of 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 a distribution 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 \$15,553 and \$16,018, respectively) as of June 30, 2023 and 2022 in total and by type is summarized below:

	2023		
	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowments:			
Advancing a Healthier Wisconsin:			
Perpetual in nature	\$ —	290,478	290,478
Restricted by time or purpose	—	191,569	191,569
Other endowments:			
Perpetual in nature	—	157,773	157,773
Restricted by time or purpose	—	83,302	83,302
Endowments designated by the Board of Trustees	916,233	—	916,233
Total	\$ 916,233	723,122	1,639,355

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

	2022		
	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowments:			
Advancing a Healthier Wisconsin:			
Perpetual in nature	\$ —	290,478	290,478
Restricted by time or purpose	—	167,784	167,784
Other endowments:			
Perpetual in nature	—	146,872	146,872
Restricted by time or purpose	—	67,236	67,236
Endowments designated by the Board of Trustees	840,170	—	840,170
Total	\$ <u>840,170</u>	<u>672,370</u>	<u>1,512,540</u>

(f) Changes in Endowment Net Assets

Roll forwards of the beginning and ending balances of endowments by net asset class for the years ended June 30, 2023 and 2022 are as follows:

	2023		
	Without donor restrictions	With donor restrictions	Total
Interest and dividends, net of fees	\$ 6,936	5,555	12,491
Realized gain on investments, net	22,237	17,694	39,931
Unrealized gain on investments, net	67,623	50,659	118,282
Total investment return	96,796	73,908	170,704
Contributions	16,509	10,823	27,332
Expenditures	(37,242)	(33,979)	(71,221)
Total change in endowments	76,063	50,752	126,815
Net assets, beginning of year	840,170	672,370	1,512,540
Net assets, end of year	\$ <u>916,233</u>	<u>723,122</u>	<u>1,639,355</u>

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

	2022		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Interest and dividend income	\$ 3,785	7,344	11,129
Realized gain on investments	75,260	65,612	140,872
Unrealized loss on investments	<u>(224,582)</u>	<u>(183,708)</u>	<u>(408,290)</u>
Total investment return	(145,537)	(110,752)	(256,289)
Contributions	172,615	14,569	187,184
Expenditures	<u>(17,691)</u>	<u>(27,038)</u>	<u>(44,729)</u>
Total change in endowments	9,387	(123,221)	(113,834)
Net assets, beginning of year	<u>830,783</u>	<u>795,591</u>	<u>1,626,374</u>
Net assets, end of year	<u>\$ 840,170</u>	<u>672,370</u>	<u>1,512,540</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 an original gift value of \$18,364, a current fair value of \$17,391, and a deficiency of \$973 as of June 30, 2023. As of June 30, 2022, donor-restricted endowment funds with deficiencies had an original gift value of \$29,138, a current fair value of \$26,784, and a deficiency of \$2,354. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent as allowed by the spending policy approved 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, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Commercial/managed care	\$ 315,768	291,236
Self-pay patients	46,732	64,002
Medicaid	30,465	29,336
Medicare	95,049	94,536
Other	<u>7,245</u>	<u>10,516</u>
Patient services revenue	<u>\$ 495,259</u>	<u>489,626</u>

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

MCW grants credit without collateral to its patients, most of whom 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, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Commercial/managed care	\$ 44,846	33,899
Self-pay patients	14,718	15,226
Medicaid	3,432	1,745
Medicare	9,220	7,393
Other	2,800	3,116
	<u>75,016</u>	<u>61,379</u>
Patient services receivable	\$ <u>75,016</u>	<u>61,379</u>

The majority of patient accounts receivable is expected to be collected within one year.

(9) Other Accounts Receivable

Other accounts receivable at June 30, 2023 and 2022 consist of the following:

	<u>2023</u>	<u>2022</u>
Affiliated hospitals	\$ 56,734	51,444
Other	42,178	44,619
Other accounts receivable before allowance for doubtful accounts	98,912	96,063
Allowance for doubtful accounts	(1,308)	(908)
Other accounts receivable	\$ <u>97,604</u>	<u>95,155</u>

MCW has affiliations with a number of hospitals in which MCW medical professionals provide clinical management services, graduate medical education and other program services. In consideration for these services, the affiliated hospitals compensate MCW for salary, fringe benefit and other related expenses.

The majority of other accounts receivable is expected to be collected within one year. The allowance for doubtful accounts for affiliated hospitals 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 affiliated hospitals and other accounts receivable.

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

(10) Grants and Contracts Receivable, Net

Grants and contracts receivable at June 30, 2023 and 2022 consist of the following:

	<u>2023</u>	<u>2022</u>
Grants and contracts	\$ 32,648	36,879
Allowance for doubtful accounts	<u>(422)</u>	<u>(444)</u>
Grants and contracts receivable, net	<u>\$ 32,226</u>	<u>36,435</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.

(11) Contributions Receivable, Net

Net contributions receivable consists primarily of donor pledges and is summarized as follows at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Total contributions receivable	\$ 56,641	61,697
Allowance for uncollectible contributions	(957)	(1,177)
Adjustment to present value	<u>(2,986)</u>	<u>(3,286)</u>
Contributions receivable, net	<u>\$ 52,698</u>	<u>57,234</u>

The discount rates used to adjust the contributions receivable to present value range from 3.62% to 0.09% at June 30, 2023 and 2022. Contributions receivable at June 30, 2023 are expected to be collected in future years as follows:

2024	\$ 14,121
2025	9,854
2026	9,601
2027	10,654
2028	5,433
2029 and beyond	<u>6,978</u>
Total	<u>\$ 56,641</u>

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

(12) Student Loans Receivable, Net

Student loans receivable at June 30, 2023 and 2022 consist of the following loan funds:

	<u>2023</u>	<u>2022</u>
Primary care loan program	\$ 7,030	6,765
Federal perkins loan program	808	1,547
Health professions student loan program	1,109	837
MCW institutional loans	<u>13,368</u>	<u>12,099</u>
Students loans receivable	22,315	21,248
Allowance for loan loss	<u>(346)</u>	<u>(390)</u>
Student loans receivable, net	<u>\$ 21,969</u>	<u>20,858</u>

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

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

The credit risk profiles of the student loans receivable are based on payment activity as of June 30, 2023 and 2022. 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>2023</u>	<u>2022</u>
Student loans receivable:		
Performing	\$ 22,310	21,173
Nonperforming	<u>5</u>	<u>75</u>
Total student loans receivable	<u>\$ 22,315</u>	<u>21,248</u>

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

(13) Leases

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 11 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 and sometimes variable payments. Variable payments generally include payments for MCW's proportionate share of the building's property taxes, insurance, and common area maintenance.

Lease rental expense for the years ended June 30, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Operating lease rental expense	\$ 9,492	9,854
Variable rental expense	<u>9,272</u>	<u>7,006</u>
Total lease rental expense	<u>\$ 18,764</u>	<u>16,860</u>

ROU assets and long-term lease obligations reported on the consolidated statements of financial position as of June 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Operating ROU assets	\$ 53,835	62,322
Operating lease long-term lease obligations	60,344	68,845

ROU assets of \$484 and \$721 were obtained in exchange for long-term lease obligations on operating leases for the year ended June 30, 2023 and 2022, respectively. Reductions in ROU assets of \$1,527 and \$11,989 resulted in reductions to long-term lease obligations on operating leases for the years ended June 30, 2023 and 2022, respectively. 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.

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

Maturities of long-term operating lease obligations under noncancelable leases as of June 30, 2023 are as follows:

2024	\$	8,972
2025		8,168
2026		8,374
2027		7,966
2028		8,014
2029 and beyond		<u>27,696</u>
Total undiscounted long-term operating lease obligations		69,190
Less imputed interest		<u>8,846</u>
Total long-term operating lease obligations	\$	<u><u>60,344</u></u>

As of June 30, 2023 and 2022, the weighted-average remaining lease term for all operating leases is 8 years.

The weighted average discount rate associated with operating leases as of June 30, 2023 and 2022 is 3%.

(14) Land, Buildings, and Equipment, Net

Land, buildings, and equipment is comprised of the following at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Land, buildings, and improvements	\$ 484,999	474,960
Equipment and furnishings	305,279	299,349
Library books	948	948
Construction in progress	<u>36,239</u>	<u>13,233</u>
	827,465	788,490
Accumulated depreciation and amortization	<u>(524,640)</u>	<u>(505,867)</u>
Land, buildings, and equipment, net	\$ <u><u>302,825</u></u>	<u><u>282,623</u></u>

At June 30, 2023 and 2022, construction in progress includes capitalized interest of \$7,707 and \$5,356, respectively.

MCW is a party to construction contracts that exist for various building renovation and grounds improvement projects. As of June 30, 2023, MCW's outstanding contractual commitments on these contracts is \$5,744.

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

(15) Professional Liability Insurance Program

MCW is required to participate in the Injured Patients and Families Compensation Fund of the State of Wisconsin (the State Fund). MCW is also required to insure for claim losses up to \$1,000 per claim for each medical professional and \$3,000 in the aggregate per year for each medical professional for professional liability claims. Losses with respect to malpractice risks in excess of these amounts are covered by the State 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 State 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 2023 and 2022, MCW made contributions to the Program in the amounts of \$749 and \$766, respectively. The Program has net assets without donor restrictions of \$5,428 and \$7,327 as of June 30, 2023 and 2022, respectively.

Investments held in trust for the Program, as reported in investments at fair value on the consolidated statements of financial position, are \$13,431 and \$16,683 as of June 30, 2023 and 2022, respectively.

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

(16) Long-Term Debt

Long-term debt consists of the following at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
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 (4.00% and 0.65% at June 30, 2023 and 2022, respectively)	\$ 67,500	67,500
Tax-exempt fixed rate WHEFA Revenue Bonds Series 2014 A, with principal payments due annually through 2025. Interest is payable monthly at 2.21%	4,130	6,065
Tax-exempt fixed rate WHEFA Revenue Bonds Series 2014 B, with principal payments due annually through 2027. Interest is payable monthly at 2.36%	8,300	10,480
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 4.46% and 4.47% at June 30, 2023 and 2022 respectively	140,785	143,605
Tax-exempt fixed rate WHEFA Revenue Bonds Series 2018, with principal payments due annually through 2033. Interest is payable monthly at 3.05%	46,480	50,195
Tax-exempt fixed rate WHEFA Revenue Bonds Series 2022, with mandatory sinking fund serial bond maturities due annually 2036 through 2041 and term bond maturities due in 2046 and 2051. The effective interest rate is 4.18% at June 30, 2023 and 2022	165,350	165,350
Note payable, with an effective interest rate of 3.52%. The note is payable to Milwaukee County in annual installment payments through September 2074	8,413	8,470
	<u>440,958</u>	<u>451,665</u>
Total long-term debt before unamortized premium and discount and issuance costs		
Unamortized discounts and premiums	38,531	40,248
Unamortized issuance costs	<u>(3,053)</u>	<u>(3,166)</u>
Total long-term debt	\$ <u>476,436</u>	<u>488,747</u>

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

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

The aggregate scheduled principal maturities of long-term debt for each of the five years subsequent to June 30, 2023 and thereafter are as follows:

2024	\$	11,074
2025		11,621
2026		12,078
2027		12,450
2028		12,822
2029 and beyond		<u>380,913</u>
Total	\$	<u>440,958</u>

All or part of the Series 2008 B, 2014 A, 2014 B, 2016, 2018 and 2022 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 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.
- The Series 2022 bonds may be redeemed beginning on December 1, 2031.

(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. The remaining Series 2008A bonds were refunded by the WHEFA Revenue Bond Series 2022.

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

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 July 6, 2023, in substitution of the existing credit facility, MCW entered into a Reimbursement Agreement with a new financial institution under which a renewable letter of credit was issued which expires on July 6, 2028. The \$68,654 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. Any liquidity drawing made under the letter of credit is considered a liquidity advance. Payments of interest under the liquidity advance would be due in monthly interest installments, commencing on the first business day of the month after the date of the liquidity advance. Payments of outstanding principal under the liquidity advance would be due in quarterly principal installments, commencing on the 367th day after the liquidity advance. The outstanding principal balance of any such liquidity advance would bear interest at the base rate plus up to 100 basis points based on the length of the advance. The base rate is calculated as the greater of Prime Rate or 3%. The principal and interest are required to be paid by the fourth anniversary of the date of the initial liquidity advance. If a full optional or mandatory tender occurs, a liquidity advance will be made at a base rate of 8.5% and annual debt service related to the Series 2008 B bonds will increase by \$3,353, \$22,622, \$17,350, and \$20,132 over the next four years, respectively. As of June 30, 2023 and 2022, there were no outstanding liquidity drawings or drawing loans under the Credit Agreement.

(b) 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.

(c) 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.

(d) 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

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

facility located in central Wisconsin. The Series 2018 bonds were issued as a direct placement with a financial institution.

(e) WHEFA Revenue Bond Series 2022

The Series 2022 bonds, totaling \$165,350, were issued on February 3, 2022 to refund the remaining Series 2008A bonds, to fund the construction and equipping of a cancer research building, renovations and equipping of an existing basic science building, and renovation and equipping of other existing educational facilities.

(f) Taxable Loans

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 \$50,000 and is used for working capital expenditures. MCW pays a fee of 0.10% 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. The amounts owed under the Land Payment Agreement are secured by a mortgage of the land acquired in the purchase.

(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.

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. The publication of LIBOR rates ceased effective June 30, 2023 and the variable counterparty payment is now based on 68% of SOFR with a spread adjustment. 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. No investment securities were required as collateral as of June 30, 2023 and 2022, respectively.

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

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

(17) Net Assets

Certain net assets are designated for specific purposes by the 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, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Designated to function as endowment funds to support the following purposes:		
Research	\$ 450,528	423,561
Professorships	4,143	2,360
Undesignated	<u>461,562</u>	<u>414,249</u>
	916,233	840,170
Designated for the professional liability insurance program	5,428	7,327
Undesignated	<u>469,563</u>	<u>395,807</u>
	<u>\$ 1,391,224</u>	<u>1,243,304</u>

Net assets with donor restrictions that are restricted for time, purpose or both at June 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Endowments subject to spending policy and appropriation, to support the following purposes (including net accumulated earnings of \$425,753 and \$333,260, respectively):		
Advancing a Healthier Wisconsin	\$ 482,047	458,262
Research	78,037	69,036
Professorships	53,495	45,762

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

	<u>2023</u>	<u>2022</u>
Scholarships	\$ 43,361	37,323
Education	9,402	8,449
Community engagement	4,021	3,544
Other	52,759	49,994
	<u>723,122</u>	<u>672,370</u>
Time implied pledges to support the following purposes:		
Research	37,380	37,614
Scholarships	309	597
Education	641	3,490
Other, including discounts and bad debt allowances	(1,165)	(485)
	<u>37,165</u>	<u>41,216</u>
Time implied pledges to support the following purposes in perpetuity:		
Research	6,094	6,647
Professorships	6,084	5,892
Scholarships	1,281	1,293
Other, including discounts and bad debt allowances	2,074	2,186
	<u>15,533</u>	<u>16,018</u>
Gifts subject to expenditure to support the following purposes:		
Capital projects	21,644	22,732
Research	5,719	4,678
Scholarships	1,124	1,186
Education	236	1,221
Student loans	9,836	9,602
Community	471	301
	<u>39,030</u>	<u>39,720</u>
Charitable gifts that will provide proceeds in the future:		
Trusts and annuities	4,801	6,058
Life insurance	337	273
	<u>5,138</u>	<u>6,331</u>
	<u>\$ 819,988</u>	<u>775,655</u>

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

(a) *Advancing a Healthier Wisconsin*

MCW received marketable securities from The Wisconsin United for Health Foundation, Inc. (WUHF) having original fair values of approximately \$303,347 in March 2004, \$15,229 in December 2007, and \$1,789 in August 2019. 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 from a not-for-profit 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 periodically evaluates the allocation percentages. 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 2007, and MCW began releasing the restriction on the contribution over the estimated life of the use restriction. As of June 30, 2023, \$14,825 remains classified as net assets with donor restriction.

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

On November 9, 2010, MCW entered into an Amendment to the 2005 Grant and Land Use Restriction Agreement that authorized 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 2012.

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

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, 2023 and 2022, there were no contributions with donor restrictions related to this grant. Portions of the project were completed and placed into service starting in 2014, and MCW began releasing the restriction on the contribution over the estimated life of the grant restrictions. As of June 30, 2023, \$5,185 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). Upon mandatory participation, MCW makes matching contributions up 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 \$50,787 and \$47,792, respectively, for the years ended June 30, 2023 and 2022.

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. Assets related to the deferred compensation and defined contribution benefits of \$4,057 and \$3,702 at June 30, 2023 and 2022, respectively, are reflected in cash and cash equivalents and investments at fair value. Accrued benefits totaling approximately \$4,057 and \$3,702 at June 30, 2023 and 2022, 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 \$64,482 and \$2,265, respectively, during the year ended June 30, 2023 and \$65,566 and \$1,968, respectively, during the year ended June 30, 2022.

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

(19) Functional Expenses

Expenses classified by both nature and function for the year ended June 30, 2023 and 2022 are as follows:

	Year ended June 30, 2023						
	Program activities				Supporting activities		Total expenses
	Patient care	Research	Education	Community engagement	Institutional support	Fundraising	
Faculty salaries	\$ 435,485	75,881	45,598	4,667	3,848	448	565,927
Staff salaries	188,823	104,539	27,607	4,371	45,028	3,951	374,319
Fringe benefits	109,548	38,486	14,512	2,040	12,861	972	178,419
Services, supplies and other	77,720	53,314	23,297	1,846	35,910	1,459	193,546
Rent and occupancy	13,182	16,273	5,131	249	7,645	73	42,553
Subcontracts	243	36,267	3,269	6,003	—	—	45,782
Depreciation and amortization	7,967	17,472	5,316	177	3,155	114	34,201
Interest on indebtedness	3,861	4,479	1,080	36	938	—	10,394
Total expenses	\$ 836,829	346,711	125,810	19,389	109,385	7,017	1,445,141

	Year ended June 30, 2022						
	Program activities				Supporting activities		Total expenses
	Patient care	Research	Education	Community engagement	Institutional support	Fundraising	
Faculty salaries	\$ 426,095	68,464	42,491	3,096	4,142	458	544,746
Staff salaries	176,916	95,037	24,851	3,150	41,167	3,233	344,354
Fringe benefits	107,950	35,336	13,517	1,349	13,321	816	172,289
Services, supplies and other	64,171	45,311	23,925	1,280	31,806	1,261	167,754
Rent and occupancy	13,321	14,320	5,101	203	5,789	146	38,880
Subcontracts	335	35,995	2,437	4,716	—	—	43,483
Depreciation and amortization	7,415	19,039	5,581	161	2,844	135	35,175
Interest on indebtedness	3,900	4,675	972	25	905	—	10,477
Total expenses	\$ 800,103	318,177	118,875	13,980	99,974	6,049	1,357,158

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, pharmacy students, residents, post-doctoral fellows, student trainees and continuing medical education participants. Community engagement expenses include partnerships with public and private organizations to enhance learning, research, patient care and the health of the community.

The 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

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

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, 2023 and 2022 for general expenditure are as follows:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 132,701	148,631
Investments, at fair value	2,103,720	1,925,663
Receivables:		
Patient accounts	75,016	61,379
Other accounts, net	97,604	95,155
Contributions, net	<u>52,698</u>	<u>57,234</u>
Financial assets at year end	2,461,739	2,288,062
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	612,010	566,084
Funds functioning as endowments, net of funds to be appropriated for expenditure within one year	785,659	723,813
Restricted cash and investments	21,112	23,922
Pledges receivable, net of amounts to be received within one year	38,577	43,063
Liquidity:		
Unrestricted investments with liquidity horizons greater than one year	<u>109,635</u>	<u>82,332</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 894,746</u>	<u>848,848</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.

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

(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) 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 consolidated financial statements submitted through ED's eZ-Audit system. The composite score has been and will continue to be based on three ratios: Primary Reserve, Equity, and Net Income. These ratios utilize the following financial data of MCW, which are not otherwise presented in the consolidated financial statements or other notes to the consolidated financial statements, as of and for the year ended June 30, 2023:

Required input per standards	Ratio(s) used	Input amount	Amount not used as input on supplementary schedule	Reference
AHW endowments restricted in perpetuity			\$ 290,478	Note 7(e), Endowment Net Asset Classification
Other endowments restricted in perpetuity			157,773	Note 7(e), Endowment Net Asset Classification
Total term endowments with donor restrictions	Primary reserve	\$ 448,251		

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(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>
Gifts restricted for student loans			9,836	Note 17, Net Assets
Time implied pledges restricted in perpetuity			15,533	Note 17, Net Assets
Total net assets with donor restrictions restricted in perpetuity	Primary reserve	25,369		
AHW endowments restricted by time or purpose			191,569	Note 7(e), Endowment Net Asset Classification
Other endowments restricted by time or purpose			83,302	Note 7(e), Endowment Net Asset Classification
Time implied pledges restricted only for time			37,165	Note 17, Net Assets
Gifts restricted for capital projects, research, scholarship, education and community			29,194	Note 17, Net Assets
Total net assets with donor restrictions other, for purpose or time	Primary reserve	341,230		
Froedtert account receivables			50,866	Note 3(a), Related-Party Transactions
F&MCW Community Physicians account receivables			12,944	Note 3(a), Related-Party Transactions
Children's Hospital and Health System, Inc. accounts receivable			25,654	Note 3(b), Related-Party Transactions
Total secured and unsecured related party receivables	Primary reserve	89,464		
Froedtert account receivables			50,866	Note 3(a), Related-Party Transactions
F&MCW Community Physicians account receivables			12,944	Note 3(a), Related-Party Transactions
Children's Hospital and Health System, Inc. accounts receivable			25,654	Note 3(b), Related-Party Transactions
Total unsecured related party receivables	Primary reserve Equity	89,464		

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

Required input per standards	Ratio(s) used	Input amount	Amount not used as input on supplementary schedule	Reference
Property, plant and equipment, net (includes construction in progress)			302,825	Consolidated Statement of Financial Position
Lease right-of-use assets, net			53,835	Consolidated Statement of Financial Position
Total property, plant and equipment, net (includes construction in progress and capital leases)	Primary reserve	356,660		
Goodwill			2,470	Not otherwise presented
Deferred and capitalized patent costs, net			6,543	Not otherwise presented
Total intangible assets	Primary reserve, Equity	9,013		
Long-term debt for the purchase of property plant and equipment	Primary reserve	302,825		Not otherwise presented Consolidated Statement of Operations and Changes in Net Assets
Realized gain on investments, net			26,105	Consolidated Statement of Operations and Changes in Net Assets
Unrealized gain on investments, net			114,825	Consolidated Statement of Operations and Changes in Net Assets
Endowment loss net of spendable income			(30,188)	Consolidated Statement of Operations and Changes in Net Assets
Unrealized gain on interest rate swap			3,680	Consolidated Statement of Operations and Changes in Net Assets
Other gains			1,155	Consolidated Statement of Operations and Changes in Net Assets
Total nonoperating revenue and other additions (gains)	Net income	115,577		
Investment return appropriated for spending		34,453		Not otherwise presented

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(In thousands)

(23) 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, 2023 through October 26, 2023, which was the date the consolidated financial statements were 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, 2023

(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	\$ 1,391,224	—	Consolidated Statement of Financial Position
Net assets with donor restriction	819,988	—	Consolidated Statement of Financial Position
Annuities with donor restrictions	4,801	—	Note 17, Net Assets
Term endowments with donor restrictions	—	448,251	Note 23, Financial Responsibility Standards
Life income funds with donor restrictions	337	—	Note 17, Net Assets
Net assets with donor restrictions: restricted in perpetuity	—	25,369	Note 23, Financial Responsibility Standards
Net assets with donor restrictions: other, for purpose or time	—	341,230	Note 23, Financial Responsibility Standards
Secured and unsecured related party receivables	—	87,085	Note 23, Financial Responsibility Standards
Unsecured related party receivable	—	87,085	Note 23, Financial Responsibility Standards
Property, plant and equipment, net (includes construction in progress and capital leases)	—	356,660	Note 23, Financial Responsibility Standards
Property, plant and equipment – post-implementation with outstanding debt (includes capital leases)	—	356,660	Note 23, Financial Responsibility Standards
Construction in progress	36,239	—	Note 14, Land, Buildings and Equipment, net
Lease right-of-use assets, net	53,835	—	Consolidated Statement of Financial Position
Lease right-of-use assets post-implementation	53,835	—	Consolidated Statement of Financial Position
Intangible assets	—	9,013	Note 23, Financial Responsibility Standards
Post-employment and pension liabilities	4,057	—	Note 18, Employee Benefit Plans – deferred compensation payable
Total long-term debt – for long term purposes	476,436	—	Consolidated Statement of Financial Position
Total long-term debt – for long term purposes post-implementation	—	302,825	Note 23, Financial Responsibility Standards
Lease right-of-use liability	60,344	—	Consolidated Statement of Financial Position
Post-implementation lease right-of-use liabilities	60,344	—	Consolidated Statement of Financial Position
Primary Reserve Ratio: Total Expenses and Losses			
Total expenses without donor restrictions	\$ 1,445,141	—	Consolidated Statement of Operations and Changes in Net Assets
Equity Ratio: Modified Net Assets			
Net assets without donor restriction	\$ 1,391,224	—	Consolidated Statement of Financial Position
Net assets with donor restriction	819,988	—	Consolidated Statement of Financial Position
Intangible assets	—	9,013	Note 23, Financial Responsibility Standards
Unsecured related party receivable	—	89,464	Note 23, Financial Responsibility Standards
Equity Ratio: Modified Assets			
Total assets	\$ 3,053,385	—	Consolidated Statement of Financial Position
Intangible assets	—	9,013	Note 23, Financial Responsibility Standards
Unsecured related party receivable	—	89,464	Note 23, Financial Responsibility Standards
Net Income Ratio: Change in Net Assets Without Donor Restrictions			
Change in net assets without donor restrictions	\$ 147,920	—	Consolidated Statement of Operations and Changes in Net Assets
Net Income Ratio: Total Revenues and Gains			
Total operating revenue and other additions (gains)	\$ 1,477,484	—	Consolidated Statement of Operations and Changes in Net Assets
Investment return appropriated for spending	—	34,453	Note 23, Financial Responsibility Standards
Nonoperating revenue and other gains	—	115,577	Note 23, 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, 2023

Federal grantor/pass-through grantor/cluster title	Federal assistance listing number	Pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Major federal programs				
Research and Development Cluster (note 3)				
U.S. Department of Agriculture				
National Institute of Food and Agriculture	10.310	—	\$ 100,000	198,557
U.S. Department of Defense				
Department of the Air Force	12.DOD	—	—	95,192
Department of the Army	12.420	—	725,786	2,780,606
Department of the Army	12.431	—	—	263,038
Beth Israel Deaconess Medical Center	12.RD	1063986	—	30,738
CFD Research Corporation	12.RD	20160327	—	369
Children's Hospital of Boston	12.RD	GENFD0002272790	—	3,815
Duke University	12.RD	313000072	—	13,984
Indiana University	12.RD	Various	—	518,547
InnoVital Systems, Inc.	12.RD	S208-03-WI-01	—	17,408
Medical Technology Enterprise Consortium	12.RD	2021-532	1,742,663	2,213,316
Oklahoma University Health Science Center	12.RD	RS20201654-01	—	81,887
Paxausis	12.RD	PAXC012	—	130,615
Southwest Research Institute	12.RD	L99043RI	—	319,918
University of California-San Francisco	12.RD	Various	—	192,947
University of Colorado at Denver	12.RD	FY18_794_019	—	123,155
University of Copenhagen	12.RD	N/A	—	5,245
University of North Carolina at Chapel Hill	12.RD	5119035	—	29,664
University of Pittsburgh	12.RD	Various	—	16,875
Total Department of the Army			<u>2,468,449</u>	<u>6,742,127</u>
Department of the Navy				
Fundacion Oceanografic de la Comunitat Valenciana	12.RD	GRANT12802991	—	5,873
L-3 Applied Technologies Inc	12.RD	82SC17001	—	(189)
National Marrow Donor Program	12.RD	Various	—	208,341
University of Pittsburgh	12.RD	0043845-12	—	16,404
Total Department of the Navy			—	<u>230,429</u>
Uniformed Services University of the Health Sciences				
Indiana University	12.RD	Various	—	441,925
Total U.S. Department of Defense			<u>2,468,449</u>	<u>7,509,673</u>
U.S. Department of Justice				
Office of Justice Programs	16.817	—	—	116,287
City of West Allis	16.RD	256-8360-522-30-04	—	91,780
Institute for Intergovernmental Research	16.RD	2020-COAP-0003	—	13,287
Milwaukee County Department of Health and Human Services	16.RD	HD19-032019-A	—	9,362
Milwaukee County Medical Examiner	16.RD	N/A	—	367,439
State of Wisconsin	16.RD	2018-OA-01-15615	78,327	213,833
West Allis Health Department	16.RD	2018-AR-BX-K106	14,723	190,898
Total U.S. Department of Justice			<u>93,050</u>	<u>1,002,886</u>
U.S. Department of Transportation				
National Highway Traffic Safety Administration (NHTSA)	20.DOT	—	—	836,643
U.S. Department of the Treasury				
Children's Hospital of Wisconsin	21.RD	N/A	—	39,443
National Aeronautics and Space Administration	43.001	—	31,027	48,008
National Aeronautics and Space Administration	43.003	—	112,441	213,620
Total National Aeronautics and Space Administration			<u>143,468</u>	<u>261,628</u>
National Endowment for the Humanities	45.162	—	—	10,550
National Science Foundation	47.049	—	—	216,530
National Science Foundation	47.075	—	—	221,369
University of Wisconsin-Milwaukee	47.RD	203405433	—	8,538
Total National Science Foundation			—	<u>446,427</u>
U.S. Department of Veterans Affairs	64.VA	—	—	1,091,024
Wisconsin Corporation for Biomedical Research	64.RD	Various	—	164,668
Total U.S. Department of Veterans Affairs			—	<u>1,255,692</u>
Environmental Protection Agency	66.509	—	—	163,111
Midwest Bikesare, Inc. d/b/a Bubl'r Bikes	66.RD	00E03107	—	2,832
Total Environmental Protection Agency			—	<u>165,943</u>
U.S. Department of Health and Human Services				
Agency for Healthcare Research and Quality				
University of Michigan	93.RD	SUBK00017851	—	2,915
University of Wisconsin-Madison	93.RD	Various	—	310,541
Total Agency for Healthcare Research and Quality			—	<u>313,456</u>
Centers for Disease Control and Prevention	93.CDC	—	6,525	118,052
Centers for Disease Control and Prevention	93.080	—	15,273	287,991
Centers for Disease Control and Prevention	93.136	—	165,814	349,579
American Public Health Association	93.RD	N/A	—	2,016
Association of State and Territorial Health Officials	93.RD	N/A	—	24,413
Children's Hospital of Wisconsin	93.RD	U01DD001239	—	1,198
Eastern Virginia Medical School	93.RD	S270151-28	—	2,373
Improve Care Now, Inc.	93.RD	No 003	—	4,162
Northwestern University	93.RD	60056845 MCW	—	44,201
State of Wisconsin	93.RD	Various	—	257,516
COVID-19 The Task Force for Global Health, Inc.	93.RD	PO 5249	—	144,317
University of Kansas Medical Center Research Institute Inc.	93.RD	N/A	—	5,000
Total Centers for Disease Control and Prevention			<u>187,612</u>	<u>1,240,818</u>
Centers for Medicare and Medicaid Services				
State of Wisconsin	93.RD	435400-G19-GrMedEdRes-00	—	451,918
Administration for Children and Families				
State of Wisconsin	93.RD	N/A	—	2,500
Administration for Community Living				
Medical University of South Carolina	93.RD	A00-3837-S001	—	4,489
University of Wisconsin-Milwaukee	93.RD	223405543	—	12,116
Total Administration for Community Living			—	<u>16,605</u>
Food and Drug Administration	93.FDA	—	55,037	171,828
Applied Research Associates, Inc.	93.RD	PO21-00578; S-003956-02-MCW	—	15,895
New York Medical College	93.RD	123900	—	35,719
Total Food and Drug Administration			<u>55,037</u>	<u>223,442</u>

THE MEDICAL COLLEGE OF WISCONSIN, INC.
 Schedule of Expenditures of Federal and State Awards
 Year ended June 30, 2023

Federal grantor/pass-through grantor/cluster title	Federal assistance listing number	Pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Health Resources and Services Administration (HRSA)	93.HRSA	—	\$ 2,660,609	5,139,748
Health Resources and Services Administration (HRSA)	93.110	—	—	28,697
Health Resources and Services Administration (HRSA)	93.134	—	—	12,689
Health Resources and Services Administration (HRSA)	93.186	—	—	10,303
Health Resources and Services Administration (HRSA)	93.247	—	—	217,085
Cincinnati Children's Hospital Medical Center	93.RD	Various	—	242,673
Immune Deficiency Foundation	93.RD	1800.868	—	649
Marquette University	93.RD	2375-01-01	—	25,879
Mayo Clinic Rochester	93.RD	MCW-268163	—	8,042
Michigan Public Health Institute	93.RD	Z-38855-115-504200	—	2,063
University of Buffalo	93.RD	R1328410	—	116,825
Total Health Resources and Services Administration (HRSA)			<u>2,660,609</u>	<u>5,804,653</u>
National Institutes of Health (NIH)	93.NIH	—	—	7,800
National Institutes of Health (NIH)	93.113	—	27,781	270,758
National Institutes of Health (NIH)	93.121	—	—	(1,231)
National Institutes of Health (NIH)	93.173	—	158,436	973,220
National Institutes of Health (NIH)	93.213	—	18,899	260,967
National Institutes of Health (NIH)	93.233	—	—	170,525
National Institutes of Health (NIH)	93.242	—	347,925	2,436,896
National Institutes of Health (NIH)	93.279	—	686,574	2,797,427
National Institutes of Health (NIH)	93.286	—	22,148	108,703
National Institutes of Health (NIH)	93.307	—	91,825	945,132
COVID-19 National Institutes of Health (NIH)	93.307	—	38,558	719,139
Total Federal assistance listing number 93.307			<u>130,383</u>	<u>1,664,271</u>
National Institutes of Health (NIH)	93.310	—	2,772,830	3,969,805
COVID-19 National Institutes of Health (NIH)	93.310	—	404,667	1,304,067
Total Federal assistance listing number 93.310			<u>3,177,497</u>	<u>5,273,872</u>
National Institutes of Health (NIH)	93.350	—	1,076,907	6,838,424
National Institutes of Health (NIH)	93.351	—	—	1,866,838
National Institutes of Health (NIH)	93.353	—	927,902	1,638,743
National Institutes of Health (NIH)	93.361	—	103,141	525,874
National Institutes of Health (NIH)	93.393	—	226,081	2,057,709
National Institutes of Health (NIH)	93.394	—	294,157	2,823,748
National Institutes of Health (NIH)	93.395	—	2,449,078	6,424,052
National Institutes of Health (NIH)	93.396	—	64,736	3,378,642
National Institutes of Health (NIH)	93.398	—	—	905,711
National Institutes of Health (NIH)	93.837	—	2,270,118	20,326,556
National Institutes of Health (NIH)	93.838	—	87,723	1,883,406
National Institutes of Health (NIH)	93.839	—	10,391,879	17,488,524
National Institutes of Health (NIH)	93.846	—	1,545	154
National Institutes of Health (NIH)	93.847	—	1,203,407	9,659,755
National Institutes of Health (NIH)	93.853	—	353,343	6,675,184
National Institutes of Health (NIH)	93.855	—	1,487,879	7,163,050
COVID-19 National Institutes of Health (NIH)	93.855	—	—	229,459
Total Federal assistance listing number 93.855			<u>1,487,879</u>	<u>7,392,509</u>
National Institutes of Health (NIH)	93.859	—	411,177	6,846,555
National Institutes of Health (NIH)	93.865	—	592,742	2,529,199
National Institutes of Health (NIH)	93.866	—	110,983	1,135,043
COVID-19 National Institutes of Health (NIH)	93.866	—	—	132,870
Total Federal assistance listing number 93.866			<u>110,983</u>	<u>1,267,913</u>
National Institutes of Health (NIH)	93.867	—	933,376	5,199,675
Albany Research Institute, Inc.	93.RD	92.6.03	—	9,755
Alliance NCTN Foundation	93.RD	Various	—	78,708
American University of Beirut	93.RD	R21TW011453MCW2	—	55,000
Applied Physics Systems	93.RD	R44HK160257-2	—	19,583
Arizona State University	93.RD	ASUB00001078	—	129,612
Arkansas Children's Hospital Research Institute	93.RD	034146-013	—	10,104
Baylor College Of Medicine	93.RD	P700000260	—	34,690
Beckman Research Institute of the City of Hope	93.RD	Various	—	25,062
Board of Regents of the University of Oklahoma	93.RD	RS20182223-01	—	(2,493)
Brio Device, LLC	93.RD	Brio09052019(01)	—	(1,853)
California Institute of Technology	93.RD	S455213	—	370,196
Children's Hospital of Boston	93.RD	Various	—	21,816
Children's Hospital of Philadelphia	93.RD	Various	—	156,215
Children's Mercy Hospitals and Clinics	93.RD	Various	—	15,175
Children's Hospital Los Angeles	93.RD	Various	—	18,245
Cleveland Clinic Lerner College of Medicine of CWRU	93.RD	Various	—	53,117
CNMC-Children's Research Institute	93.RD	30004942-07	—	30,733
Columbia University	93.RD	Various	—	466,348
Dignity Health dab St. Joseph's Hospital and Medical Center	93.RD	N/A	—	2,290
Duke University	93.RD	Various	—	206,450
ECOG-ACRIN	93.RD	U10CA180820-06-MCW1C	—	16,382
Emory University	93.RD	A571102	—	19,653
Fred Hutchinson Cancer Research Center	93.RD	Various	—	38,035
Georgetown University	93.RD	424743_GR424741-MCW-P-2	—	121,623
Great Lakes Inter-Tribal Council, Inc	93.RD	N/A	26,000	185,138
H Lee Moffitt Cancer Center & Research	93.RD	10-20864-99-01-G1	—	31,287
Hospital for Special Surgery	93.RD	E8VWJXMMUQ67	—	26,654
Houston Methodist Research Institute	93.RD	Various	—	452,657
iFIT Prosthetics, LLC	93.RD	N/A	—	84,276
Indiana University	93.RD	Various	—	117,448
Innovation Pathways	93.RD	N/A	—	5,382
Institute For Clinical Research, Inc	93.RD	M54-WI-052-1101-3	—	80,598
Jaeb Center for Health Research Inc	93.RD	N/A	—	2,876
Johns Hopkins University	93.RD	Various	—	48,547
Kansas University Medical Center Research Institute, Inc.	93.RD	N/A	—	17,375
Loyola University Medical Center	93.RD	213711-MCW	—	54,440
Marquette University	93.RD	Various	—	1,160,029
Marshfield Clinic Research Foundation	93.RD	277593-00	—	3,699,597
Massachusetts General Hospital	93.RD	Various	—	(1,278)
Mayo Foundation	93.RD	MCW-278621	—	9,935
Medical University of South Carolina	93.RD	Various	—	187,319
Myelo Therapeutics GmbH	93.RD	Various	—	600,631
National Marrow Donor Program	93.RD	Various	—	109,626
Nationwide Children's Hospital	93.RD	Various	—	5,805
New England Research Institutes, Inc.	93.RD	Various	—	119,106
COVID-19 New York University	93.RD	M210435910	—	23,185
New York University School of Medicine	93.RD	21-A2-00-10046666	—	354
Northwestern University	93.RD	Various	—	191,817
NRG Oncology Foundation, Inc.	93.RD	Various	—	18,204
NYU Winthrop Hospital	93.RD	20-00-00-1004085	—	1,137
Oregon Health & Science University	93.RD	Various	—	47,797
Pennsylvania State University	93.RD	MCWEV023533	—	5

THE MEDICAL COLLEGE OF WISCONSIN, INC.
Schedule of Expenditures of Federal and State Awards
Year ended June 30, 2023

Federal grantor/pass-through grantor/cluster title	Federal assistance listing number	Pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
COVID-19 PPD Development, LP	93.RD	ACTIV-2/A5401	\$ —	963
Public Health Institute	93.RD	Various	—	174,000
RAND Corporation	93.RD	SCON-00000512	—	57,674
ReNeurogen LLC	93.RD	N/A	—	5,214
Rush University Medical Center	93.RD	Various	—	42,070
Rutgers, The State University	93.RD	Various	—	93,366
SRI International	93.RD	76684	—	188,334
The Morgridge Institute for Research	93.RD	MIRC-002548	—	90,640
The Ohio State University	93.RD	GR128377 / SPC-1000006786	—	82,388
Thomas Jefferson University	93.RD	080-05001-S33301	—	91,552
Translational Imaging Innovations, Inc.	93.RD	TII MCW SBIR; REY031198	—	51,989
Tufts University School of Medicine	93.RD	HH4091; 100970-00001	—	4,010
University of Alabama at Birmingham	93.RD	Various	—	95,432
University of Arizona	93.RD	Various	—	56,633
University of Arkansas for Medical Sciences	93.RD	Various	—	272,015
University of California-Davis	93.RD	A18-0168-S011	—	8,395
University of California-Los Angeles	93.RD	Various	—	252,010
University of California-San Diego	93.RD	704372	—	166,128
University of California-San Francisco	93.RD	Various	—	458,543
University of Chicago	93.RD	Various	—	119,585
University of Chicago Medical Center	93.RD	AWD100391 (SUB00000181)	—	63
University of Cincinnati	93.RD	Various	—	3,970
University of Colorado at Denver	93.RD	Various	—	144,442
University of Florida	93.RD	UFDSP00011952	—	(72)
University of Houston	93.RD	R-22-0105	—	8,812
University of Illinois	93.RD	19122	—	11,796
University of Iowa	93.RD	Various	—	7,877
University of Kansas Medical Center Research Institute Inc.	93.RD	GR12331/ZAR00080	—	5,471
University of Maryland	93.RD	Various	—	109,825
University of Michigan	93.RD	Various	21,876	174,965
COVID-19 University of Michigan	93.RD	SUBK00013692-005	—	6,564
Total University of Michigan			21,876	181,529
University of Minnesota	93.RD	Various	—	88,847
University of Missouri	93.RD	Various	—	67,529
University of North Carolina at Chapel Hill	93.RD	Various	—	225,291
University of Pennsylvania	93.RD	Various	—	115,905
University of Pittsburgh	93.RD	Various	—	27,975
University of Rochester	93.RD	SUB00000395	—	88,195
University of South Florida	93.RD	Various	—	2,705
University of Texas Health Science Center at San Antonio	93.RD	Various	—	132,196
University of Texas Medical Branch at Galveston	93.RD	22-86097-01; UOSPC-0000001983	—	27,370
University of Texas-Health Science Center at Houston	93.RD	0014326C	—	3,992
University of Utah	93.RD	N/A	—	6,735
University of Washington	93.RD	UWSC13414; BP069231	—	19,215
University of Wisconsin-Madison	93.RD	Various	—	391,230
COVID-19 University of Wisconsin-Madison	93.RD	0000002526	—	13,078
Total University of Wisconsin-Madison			—	404,308
University of Wisconsin-Milwaukee	93.RD	Various	—	550,941
COVID-19 University of Wisconsin-Milwaukee	93.RD	223405545	—	1,912
Total University of Wisconsin-Milwaukee			—	552,853
Vanderbilt University Medical Center	93.RD	Various	—	272,004
Versiti Wisconsin, Inc.	93.RD	Various	—	405,232
Virginia Polytechnic Institute and State University	93.RD	412636-19844	—	27,722
Washington University in St Louis	93.RD	WU-18-260-MOD-1	—	3,666
Wayne State University	93.RD	Various	—	498,431
COVID-19 Weill Medical College of Cornell University	93.RD	230557-12	—	253,470
Yale University	93.RD	CON-80003411 (GR114861)	—	5,244
Total National Institutes of Health			27,603,693	134,880,311
Substance Abuse and Mental Health Services Administration				
Northeastern Wisconsin Area Health Education Center	93.RD	H79SP082346	—	38,970
State of Wisconsin	93.RD	Various	—	323,107
University of Michigan	93.RD	Various	—	13,160
Total Substance Abuse and Mental Health Services Administration			—	375,237
Office of Assistant Secretary for Health	93.137	—	7,299	270,655
Immediate Office of the Secretary	93.078	—	—	2,868
MRIGlobal	93.RD	MR11-2016-002/003	—	6,792
University Hospitals Medical Group, Inc.	93.RD	N/A	—	86,062
Total Immediate Office of the Secretary			—	95,722
Total U.S. Department of Health and Human Services			30,514,250	143,675,317
Total Research and Development Cluster			33,319,217	155,402,759
U.S. Department of the Treasury				
State of Wisconsin	21.027	Various	97,016	970,863
City of Milwaukee	21.027	Various	—	554,010
Total U.S. Department of the Treasury			97,016	1,524,873
Total major federal programs			33,416,233	156,927,632
Nonmajor federal programs				
Student Financial Assistance Cluster (notes 4 and 6)				
U.S. Department of Education				
Federal Perkins Loan Program	84.038	—	—	1,511,692
Federal Direct Loan Program	84.268	—	—	54,993,362
Total U.S. Department of Education			—	56,505,054
U.S. Department of Health and Human Services				
Health Professions Student Loans	93.342	—	—	1,134,950
Primary Care Loans	93.342	—	—	7,446,246
U.S. Department of Health and Human Services			—	8,581,196
Total Student Financial Assistance Cluster			—	65,086,250

THE MEDICAL COLLEGE OF WISCONSIN, INC.
Schedule of Expenditures of Federal and State Awards
Year ended June 30, 2023

Federal grantor/pass-through grantor/cluster title	Federal assistance listing number	Pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
U.S. Department of Health and Human Services Health Resources and Services Administration (HRSA) COVID-19 Provider Relief Fund (note 5)	93.498	—	\$ —	2,056,837
Department of Housing and Urban Development Office of Community Planning and Development City of Milwaukee	14.218	C3810CDBG21	—	(52)
U.S. Department of Transportation National Highway Traffic Safety Administration (NHTSA)	20.DOT	—	—	104,502
U.S. Department of Veterans Affairs Veterans Outreach of Wisconsin	64.VA	—	—	143,729
U.S. Department of Health and Human Services Centers for Disease Control and Prevention State of Wisconsin Southeast Wisconsin Healthcare Emergency Readiness Coalition, Inc.	93.074 93.074	PO 43500-0000018624 N/A	— —	2,860 31,951
Total Federal assistance listing number 93.074	93.074	—	—	34,811
State of Wisconsin COVID-19 State of Wisconsin	93.136 93.268	435100-G23-SuicidePrev-01 435100-S22-BWMedColWI	— —	29,244 20,820
State of Wisconsin	93.391	PO43500-0000044724	—	47,387
State of Wisconsin	93.426	Various	—	36,141
State of Wisconsin	93.940	435100-G22-CDHRSHIV-00	—	12,996
State of Wisconsin	93.977	Various	—	74,473
Total Centers for Disease Control and Prevention			—	255,872
Administration for Children and Families State of Wisconsin	93.092	159354	—	93,793
State of Wisconsin	93.566	Various	—	75,158
State of Wisconsin	93.567	437004-G21-0001739-000-06	—	11,042
Total Administration for Children and Families			—	179,993
Health Resources and Services Administration (HRSA)	93.153	—	511,517	937,366
Health Resources and Services Administration (HRSA)	93.516	—	—	263,561
State of Wisconsin	93.110	152018	175,620	82,009
Immune Deficiency Foundation	93.110	MCW1800.868	—	2,460
Total Federal assistance listing number 93.110			175,620	84,469
University of California-San Francisco	93.145	PO # B000736743	—	2,093
State of Wisconsin	93.917	Various	242,992	1,710,125
State of Wisconsin	93.994	Various	—	88,114
Total Health Resources and Services Administration (HRSA)			930,129	3,085,728
Centers for Medicare and Medicaid Services State of Wisconsin	93.778	Various	—	75,579
Substance Abuse And Mental Health Services Administration State of Wisconsin	93.959	Various	7,333	511,900
Immediate Office of the Secretary State of Wisconsin	93.889	Various	—	53,818
Southeast Wisconsin Healthcare Emergency Readiness Coalition, Inc.	93.889	N/A	—	30,122
Total Immediate Office of the Secretary			—	83,940
Total U.S. Department of Health and Human Services			937,462	4,193,012
Agency For International Development Consortium of Universities for Global Health	98.001	0002	—	(594)
Total nonmajor federal programs			937,462	71,583,684
Total expenditures of federal awards			34,353,695	228,511,316
Major state programs Wisconsin Department of Health Services Division of Public Health		435.155201	—	1,782,301
Total major state expenditures			—	1,782,301
Nonmajor state programs Wisconsin Department of Health Services Division of Public Health		435.128010	—	302,530
Division of Public Health		435.128012	—	280,148
Division of Public Health		435.181010	105,996	107,091
Division of Public Health		435.159363	—	37,445
Division of Public Health		435.155202	—	137,232
Division of Public Health		435.155950	—	4,778
Division of Public Health		435.155958	—	44,917
Division of Public Health		435.181004	9,936	9,936
University of Wisconsin-Madison		0000002719	—	14,170
University of Wisconsin-Madison		0000002533	—	45,346
University of Wisconsin-Madison		0000001730	—	106,073
University of Wisconsin-Madison		MSN0225198	—	18,409
Wisconsin Economic Development Corporation		TIP FY19-24612	—	(416)
Wisconsin Department of Justice Milwaukee County District Attorney's Office		2018-PE-01-15399	—	3,159
Wisconsin Department of Corrections		N/A	—	71,846
Total nonmajor state expenditures			115,932	1,182,664
Total expenditures of state awards			115,932	2,964,965
Total expenditures of federal awards and state expenditures			\$ 34,469,627	231,476,281

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, 2023

(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, 2023 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) Federal 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, 2023

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, 2023, MCW charged facilities and administrative costs of \$39,171,944 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 and State Single Audit Guidelines for Wisconsin, 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) Federal Major Programs

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.

21.027 Coronavirus State and Local Fiscal Recovery Funds

The purpose of the Coronavirus State and Local Fiscal Recovery Funds ("CSLFRF") includes providing payments through states to eligible entities to respond to the public health emergency, COVID-19 or its negative economic impacts, including providing assistance to nonprofits. MCW is a recipient of these funds that were passed through from the State of Wisconsin and the City of Milwaukee.

(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.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2023

(5) Provider Relief Fund

The Provider Relief Fund (PRF) program is administered by the Health Resources and Services Administration to support eligible providers during the COVID-19 pandemic (Coronavirus) and was approved for funding originally under the Coronavirus Aid, Relief and Economic Securities Act. PRF funds were provided to eligible providers to support healthcare related expenses or lost revenues attributable to the Coronavirus without application but rather with terms and conditions. These terms and conditions required acceptance through an online portal. MCW accepted the terms and conditions. The accompanying schedule of expenditures of Federal awards includes PRF funds for Period 4 defined as payments received between July 1, 2021 to December 31, 2021.

(6) 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.

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 \$801,391, \$6,976,952, and \$1,109,346 respectively, at June 30, 2023.

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, 2023.

(7) 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 \$5,612,881 for the year ended June 30, 2023. 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 MCW who is paying full tuition. The appropriation was \$1,926,600 for the year ended June 30, 2023. MCW also receives annual appropriations from the State of Wisconsin to support breast and prostate cancer research. MCW expended \$82,374 of the cancer research appropriations during the year ended June 30, 2023. 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 \$145,449 and \$243,862, respectively, for the year ended June 30, 2023. The Division also supports a Child and Adolescent Psychiatry Fellowship Program. The funding was \$191,506 for the year ended June 30, 2023. This funding and the related expenditures have been excluded from the

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2023

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.

(8) Expenditures of Federal and State Awards Passed through Milwaukee County Department of Human Services

MCW's expenditures of federal and state awards presented in the Schedule that were passed through the Milwaukee County Department of Human Services (MCDHS) for the year ended June 30, 2023 are summarized as follows:

	July 1 through December 31, 2022	January 1 through June 30, 2023	Total
	<u> </u>	<u> </u>	<u> </u>
Program expenditures:			
Salaries	\$ 5,347	—	5,347
Employee benefits	733	—	733
Supplies and other	—	—	—
Professional fees and assessments	—	—	—
Occupancy	3,283	—	3,283
	<u>9,363</u>	<u>—</u>	<u>9,363</u>
Total program expenditures			
Revenue from non-MCDHS sources:			
Other insurance	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
Total revenue from non-MCDHS sources			
	<u>—</u>	<u>—</u>	<u>—</u>
Net MCDHS expenditures	\$ <u>9,363</u>	<u>—</u>	<u>9,363</u>

		Federal	State	Total
		<u> </u>	<u> </u>	<u> </u>
Sources of MCDHS support:				
Harold Rogers Prescription Drug Monitoring Program	16.754	\$ 4,681	—	4,681
Comprehensive Opioid Abuse Program	16.838	4,682	—	4,682
		<u>\$ 9,363</u>	<u>—</u>	<u>9,363</u>

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2023

(9) 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, 2023 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	7/1/19-6/30/20	\$ 168,974	(247)	—	(247)
128010	Congenital Disorders	320,918	7/1/21-6/30/22	320,869	74,327	39	74,366
128010	Congenital Disorders	320,918	7/1/22-6/30/23	320,918	210,272	18,140	228,412
128012	Congenital Disorders 2	330,229	7/1/21-6/30/22	314,361	19,103	—	19,103
128012	Congenital Disorders 2	330,229	7/1/22-6/30/23	329,770	253,723	7,322	261,045
150426	1815 Diabetes	22,821	7/1/21-6/30/22	19,461	1,440	375	1,815
150426	1815 Diabetes	22,507	7/1/22-6/30/23	20,145	12,902	3,354	16,256
150427	1815 Heart Disease Prevention	22,820	7/1/21-6/30/22	18,277	1,440	375	1,815
150427	1815 Heart Disease Prevention	22,506	7/1/22-6/30/23	20,145	12,902	3,354	16,256
152018	Pediatric Mental Health Care Access	313,500	10/1/21-9/30/22	313,406	3,292	(38,305)	(35,013)
152018	Pediatric Mental Health Care Access	355,000	10/1/22-9/30/23	117,021	92,874	24,147	117,021
155027	Infertility Prevention	77,000	1/1/22-12/31/22	76,930	40,374	4,037	44,411
155201	Child Psychiatry Consultation Program GPR	1,500,000	7/1/21-6/30/22	1,497,796	569	—	569
155201	Child Psychiatry Consultation Program GPR	2,000,000	7/1/22-6/30/23	1,791,597	1,651,642	130,090	1,781,732
155202	School Based Mental Health GPR	175,000	7/1/22-6/30/23	137,252	124,836	12,396	137,232
155915	HIV Home/Community Care (Ryan White)	1,550,862	4/1/21-3/31/22	1,549,997	32,503	3,251	35,754
155915	HIV Home/Community Care (Ryan White)	1,685,512	4/1/22-3/31/23	1,674,374	1,522,155	152,216	1,674,371
155950	HIV Care Services	10,000	4/1/22-3/31/23	4,775	4,344	434	4,778
155958	HIV Prevention Targeted	155,000	1/1/21-12/31/21	154,922	(863)	(86)	(949)
155958	HIV Prevention Targeted	210,000	1/1/22-12/31/22	183,377	82,260	8,226	90,486
155958	HIV Prevention Targeted	105,000	1/1/22-12/31/23	60,269	54,790	5,479	60,269
159354	Personal Responsibility Educational Program-PREP	90,000	10/1/21-9/30/22	88,628	28,255	2,825	31,080
159354	Personal Responsibility Educational Program-PREP	90,000	10/1/22-9/30/23	62,713	57,012	5,701	62,713
159363	Adolescent Pregnancy	80,620	1/1/22-12/31/22	76,965	32,004	8,321	40,325
181004	Tobacco Prevention and Control Program WI WINS	35,625	7/1/21-6/30/22	28,399	9,935	—	9,935
181010	Tobacco Prevention and Control Program Community Intrvns	509,000	7/1/21-6/30/22	383,848	106,990	101	107,091
531284	Opioid Treatment Program Expansion SOR 2	415,923	10/1/21-9/30/22	332,975	171,236	75,344	246,580
533130	Opioid Treatment Development	368,374	6/1/20-9/30/20	248,814	1,223	538	1,761
533130	Opioid Treatment Development	883,002	10/1/20-9/30/21	838,887	5,393	2,895	8,288
533167	Substance Abuse Prevention and Treatment Block Grant Prevention Projs	348,026	10/1/21-9/30/22	346,270	81,606	35,090	116,696
533167	Substance Abuse Prevention and Treatment Block Grant Prevention Projs	437,491	10/1/22-9/30/23	270,516	189,172	81,344	270,516
533204	Alcohol Policy Project CAA	126,644	4/1/22-3/31/23	124,689	87,195	37,494	124,689
				<u>\$ 11,897,340</u>	<u>4,964,659</u>	<u>584,497</u>	<u>5,549,156</u>



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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of The Medical College of Wisconsin, Inc. (MCW), which comprise MCW's consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities and changes in net assets 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 26, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered MCW'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 MCW's internal control. Accordingly, we do not express an opinion on the effectiveness of MCW'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 a significant deficiency or material weaknesses. However, material weakness or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether MCW'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Milwaukee, Wisconsin
October 26, 2023



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

Independent Auditors' Report on Compliance for Each Major Federal and State Program and Report on Internal Control Over Compliance

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

Report on Compliance for Each Major Federal and State Program

Opinion on Each Major Federal and State Program

We have audited The Medical College of Wisconsin, Inc.'s compliance with the types of compliance requirements identified as subject to audit 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, 2023. 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.

In our opinion, The Medical College of Wisconsin, Inc. complied, in all material respects, with the 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, 2023.

Basis for Opinion on Each Major Federal and State Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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 *State Single Audit Guidelines for Wisconsin*. Our responsibilities under those standards, the Uniform Guidance, and *State Single Audit Guidelines for Wisconsin* are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of The Medical College of Wisconsin, Inc. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal and state program. Our audit does not provide a legal determination of The Medical College of Wisconsin, Inc.'s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to The Medical College of Wisconsin, Inc.'s federal and state programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on The Medical College of Wisconsin, Inc.'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with



GAAS, *Government Auditing Standards*, the Uniform Guidance, and the *State Single Audit Guidelines for Wisconsin* will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about The Medical College of Wisconsin, Inc.'s compliance with the requirements of each major federal and state program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance, and the *State Single Audit Guidelines for Wisconsin* we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding The Medical College of Wisconsin, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of The Medical College of Wisconsin, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 The Medical College of Wisconsin, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 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 and 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 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.



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

KPMG LLP

Milwaukee, Wisconsin
October 26, 2023

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2023

(10) Schedule of Findings and Questioned Costs

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: **No**
- 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: **No**
- 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 programs:
- Program names:**
Research and Development Cluster – Various AL Numbers
Coronavirus State and Local Fiscal Recovery Funds – AL 21.027
- H. Major state programs:
- Program names:**
Division of Public Health – Child Psychiatry Consultation Program – State ID Number 435.155201
- 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**

(11) 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, 2023

(12) Findings and Questioned Costs Relating to Federal Awards

None

(13) Findings and Questioned Costs Relating to State Awards

None

(14) 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: October 26, 2023

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Summary Schedule of Prior Audit Findings

Year ended June 30, 2023

(1) Findings Related to the Financial Statements Reporting in Accordance with *Government Auditing Standards*

Finding Number: 2022-01 Design of billing screen

Corrective Action

Corrective action was taken by management to correct this finding. Therefore, this finding is considered to be fully corrected as of June 30, 2023.

(2) Findings Related to Federal Awards

Finding Number: 2022-02 General Information Technology Controls

Program Name: Student Financial Aid Cluster

CFDA Number: Various

Corrective Action

Corrective action was taken as of May 10, 2022. Therefore, this finding is considered to be fully corrected as of June 30, 2023.

(3) Findings Related to State Awards

Finding Number: 2022-03 Subrecipient Monitoring

Program Name: Tobacco Prevention and Control Program

CFDA Number: 435.181020

Corrective Action

Corrective action was taken as of March 23, 2022. Therefore, this finding is considered to be fully corrected as of June 30, 2023.