



THE MEDICAL COLLEGE OF WISCONSIN, INC.

(E.I.N.: 390806261)

Audit Reports in Accordance with
Government Auditing Standards and
Uniform Guidance

June 30, 2021

(With Independent Auditors' Report Thereon)

THE MEDICAL COLLEGE OF WISCONSIN, INC.

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KPMG LLP
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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Medical College of Wisconsin, Inc., which comprise the consolidated statement of financial position as of June 30, 2021 and 2020, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Medical College of Wisconsin, Inc. as of June 30, 2021 and 2020, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary schedule of financial responsibility data (Schedule 1) as of and for the year ended June 30, 2021, is presented for purposes of additional analysis, as required by the US Department of Education, and is not a required part of the consolidated financial statements. Such information is the responsibility of management was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying account and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedule 1 is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2021 on our consideration of The Medical College of Wisconsin, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Medical College of Wisconsin, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Medical College of Wisconsin, Inc.'s internal control over financial reporting and compliance.

KPMG LLP

Milwaukee, Wisconsin
October 20, 2021

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Consolidated Statements of Financial Position

June 30, 2021 and 2020

(In thousands)

Assets	2021	2020
Cash and cash equivalents	\$ 189,599	108,228
Deposits with bond trustees	3,687	8,838
Investments, at fair value	2,257,013	1,738,939
Receivables:		
Patient accounts	57,964	52,872
Other accounts, net	48,756	56,403
Grants and contracts, net	35,558	24,960
Contributions, net	50,904	48,583
Student loans, net	19,310	18,271
Notes receivable from Children's Specialty Group	30,561	28,132
Total receivables	243,053	229,221
Prepaid expenses and other assets	93,959	89,485
Right-of-use assets-operating leases	81,105	89,687
Land, buildings, and equipment, net	283,921	295,962
Total assets	\$ 3,152,337	2,560,360
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 142,986	117,442
Accrued payroll and related liabilities	189,542	146,079
Deferred revenue	30,461	20,641
Estimated liability for unpaid professional liability claims	9,042	8,931
Long-term operating lease obligations	87,816	95,950
Long-term debt	313,683	326,264
Interest rate swap	15,338	20,554
Other liabilities	9,981	9,942
Total liabilities	798,849	745,803
Net assets:		
Without donor restrictions	1,459,279	1,112,450
With donor restrictions	894,209	702,107
Total net assets	2,353,488	1,814,557
Total liabilities and net assets	\$ 3,152,337	2,560,360

See accompanying notes to consolidated financial statements.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2021 and 2020

(In thousands)

	<u>2021</u>	<u>2020</u>
Net assets without donor restrictions:		
Revenue:		
Patient services	\$ 463,639	428,611
Children's Specialty Group contract fees	246,220	232,061
Clinical services contract fees	90,815	77,621
Affiliate hospital contracts	147,840	143,511
Children's Research Institute contract fees	8,055	9,009
Grants and contracts	151,296	145,992
Facilities and administrative cost recovery on grants and contracts	37,880	35,460
Coronavirus relief funds	38,782	22,369
Tuition and fees	62,763	59,080
Endowment spendable income	1,598	12,212
Other investment income	6,969	8,735
Contributions	11,924	6,994
State of Wisconsin appropriation	5,685	4,911
Other	6,941	7,925
Total revenue	<u>1,280,407</u>	<u>1,194,491</u>
Net assets released from donor restrictions	<u>32,581</u>	<u>33,999</u>
Total revenue and net assets released from donor restrictions	<u>1,312,988</u>	<u>1,228,490</u>
Expense:		
Faculty salaries	523,433	480,624
Staff salaries	315,933	305,343
Fringe benefits	159,662	146,423
Services, supplies, and other	138,418	149,203
Rent and occupancy	44,759	39,789
Subcontracts	41,627	37,298
Depreciation and amortization	35,343	36,454
Interest on indebtedness	10,692	10,707
Total expense	<u>1,269,867</u>	<u>1,205,841</u>
Revenue in excess of expense before nonoperating gains and losses	<u>43,121</u>	<u>22,649</u>
Nonoperating gains and losses:		
Gain (loss) on extinguishment of debt	2,749	(24)
Realized gain on investments, net	9,439	49,668
Change in unrealized gain (loss) on investments, net	284,137	(65,838)
Endowment income earned over (deficient of) spendable income under the total return concept	3,390	(7,216)
Change in fair value of interest rate swap	5,216	(5,576)
Other losses, net	(1,223)	(1,057)
Nonoperating gains (losses), net	<u>303,708</u>	<u>(30,043)</u>
Increase (decrease) in net assets without donor restrictions	<u>346,829</u>	<u>(7,394)</u>

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2021 and 2020

(In thousands)

	<u>2021</u>	<u>2020</u>
Net assets with donor restrictions:		
Contributions	\$ 26,947	22,744
Investment income, net	4,274	6,347
Realized gain on investments, net	22,035	7,785
Unrealized loss on investments, net	170,721	(12,757)
Net assets released from donor restrictions	(32,581)	(33,999)
Change in fair value of charitable trusts	706	(4)
	<u>192,102</u>	<u>(9,884)</u>
Increase (decrease) in net assets with donor restrictions		
	538,931	(17,278)
Increase (decrease) in net assets		
Net assets at beginning of year	<u>1,814,557</u>	<u>1,831,835</u>
Net assets at end of year	<u>\$ 2,353,488</u>	<u>1,814,557</u>

See accompanying notes to consolidated financial statements.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2021 and 2020

(In thousands)

	2021	2020
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 538,931	(17,278)
Adjustments:		
Depreciation and amortization	35,343	36,454
Contributions restricted for long-term investment	(14,742)	(15,154)
Loss on sale of land, buildings, and equipment	525	439
(Gain) loss on extinguishment of debt	(2,749)	24
Gain on investments in joint ventures, net	(6,420)	(372)
Realized and unrealized (gain) loss on investments, net	(486,332)	21,142
Change in fair value of interest rate swap	(5,216)	5,576
(Increase) decrease in receivables	(13,832)	15,807
Increase in prepaid expenses and other assets	(2,029)	(3,483)
Increase in beneficial interest in charitable trusts	(662)	(1,287)
Increase in accounts payable and accrued payroll and related liabilities	59,989	23,941
Increase in deferred revenue	9,820	5,854
Increase (decrease) in estimated liability for unpaid professional liability claims	111	(1,354)
Decrease in refundable advance for U.S. government-sponsored loan funds	(837)	(1,314)
Payments on operating leases	(12,195)	(8,143)
Decrease in other liabilities	(142)	(3,188)
Net cash provided by operating activities	99,563	57,664
Cash flows from investing activities:		
Purchases of marketable securities	(435,339)	(548,600)
Proceeds from sales and maturities of marketable investments	340,809	656,213
Purchases of non-marketable securities	(132,956)	(398,524)
Proceeds from sales and maturities of non-marketable investments	217,405	260,181
Purchases of funds held in deposits with bond trustees	(5,413)	(31,821)
Proceeds from sales of deposits with bond trustees	10,564	46,551
Capital expenditures	(21,372)	(34,280)
Proceeds from sale of land, buildings, and equipment	73	12
Capital contributions to investments in joint ventures	(2,126)	(6,614)
Distributions from investments in joint ventures	5,714	1,563
Net cash used in investing activities	(22,641)	(55,319)
Cash flows from financing activities:		
Restricted contributions and investment income	14,742	15,154
Repayments of long-term debt	(10,293)	(8,700)
Payments on finance leases	—	(2,710)
Net cash provided by financing activities	4,449	3,744
Net increase in cash and cash equivalents	81,371	6,089
Cash and cash equivalents at beginning of year	108,228	102,139
Cash and cash equivalents at end of year	\$ 189,599	108,228
Supplemental data:		
Cash paid for interest (net of amounts capitalized of \$179 and \$495 in 2021 and 2020, respectively)	\$ 11,249	11,512
Noncash change in receivable from Children's Specialty Group	2,429	(5,987)
Noncash acquisition of land, building and equipment in exchange for long-term debt	—	8,578
Noncash acquisition of right-of-use assets in exchange for long-term lease obligations	3,293	102,168

See accompanying notes to consolidated financial statements.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(In thousands)

(1) Organization

The Medical College of Wisconsin, Inc. (MCW) is a private, freestanding health science university comprised of a school of medicine, a school of biomedical sciences and a school of pharmacy. The medical and biomedical sciences schools are comprised of 8 basic science departments, 21 clinical departments, and 13 centers and institutes, and offer medical and graduate degrees. The school of pharmacy focuses on high-end, consultative care, particularly for acute, primary and preventative needs and offers a doctorate of pharmacy degree. Medical education activities are performed at or near MCW's main campus in Milwaukee, Wisconsin or at regional campuses located in Green Bay and central Wisconsin. Pharmacy education activities are performed at or near MCW's main campus in Milwaukee, Wisconsin.

MCW performs research and maintains multi-specialty clinical programs in which faculty and staff physicians, advanced practice providers and allied health professionals (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 (graduate medical education). As of June 30, 2021, MCW had 624 practicing faculty and staff physicians, 483 practicing advanced practice providers and 35 allied health professionals.

The consolidated financial statements include the accounts of the various academic and administrative divisions and the Professional Liability Insurance Program. The Professional Liability Insurance Program was created as a grantor trust to self-insure risks related to medical malpractice liability. 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.

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June 30, 2021 and 2020

(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 service revenue in the period of the change.

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

(c) Grants and Contracts Revenue and Deferred Revenue

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

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

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(In thousands)

(d) Contributions Revenue and Contributions Receivable, Net

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized as revenue until the conditions that represent a barrier are overcome and MCW is entitled to the assets promised. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Contributions to be received after one year are discounted using a discount rate consistent with the general principles of present value measurement 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) Revenues in Excess of Expenses

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

(f) Split Interest Agreements with Donors

MCW's split interest agreements with donors consist of irrevocable charitable gift annuities and charitable trusts. Contribution revenue for charitable gift annuities is recognized at the date annuity agreements are established for the amount of the assets less the amount of the present value of the estimated future payments to be made to the donors at the time of the gift. 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 are 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 Trusts' assets in accordance with the Trusts' agreements. The fair value of MCW's beneficial interest in the Trusts is included in prepaid expenses and other assets and is accounted for as net assets with donor restrictions on the consolidated statements of financial position. The adjustments to the Trusts' fair

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(In thousands)

values are recognized as a change in net assets with donor restrictions in the consolidated statements of operations and changes in net assets.

(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 2021 and 2020 were \$3,203 and \$2,422, respectively. The estimated cost of these community care services was determined using a ratio of cost to gross charges and applying that ratio to the gross charges associated with providing care to these patients for the period. Gross charges associated with providing care to these patients includes only the related charges for those patients who are financially unable to pay and qualify under MCW's community care policy and who do not otherwise qualify for reimbursement from a governmental program.

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

(h) *Cash and Cash Equivalents*

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

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

Total cash and cash equivalents reported on the consolidated statements of financial position includes \$2,961 and \$2,868 as of June 30, 2021 and 2020, respectively, of cash and cash equivalents restricted for the purpose of providing loans to students (see note 2(k)).

(i) *Investments*

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

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(In thousands)

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 nonoperating gain or loss for funds functioning as endowments and as a change in net assets with donor restrictions for donor-restricted endowment funds.

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

(j) Deposits with Bond Trustees

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

(k) Student Loans Receivable, Net

MCW receives awards to make loans to eligible students under certain federal student loan programs. The Department of Education's Direct Loan program consists of federally guaranteed loans directly issued to the students of MCW. MCW is only responsible for the performance of certain administrative duties with respect to the Direct Loan Program and therefore these loans are not included in MCW's consolidated financial statements. All students are eligible for the Direct Loan Program. The Perkins, Primary Care, and Health Professions Student Loan Programs are administered directly by MCW and the balances and transactions relating to these programs are included in MCW's consolidated financial statements. Under the Perkins Loan Program Extension Act of 2015, no new 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.

(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 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

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(In thousands)

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 operations 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, 2021 and 2020.

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

Funds provided by the U.S. government under the Federal Perkins Student Loan Program, Federal Primary Care Loan Program, and Federal Health Professions Student Loan Program are loaned to qualified students. Receipts of principal and interest payments through the Federal Primary Care Loan Program are used to finance future loans to students. Under the Perkins Loan Program Extension Act of 2015, no Perkins Loan disbursements of any kind can be made to students after June 30, 2017 and receipts of principal and interest payments through the Federal Perkins Student Loan Program are retained until the government issues Excess Cash Return notices. MCW received a notice for a return of excess funds and paid the government \$847 and \$2,514 in 2021 and 2020, respectively. 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.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(In thousands)

(p) Long-term Debt – Deferred Costs

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

(q) Derivative Instruments

MCW entered into an interest rate-related derivative instrument (interest rate swap) to manage interest rate exposure on its variable rate revenue bonds. The fair value of the interest rate swap is reported on the consolidated statements of financial position. MCW does not apply hedge accounting to derivative instruments, and therefore, any change in the interest rate swap value is recognized as a gain or loss in the consolidated statements of operations 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, 2021 and 2020.

(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 operations and changes in net assets in the current year.

(t) Reclassification

Certain amounts in the 2020 financial statements have been reclassified to conform to the 2021 presentation.

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(3) Related-Party Transactions

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

(a) *Froedtert Health, Inc.*

MCW contracts with Froedtert to receive payment for faculty and staff physician services at hospital and clinic sites. During 2021 and 2020, MCW recognized affiliate hospital contract revenue of approximately \$127,912 and \$125,199, 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, 2021 and 2020 is \$23,860 and \$29,460, respectively.

Many faculty and staff physicians render professional medical services to patients at Froedtert. MCW leases space from Froedtert for clinical services, administrative and research activities. Rent paid to Froedtert by MCW is \$4,773 and \$4,874 in 2021 and 2020, respectively. Other direct costs for equipment, supplies, and general services related to professional medical services at Froedtert are incurred by MCW directly. MCW also leases clinical space to Froedtert under operating leases. Rental income received from Froedtert by MCW is \$3,538 and \$2,817 in 2021 and 2020, respectively.

On January 30, 2013, MCW entered into a definitive agreement with Froedtert to form a joint clinical practice group effective July 1, 2013 named Froedtert & The Medical College of Wisconsin Community Physicians (FH-MCW Community Physicians). FH-MCW Community Physicians combines many of the community-based practices of Froedtert and MCW's Medical College Physicians. MCW has a 50% interest in the governance of the entity, but Froedtert is the sole financial member. MCW receives payments for MCW faculty and staff physicians leased to and performing services on behalf of FH-MCW Community Physicians. Additionally, FH-MCW Community Physicians contracts with MCW to perform billing services for its clinic-based sites. During 2021 and 2020, MCW recognized \$79,394 and \$70,127, 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, 2021 and 2020 is \$8,625 and \$13,943, 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 2021 and 2020, \$11,086 and \$11,224, respectively, was recorded in services, supplies, and other expense. The outstanding balance of accounts payable to FH-MCW Community Physicians as of June 30, 2021 and 2020 is \$1,913 and \$1,553, 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. MCW and Children's Wisconsin are the two members of CSG (see note 4(a)). Effective July 1, 2011, MCW and Children's Wisconsin agreed to amend the CSG Operations Agreement. Under the revised agreement, CSG distributes a percentage of its patient services revenues to MCW and any CSG revenues and

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gains in excess of expenses and losses are retained by CSG for program development. In 2021 and 2020, approximately 7% of CSG's patient services revenues were distributed to MCW.

MCW's revenues include \$246,220 and \$232,061 for the years ended June 30, 2021 and 2020, respectively, for certain physician services, leased equipment, and supplies purchased by CSG.

The pediatric practice patient accounts receivable at June 30, 2000 of approximately \$10,243 was transferred to CSG effective July 1, 2000 in exchange for a revolving note receivable. In 2012, MCW loaned an additional \$5,471 to CSG for clinical practice development in exchange for a note receivable. The notes receivable from CSG do not bear interest and become due in their entirety upon the dissolution of CSG and are included in notes receivable from Children's Specialty Group on the consolidated statements of financial position.

MCW leases space from Children's Wisconsin for certain administrative purposes. Rent paid to Children's Wisconsin by MCW is \$4,533 and \$4,480 in 2021 and 2020, respectively.

Effective July 1, 2021, MCW entered into definitive agreements to restructure its longstanding academic and clinical affiliation with Children's Wisconsin. The CSG articles of incorporation and bylaws have been modified to reflect the new governance structure where both MCW and Children's Wisconsin are the two members. CSG will be consolidated with Children's Wisconsin and Children's Wisconsin is responsible for funding the working capital and capital needs of CSG.

MCW retains employment of the faculty and staff pediatric specialists that it employed prior to July 1, 2021 in the pediatric practice plan and continues to lease the pediatric specialists exclusively to CSG for the professional services performed on behalf CSG. In addition, MCW will continue to designate Children's Wisconsin as its primary pediatric teaching affiliate. In consideration of the mutual promises, benefits and covenants set forth by these agreements, Children's Wisconsin will provide MCW with annual fixed and variable mission support payments.

As of July 1, 2021, CSG assigned the outstanding patient accounts receivable of \$25,090 as of June 30, 2021 to MCW as settlement of the revolving note payable to MCW and Children's Wisconsin paid MCW \$5,500 on behalf of CSG to settle the remaining balance of CSG's note payable to MCW. MCW's 50% interest in the net assets of CSG of \$45,014 (see footnote 4 (a)) as of June 30, 2021, along with a one-time mission support payment of \$30,000 from Children's Wisconsin, will be distributed to MCW no later than December 31, 2021, in accordance with the terms of the definitive agreements. There was no gain or loss on the divestiture.

(c) Other Related Parties

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

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operating and maintaining the utility plant and is updated periodically. In 2021 and 2020, MCW purchased \$7,211 and \$6,831, respectively, of chilled water and steam service from MRMC Thermal.

On April 4, 2019, MCW provided a financial guarantee to a financial institution for a borrowing of MRMC. The guarantee requires MCW to reimburse the financial institution if MRMC fails to make principal or interest payments when due in accordance with the terms of their borrowing. The guarantee expires when the obligations of MRMC are satisfied. The maximum amount payable under this guarantee is \$10,000. As of June 30, 2021, it is not probable that any amount will be payable under the arrangement and a liability is not recorded within the consolidated statements of financial position.

Members of the MCW Board of Trustees may serve in management roles for corporations that provide goods or services to MCW, causing these corporations to be related parties. In 2021 and 2020, MCW purchased from these related parties \$5,203 and \$5,727, respectively, of subcontract and contractual fees and \$540 and \$416, respectively, of building services equipment. Significant purchases of goods and services from related parties are reviewed to ensure such transactions are competitively priced as compared to other goods and services available in the market place.

(4) Joint Ventures

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

(a) CSG

CSG is a joint venture with Children's Wisconsin. Each member has a 50% ownership interest. The purpose of the joint venture is to provide pediatric specialty health care services that contribute to the members' shared missions. MCW provides certain management and administrative services to CSG under an Operations Agreement (see footnote 3(b)). MCW did not make any capital contributions during 2021 and 2020. MCW's share of the gain or loss on the CSG joint venture for 2021 and 2020 of \$3,338 and \$(1,955), respectively, is recorded in other revenue. CSG has total assets of \$120,589 and \$111,484 and net assets of \$90,028 and \$83,352 at June 30, 2021 and 2020, respectively. MCW's investment in CSG is approximately \$45,014 and \$41,676 as of June 30, 2021 and 2020, respectively, and is included in prepaid expenses and other assets on the consolidated statements of financial position.

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(b) Other Joint Ventures

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

	Ownership percentage	
	2021	2020
APM Wisconsin MSO LLC	49.0 %	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
Integrated Health Network, LLC	—	12.5
MRMC Land Bank, LLC	33.3	33.3
Wisconsin Renal Care Group, LLC	10.0	10.0

MCW received capital distributions from other joint ventures of \$5,714 and \$1,563 as of June 30, 2021 and 2020, respectively. MCW made capital contributions to other joint ventures of \$2,126 and \$6,614 in 2021 and 2020. MCW's share of gains and losses in other joint ventures for 2021 and 2020 of \$3,009 and \$2,327, respectively, is recorded in other revenue. MCW's investment in other joint ventures is approximately \$27,835 and \$28,415 as of June 30, 2021 and 2020, 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, 2021 and 2020 is summarized below:

	2021	2020
Money market funds	\$ 67,125	9,814
Accrued investment income	252	298
U.S. government obligations	84,162	73,195
State and municipal bonds	25	25
Asset- and mortgage-backed securities	766	1,048
Bond and equity mutual funds	369,394	303,379
Commingled bond and equity funds	1,314,829	973,760
Equity securities	69,703	43,415
Hedge funds	200,806	250,379
Private assets	148,051	81,652
Guaranteed investment contracts	1,900	1,974
Total	\$ <u>2,257,013</u>	<u>1,738,939</u>

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

Commingled bond 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.

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

MCW's return on investments as reported in the consolidated financial statements for the years ended June 30, 2021 and 2020 is summarized below:

	Year ended June 30, 2021		
	Without donor restrictions	With donor restrictions	Total
Endowment spendable income	\$ 1,598	1,692	3,290
Endowment investment income required to be reinvested	—	2,809	2,809
Endowment income earned over (deficient of) spendable income under the total return concept	<u>3,390</u>	<u>(328)</u>	<u>3,062</u>
Interest and dividends, net of fees, on pooled endowments	4,988	4,173	9,161
Other investment income	<u>6,969</u>	<u>101</u>	<u>7,070</u>
Total interest and dividends, net of fees	11,957	4,274	16,231
Realized gain on investments, net	9,439	22,035	31,474
Unrealized gain on investments, net	<u>284,137</u>	<u>170,721</u>	<u>454,858</u>
	<u>\$ 305,533</u>	<u>197,030</u>	<u>502,563</u>

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

Investment management and custodial fees incurred in 2021 and 2020 were \$10,220 and \$6,318, 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.

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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, 2021 and 2020.

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

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

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

MCW applies the measurement provisions of FASB ASC Topic 820 related to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and commingled equity and bond funds. ASC Topic 820 allows MCW to estimate the fair value of an investment using the net asset value per share of the investment as a practical expedient, if that net asset value per share is determined in accordance with ASC Topic 946, *Financial Services-Investment Companies*. Investments in commingled bond and equity funds, hedge funds and private assets with a fair value of \$1,663,686 and \$1,305,791 were estimated using the net asset value per share, as a practical expedient, provided by external investment managers as of June 30, 2021 and 2020, 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.

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

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. The value is determined after considering the potential impact of collateralization agreements and is adjusted to reflect the nonperformance risk of both the counterparty and MCW.

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The following tables present assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2021 and 2020:

	June 30, 2021			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 189,599	189,599	—	—
Deposits with bond trustees	3,687	3,687	—	—
Investments:				
Money market funds	67,125	67,125	—	—
Accrued investment income	252	94	158	—
U.S. government obligations	84,162	—	84,162	—
State and municipal bonds	25	—	25	—
Asset- and mortgage-backed securities	766	—	766	—
Bond and equity mutual funds	369,394	369,394	—	—
Equity securities	69,703	69,703	—	—
Guaranteed investment contracts	1,900	—	—	1,900
Subtotal	593,327	506,316	85,111	1,900
Investments measured at net asset value	1,663,686	—	—	—
Total investments	2,257,013	—	—	—
Beneficial interest in charitable trusts	6,160	—	—	6,160
Total assets	\$ 2,456,459	699,602	85,111	8,060
Liabilities:				
Deferred compensation	\$ 5,290	3,390	—	1,900
Interest rate swap	15,338	—	—	15,338
Total liabilities	\$ 20,628	3,390	—	17,238

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<u>Investments measured at net asset value</u>	<u>Net asset value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Commingled bond and equity funds	\$ 1,314,829	—	Monthly quarterly, annually	4–180 days
Hedge funds	200,806	—	Monthly, quarterly, annually	30–180 days
Private assets	<u>148,051</u>	81,042	—	—
Total investments measured at net asset value	\$ <u><u>1,663,686</u></u>			

	<u>June 30, 2020</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Cash and cash equivalents	\$ 108,228	108,228	—	—
Deposits with bond trustees	8,838	8,838	—	—
Investments:				
Money market funds	9,814	9,814	—	—
Accrued investment income	298	153	145	—
U.S. government obligations	73,195	—	73,195	—
State and municipal bonds	25	—	25	—
Asset- and mortgage-backed securities	1,048	—	1,048	—
Bond and equity mutual funds	303,379	303,379	—	—
Equity securities	43,415	43,415	—	—
Guaranteed investment contracts	<u>1,974</u>	<u>—</u>	<u>—</u>	<u>1,974</u>
Subtotal	433,148	356,761	74,413	1,974
Investments measured at net asset value	<u>1,305,791</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total investments	1,738,939	—	—	—
Beneficial interest in charitable trusts	<u>5,499</u>	<u>—</u>	<u>—</u>	<u>5,499</u>
Total assets	\$ <u><u>1,861,504</u></u>	<u><u>473,827</u></u>	<u><u>74,413</u></u>	<u><u>7,473</u></u>

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	June 30, 2020			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Deferred compensation	\$ 4,634	2,660	—	1,974
Interest rate swap	20,554	—	—	20,554
Total liabilities	<u>\$ 25,188</u>	<u>2,660</u>	<u>—</u>	<u>22,528</u>
Investments measured at net asset value	Net asset value	Unfunded commitments	Redemption frequency	Redemption notice period
Commingled bond and equity funds	\$ 973,760	—	Monthly quarterly, annually	4–180 days
Hedge funds	250,379	—	Monthly, quarterly, annually	30–180 days
Private assets	<u>81,652</u>	83,927	—	—
Total investments measured at net asset value	<u>\$ 1,305,791</u>			

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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, 2021 and 2020.

	Assets		Liabilities	
	Guaranteed investment contracts	Beneficial interest in charitable trusts	Interest rate swap	Deferred compensation
Balance as of July 1, 2020	\$ 1,974	5,499	20,554	1,974
Purchases	—	—	—	—
Sales	—	(33)	—	—
Net realized gain	—	694	—	—
Net change in unrealized appreciation	<u>(74)</u>	<u>—</u>	<u>(5,216)</u>	<u>(74)</u>
Balance as of June 30, 2021	\$ <u>1,900</u>	<u>6,160</u>	<u>15,338</u>	<u>1,900</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, 2021	\$ (74)	(33)	(5,216)	(74)

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	Assets		Liabilities	
	Guaranteed investment contracts	Beneficial interest in charitable trusts	Interest rate swap	Deferred compensation
Balance as of July 1, 2019	\$ 2,376	4,212	14,978	2,376
Purchases	—	1,302	—	—
Sales	—	—	—	—
Net realized loss	—	—	—	—
Net change in unrealized appreciation	(402)	(15)	5,576	(402)
Balance as of June 30, 2020	\$ 1,974	5,499	20,554	1,974
The amount of total losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held as of June 30, 2020				
	\$ (402)	—	5,576	(402)

There are no transfers in or out of Level 3 for the years ended June 30, 2021 and 2020.

(7) Endowment Net Asset Classification

MCW's endowment is comprised of approximately 550 individual funds established for the following purposes:

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

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

(a) Interpretation of Relevant Law

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

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

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

(b) Return Objectives and Risk Parameters

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

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

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(In thousands)

(c) Strategies Employed for Achieving Objectives

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

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

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

Spendable income funds are considered appropriated for expenditure when they are expended for the use and purpose for which the endowment fund was established.

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

(e) Net Asset Composition by Type of Fund

Composition of endowment assets by net asset class (excluding pledges receivable of \$17,208 and \$12,945 respectively) as of June 30, 2021 and 2020 in total and by type is summarized below:

	2021		
	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	—	267,819	267,819
Other endowments:			
Perpetual in nature	—	130,434	130,434
Restricted by time or purpose	—	106,860	106,860
Endowments designated by the Board of Trustees	<u>830,783</u>	<u>—</u>	<u>830,783</u>
Total	<u>\$ 830,783</u>	<u>795,591</u>	<u>1,626,374</u>

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	2020		
	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	—	148,801	148,801
Other endowments:			
Perpetual in nature	—	115,502	115,502
Restricted by time or purpose	—	56,648	56,648
Endowments designated by the Board of Trustees	<u>622,285</u>	<u>—</u>	<u>622,285</u>
Total	<u>\$ 622,285</u>	<u>611,429</u>	<u>1,233,714</u>

(f) Changes in Endowment Net Assets

Rollforwards of the beginning and ending balances of endowments by net asset class for the years ended June 30, 2021 and 2020 are as follows:

	2021		
	Without donor restrictions	With donor restrictions	Total
Interest and dividend income	\$ 4,988	4,173	9,161
Realized gain on investments	22,442	22,035	44,477
Unrealized gain on investments	<u>174,408</u>	<u>170,721</u>	<u>345,129</u>
Total investment return	201,838	196,929	398,767
Contributions	8,116	14,575	22,691
Expenditures	<u>(1,456)</u>	<u>(27,342)</u>	<u>(28,798)</u>
Total change in endowments	208,498	184,162	392,660
Net assets, beginning of year	<u>622,285</u>	<u>611,429</u>	<u>1,233,714</u>
Net assets, end of year	<u>\$ 830,783</u>	<u>795,591</u>	<u>1,626,374</u>

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

(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, there were no donor-restricted endowment funds with deficiencies for the year ended June 30, 2021.

(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, 2021 and 2020 is as follows:

	2021	2020
Commercial/managed care	\$ 300,622	280,608
Self-pay patients	45,597	42,031
Medicaid	28,477	24,592
Medicare	82,879	76,865
Other	<u>6,064</u>	<u>4,515</u>
Patient services revenue	\$ <u><u>463,639</u></u>	<u><u>428,611</u></u>

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MCW grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of net receivables from self-pay patients and third-party payors at June 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Commercial/managed care	\$ 35,432	29,366
Self-pay patients	14,588	13,383
Medicaid	1,941	2,086
Medicare	5,820	6,839
Other	<u>183</u>	<u>1,198</u>
Patient accounts receivable	\$ <u>57,964</u>	<u>52,872</u>

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

(9) Other Accounts Receivable

Other accounts receivable at June 30, 2021 and 2020 consist of the following:

	<u>2021</u>	<u>2020</u>
Affiliated hospitals	\$ 24,747	30,388
Other	<u>25,239</u>	<u>26,740</u>
Other accounts receivable	49,986	57,128
Allowance for doubtful accounts	<u>(1,230)</u>	<u>(725)</u>
Other accounts receivable	\$ <u>48,756</u>	<u>56,403</u>

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

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

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(10) Grants and Contracts Receivable, Net

Grants and contracts receivable at June 30, 2021 and 2020 consist of the following:

	<u>2021</u>	<u>2020</u>
Grants and contracts	\$ 35,761	25,638
Allowance for doubtful accounts	<u>(203)</u>	<u>(678)</u>
Grants and contracts receivable, net	<u>\$ 35,558</u>	<u>24,960</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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Total contributions receivable	\$ 54,684	52,641
Allowance for uncollectible contributions	(758)	(954)
Adjustment to present value	<u>(3,022)</u>	<u>(3,104)</u>
Contributions receivable, net	<u>\$ 50,904</u>	<u>48,583</u>

The discount rates used to adjust the contributions receivable to present value range from 0.16% to 3.50% at June 30, 2021 and 2020. Contributions receivable at June 30, 2021 are expected to be collected in future years as follows:

2022	\$ 16,168
2023	12,603
2024	9,749
2025	6,883
2026	5,712
2027 and beyond	<u>3,569</u>
Total	<u>\$ 54,684</u>

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(12) Student Loans Receivable, Net

Student loans receivable at June 30, 2021 and 2020 consist of the following loan funds:

	<u>2021</u>	<u>2020</u>
Federal Primary Care Loan Program	\$ 5,725	6,086
Federal Perkins Loan Program	2,128	2,779
Health Professions Student Loan Program	267	242
MCW loans	<u>11,396</u>	<u>9,397</u>
Students loans receivable	19,516	18,504
Allowance for loan loss	<u>(206)</u>	<u>(233)</u>
Student loans receivable, net	<u>\$ 19,310</u>	<u>18,271</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, 2021 and 2020. 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>2021</u>	<u>2020</u>
Student loans receivable:		
Performing	\$ 19,368	18,322
Nonperforming	<u>148</u>	<u>182</u>
Total student loans receivable	<u>\$ 19,516</u>	<u>18,504</u>

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The following table provides an analysis of current student loans receivable, including amounts for students in school, in grace and not past due, and the aging of the past due student loans receivable as of June 30, 2021 and 2020:

	<u>< 270 Days past due</u>	<u>270 Days– 2 years past due</u>	<u>2–5 Years past due</u>	<u>> 5 Years past due</u>	<u>Total past due</u>	<u>Current</u>
June 30, 2021	\$ 167	267	17	131	582	18,934
June 30, 2020	355	278	37	145	815	17,689

The recorded investment in student loans receivable for which an impairment has been recognized is \$582 and \$815 at June 30, 2021 and 2020, respectively. The related allowance for loan loss is \$206 and \$233 at June 30, 2021 and 2020, respectively. The average recorded investment in impaired student loans receivable is \$698 and \$717 during 2021 and 2020, respectively. Interest income recognized on student loans receivable is \$217 and \$367 during 2021 and 2020, respectively. There are no sales of student loans receivable for the years ended June 30, 2021 and 2020.

(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 13 years. These leases generally contain renewal options for periods ranging from 1 to 5 years. The option period is included in determining the lease term and lease payments if it is reasonably certain to be exercised by MCW or its execution is controlled by the lessor. Payments due under the lease contracts include fixed payments plus, for some of the leases, variable payments. Variable payments generally include payments for MCW's proportionate share of the building's property taxes, insurance, and common area maintenance.

Lease rental expense for the years ended June 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Operating lease rental expense	\$ 12,195	11,629
Variable rental expense	9,748	7,840
Total rental expense	<u>\$ 21,943</u>	<u>19,469</u>

ROU assets and long-term lease obligations reported on the consolidated statements of financial position as of June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Operating ROU assets	\$ 81,105	89,687
Operating lease long-term lease obligations	87,816	95,950

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ROU assets of \$3,293 and \$0 were obtained in exchange for long-term lease obligations on operating leases and finance leases, respectively, for the year ended June 30, 2021. ROU assets of \$2,511 and \$0 were obtained in exchange for long-term lease obligations on operating leases and finance leases, respectively, for the year ended June 30, 2020. Reductions in ROU assets of \$1,885 and \$658 resulted in reductions to long-term lease obligations on operating leases for the years ended June 30, 2021 and 2020, 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.

Maturities of long-term operating lease obligations under noncancelable leases as of June 30, 2021 are as follows:

2022	\$	12,445
2023		11,586
2024		11,370
2025		10,923
2026		9,807
2027 and beyond		<u>44,300</u>
Total undiscounted long-term operating lease obligations		100,431
Less imputed interest		<u>12,615</u>
Total long-term operating lease obligations	\$	<u><u>87,816</u></u>

As of June 30, 2021 and 2020, the weighted-average remaining lease term for all operating leases is 9 years and 10 years, respectively.

The weighted average discount rate associated with operating leases as of June 30, 2021 and 2020 is 3%.

(14) Land, Buildings, and Equipment, Net

Land, buildings, and equipment is comprised of the following at June 30, 2021 and 2020:

		<u>2021</u>	<u>2020</u>
Land, buildings, and improvements	\$	465,329	450,969
Equipment and furnishings		288,538	276,478
Library books		948	951
Construction in progress		<u>6,501</u>	<u>14,551</u>
		761,316	742,949
Accumulated depreciation and amortization		<u>(477,395)</u>	<u>(446,987)</u>
Land, buildings, and equipment, net	\$	<u><u>283,921</u></u>	<u><u>295,962</u></u>

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At June 30, 2021 and 2020, construction in progress includes capitalized interest of \$271 and \$277, respectively.

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

MCW is a party to construction contracts that exist for various building renovation and grounds improvement projects. As of June 30, 2021, MCW's outstanding contractual commitments on these contracts approximates \$1,178.

(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 2020 and 2021, MCW made contributions to the Program in the amounts of \$867 and \$751, respectively. The Program has net assets without donor restrictions of \$11,685 and \$9,695 as of June 30, 2021 and 2020, respectively.

Investments held in trust for the Program, as reported in investments at fair value on the consolidated statements of financial position, are \$20,793 and \$18,691 as of June 30, 2021 and 2020, respectively.

(16) Long-Term Debt

Long-term debt consists of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Tax-exempt fixed rate Wisconsin Health and Educational Facilities Authority (WHEFA) Revenue Bonds Series 2008 A, with mandatory sinking fund serial bond maturities due annually through 2021 and term bond maturities due in 2029 and 2036. The effective interest rate is 5.21% and 5.18% at June 30, 2021 and 2020, respectively. Interest is payable semiannually	\$ 5,315	5,610

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	<u>2021</u>	<u>2020</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 (0.02% and 0.13% at June 30, 2021 and 2020, respectively)	\$ 67,500	67,500
Tax-exempt fixed rate WHEFA Revenue Bonds Series 2010, with mandatory sinking fund serial bond maturities due annually through 2021. The effective interest rate is 5.00% at June 30, 2020.	—	1,800
Tax-exempt fixed rate WHEFA Revenue Bonds Series 2014 A, with principal payments due annually through 2025. Interest is payable monthly at 2.21%	7,955	9,800
Tax-exempt fixed rate WHEFA Revenue Bonds Series 2014 B, with principal payments due annually through 2027. Interest is payable monthly at 2.36%	12,610	12,840
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 4.48% and 4.49% at June 30, 2021 and 2020 respectively	146,280	148,825
Tax-exempt fixed rate WHEFA Revenue Bonds Series 2018, with principal payments due annually through 2033. Interest is payable monthly at 3.05%	53,800	55,000
Taxable variable rate term loan, with principal payments due annually through 2021. Interest is payable monthly at rates reset on a monthly basis (0.93% at June 30, 2020)	—	2,325
Note payable, with an effective interest rate of 3.52%. The note is payable to Milwaukee County in annual installment payments through September 2074	8,525	8,578
Notes payable, with simple interest at 8% per annum.	—	1,495
Total long-term debt before unamortized premium and discount and issuance costs	301,985	313,773
Unamortized discounts and premiums	13,530	14,515
Unamortized issuance costs	<u>(1,832)</u>	<u>(2,024)</u>
Total long-term debt	<u>\$ 313,683</u>	<u>326,264</u>

The revenue bonds, taxable loans and related credit agreements were issued under the Master Trust Indenture and are collateralized by a pledge of certain revenues of MCW, as well as by certain of its land, buildings, and equipment. The borrowing agreements contain continuing disclosure requirements and

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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, 2021 and thereafter are as follows:

2022	\$	10,355
2023		10,707
2024		11,074
2025		11,621
2026		12,078
2027 and beyond		<u>246,150</u>
Total	\$	<u>301,985</u>

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

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

(a) WHEFA Revenue Bond Series 2008

The Series 2008 A bonds, totaling \$83,400, were issued on July 30, 2008 to (i) refund the WHEFA Revenue Bond Series 2004 B1 bonds which had been issued to refund the WHEFA Revenue Bond Series 1993, and to fund construction of a Biomedical Research Facility, certain additional capital projects and a parking structure, (ii) to fund the construction of research capital projects at the Biomedical Research Facility and certain additional capital projects, and (iii) to fund a debt service reserve fund. Certain of the Series 2008 A bonds were advance-refunded by the WHEFA Revenue Bond Series 2016. At June 30, 2021, the remaining balance of the debt service reserve fund is \$760.

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.

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Concurrent with the issuance of the Series 2008 B bonds, MCW entered into a Credit Agreement with a financial institution under which the financial institution issued a renewable direct pay letter of credit. On August 1, 2018, the Credit Agreement was amended and restated and the letter of credit was extended to September 15, 2023. The \$68,277 letter of credit is available to secure the Series 2008 B bonds and to make payments (liquidity drawings) in the event that any Series 2008 B bonds are subject to an optional or mandatory tender and are not remarketed. A mandatory tender would occur if the letter of credit is not renewed or replaced by the second business day prior to its expiration date. If any liquidity drawings are made, the outstanding drawings will automatically convert to a drawing loan. Payments of outstanding principal and interest under the drawing loan would be due in quarterly principal and monthly interest installments, commencing on the first business day of the respective quarter or month after the conversion. The outstanding principal balance of any such drawing loan would bear interest at the base rate plus up to 200 basis points based on the length of the loan. The base rate is calculated as the greater of i) Prime Rate plus 100 basis points, ii) Federal Funds Rate plus 200 basis points or iii) seven percent. The unpaid principal and accrued interest on the drawing loan would be due three years after the date of the initial liquidity drawing. If a full optional or mandatory tender occurs and liquidity drawings convert to a drawing loan at a base rate of 7%, annual debt service related to the Series 2008 B bonds will increase by \$27,000, \$25,800, and \$23,700 over the next three years, respectively. As of June 30, 2021, there were no outstanding liquidity drawings or drawing loans under the Credit Agreement.

(b) WHEFA Revenue Bond Series 2010

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

(c) WHEFA Revenue Bond Series 2014

The Series 2014 A bonds, totaling \$18,450, were issued on December 16, 2014 to refund the WHEFA Revenue Bond Series 2004 A which had been issued to refund the WHEFA Revenue Bond Series 1993 and to fund the construction of a Biomedical Research Facility, certain additional capital projects and a parking structure. The Series 2014 B bonds, totaling \$13,930, were issued on December 16, 2014 to advance refund the Series 2010 term bond. The Series 2014 A and 2014 B bonds were issued as direct placements with a financial institution.

(d) WHEFA Revenue Bond Series 2016

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

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(e) WHEFA Revenue Bond Series 2018

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

(f) Taxable Loans

On November 1, 2013, MCW entered into a Loan Agreement with a financial institution under which a taxable term loan was made to MCW by the financial institution. The term loan is for \$16,000 and was used to redeem the WHEFA Revenue Bond Series 1990 B and to finance technology-related capital expenditures. The final payment for the term loan was made on November 1, 2020.

On May 1, 2020, MCW entered into a Loan Agreement with a financial institution under which a taxable revolving loan was made to MCW by the financial institution. The revolving loan is for \$150,000 and is used for working capital expenditures. MCW pays a fee of 0.20% quarterly on the unused balance of the revolving loan. On May 1, 2021, MCW renewed the agreement with the institution for \$50,000 for working capital expenditures. MCW pays a fee of 0.15% quarterly on the unused balance of the revolving loan.

(g) Note Payable to Milwaukee County

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

(h) Derivative Instruments

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

MCW entered into an interest rate swap agreement for the WHEFA Revenue Bond Series 2004 variable rate debt in October 2004. Effective September 15, 2008, MCW revised the original interest rate swap agreement to conform with the principal amount and amortization schedule of the Series 2008 B bonds. The revised interest rate swap agreement has a notional amount of \$67,500, a fixed payment rate of 3.558% and a variable counterparty payment of 68% of the 30-day LIBOR. Consistent with the reset schedule of the 2008 B bonds, the interest rate swap has a weekly reset with monthly payments due to or from MCW on the first business day of the month. The revised interest rate

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swap agreement expires December 1, 2033. The provisions set forth in the interest rate swap agreement require MCW to provide investment securities as collateral if the interest rate swap market value falls below a specified threshold. Investment securities with a fair value of \$643 and \$6,216 were provided as collateral as of June 30, 2021 and 2020, respectively.

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

(17) Net Assets

Certain net assets are designated for specific purposes by the MCW Board of Trustees; however the net assets are without donor restriction and can be used for any institutional purposes by MCW. The designations at June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Designated to function as endowment funds to support the following purposes:		
Research	\$ 404,235	316,717
Professorships	2,882	2,012
Undesignated	<u>423,666</u>	<u>303,556</u>
	830,783	622,285
Designated for the professional liability insurance program	11,685	9,716
Undesignated	<u>616,811</u>	<u>480,449</u>
	<u>\$ 1,459,279</u>	<u>1,112,450</u>

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Net assets with donor restrictions that are restricted for time, purpose or both at June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Endowments subject to spending policy and appropriation, to support the following purposes (including net accumulated earnings of \$631,921 and 262,849, respectively):		
Advancing a Healthier Wisconsin	\$ 558,297	439,279
Research	78,262	57,089
Professorships	46,878	31,697
Scholarships	42,102	32,054
Education	9,491	6,002
Community engagement	4,246	3,242
Other	<u>56,315</u>	<u>42,066</u>
	<u>795,591</u>	<u>611,429</u>
Time implied pledges to support the following purposes:		
Research	24,048	23,990
Scholarships	1,857	103
Education	6,243	11,105
Community engagement	274	381
Other, including discounts and bad debt allowances	<u>(1,451)</u>	<u>59</u>
	<u>30,971</u>	<u>35,638</u>
Time implied pledges to support the following purposes in perpetuity:		
Research	8,103	7,664
Professorships	6,537	4,338
Scholarships	1,525	449
Education	155	263
Other, including discounts and bad debt allowances	<u>3,613</u>	<u>231</u>
	<u>19,933</u>	<u>12,945</u>

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	2021	2020
Gifts subject to expenditure to support the following purposes:		
Capital projects	\$ 23,515	25,725
Research	1,735	—
Scholarships	1,204	545
Education	5,069	—
Student loans	9,390	9,216
	40,913	35,486
Charitable gifts that will provide proceeds in the future:		
Trusts and annuities	6,547	6,362
Life insurance	254	247
	6,801	6,609
	\$ 894,209	702,107

(a) Advancing a Healthier Wisconsin

In March 2004, MCW received marketable securities from The Wisconsin United for Health Foundation, Inc. (WUHF) having an original fair value of approximately \$303,347. WUHF distributed additional marketable securities to MCW having original fair values of \$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 (BCBSUW) 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 evaluates the allocation percentages as part of its annual review process. The AHW funds cannot be used to supplant support otherwise available, expended directly or indirectly for land or buildings, or committed as collateral without the approval of two-thirds of all members of the MCW Consortium.

(b) State of Wisconsin Construction and Equipment Grants

On November 17, 2004, the Wisconsin State Building Commission approved the release of a \$25,000 grant to MCW to aid in the construction of a Biomedical Research Facility. On March 31, 2005, MCW entered into a Grant and Land Use Restriction Agreement with the State of Wisconsin Department of Administration to formalize the terms for receipt of these funds. The grant agreement provided support

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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, 2021, \$16,076 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 authorizes an additional \$10,000 to support the construction and installation of biomedical research magnetic resonance imaging equipment at MCW. Under terms and conditions similar to the original agreement, portions of the project were completed and placed into service starting in 2012.

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, 2021 and 2020, MCW recognized a contribution with donor restriction of \$154 and \$0, respectively, 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, 2021, \$6,015 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 of 0% to 8% (up to the IRS annual limit) of the participant's compensation. Participants are immediately vested in their contributions, MCW's matching contributions and earnings thereon. The contributions made by MCW and recognized as expense were approximately \$45,578 and \$42,588, respectively, for the years ended June 30, 2021 and 2020.

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On June 24, 2016, MCW established a Section 457(f) defined contribution retirement plan for certain eligible employees. Contributions to the plan remain solely the property of MCW. Eligible participants vest in their contributions for a plan year on the last day of the third plan year for each plan year they are a participant. Distributions are made to the eligible participants in single, lump sum payment when contributions become vested. MCW previously provided deferred compensation and Section 457 defined contribution plans to several key employees. As of June 30, 2016, contributions to these plans have ended. Assets related to the deferred compensation and defined contribution benefits of \$5,471 and \$4,665 at June 30, 2021 and 2020, respectively, are reflected in cash and cash equivalents and investments at fair value. Accrued benefits totaling approximately \$5,290 and \$4,634 at June 30, 2021 and 2020, 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 \$58,917 and \$1,856, respectively, during the year ended June 30, 2021 and \$50,895 and \$1,131, respectively, during the year ended June 30, 2020.

(19) Functional Expenses

Expenses classified by both nature and function for the year ended June 30, 2021 and 2020 are as follows:

Year ended June 30, 2021							
Program activities					Supporting activities		Total expenses
Patient care	Research	Education	Community engagement	Institutional support	Fundraising		
Faculty salaries	\$ 413,550	62,599	39,418	3,285	4,156	425	523,433
Staff salaries	160,136	85,311	22,028	3,438	41,904	3,116	315,933
Fringe benefits	100,154	32,530	12,395	1,482	12,323	778	159,662
Services, supplies and other	54,659	36,414	16,991	1,319	28,496	539	138,418
Rent and occupancy	17,865	13,152	4,816	192	8,571	163	44,759
Subcontracts	—	33,335	2,506	5,786	—	—	41,627
Depreciation and amortization	8,082	18,989	4,907	196	3,022	147	35,343
Interest on indebtedness	4,115	4,590	1,164	43	780	—	10,692
Total expenses	\$ 758,561	286,920	104,225	15,741	99,252	5,168	1,269,867

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

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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 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.

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Financial assets expected to be available within one year of June 30, 2021 and 2020 for general expenditure are as follows:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 189,599	108,228
Investments, at fair value	2,257,013	1,738,939
Receivables:		
Patient accounts	57,964	52,872
Other accounts, net	48,756	56,403
Contributions, net	<u>50,904</u>	<u>48,583</u>
Financial assets at year end	2,604,236	2,005,025
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	675,983	513,261
Funds functioning as endowments, net of funds to be appropriated for expenditure within one year	710,934	548,117
Restricted cash and investments	33,415	37,377
Pledges receivable, net of amounts to be received within one year	35,040	35,029
Liquidity:		
Unrestricted investments with liquidity horizons greater than one year	<u>52,174</u>	<u>19,873</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 1,096,690</u>	<u>851,368</u>

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

(21) Commitments and Contingent Liabilities

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

MCW periodically conducts internal investigations into deviations from approved research protocols reported to its Institutional Review Board. The investigations are conducted pursuant to MCW's Procedures for Addressing Scientific Misconduct and the model Procedures for Responding to Allegations of Scientific Misconduct issued by the United States Office of Research Integrity. The results of investigations, which have identified potential unallowable costs, are reported by MCW to the Food and Drug Administration and

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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) Coronavirus 2019

On March 11, 2020, the World Health Organization designated Coronavirus 2019 (COVID-19) as a global pandemic. Patient activity and related revenues for most services were significantly impacted starting in March 2020 as various policies were implemented by federal, state and local governments in response to the COVID-19 pandemic that caused many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective surgical procedures. As restrictions have eased and the moratoriums on non-emergent procedures have been lifted, patient activity and related revenues have gradually improved throughout fiscal 2021. However, volumes have not yet reached pre-pandemic levels and MCW continues to maintain appropriate cost reduction initiatives to mitigate the impact of the reduction in patient revenue.

In March 2020, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law providing temporary and limited relief to hospitals and healthcare providers during the COVID-19 outbreak, appropriations were made for hospitals and healthcare providers to cover expenses and lost revenue associated with the treatment of COVID-19 patients, expanding the Medicare Advanced and Accelerated payment program, providing employee retention tax credits to employers affected by COVID-19, eliminating the 2% reduction in Medicare payments from sequestration through 2021, creating an add-on payment for inpatient hospitals treating COVID-19 patients, and delaying a reduction in Medicaid funding for Medicare disproportionate share hospitals.

For the year ended June 30, 2021, MCW received or accrued \$33,077 in general distributions, \$353 in employee retention credits, \$493 in reimbursement of unemployment contributions, \$672 in higher education relief funds, and \$4,187 in state and county pass-through funds under the CARES Act. For the year ended June 30, 2020, MCW received or accrued \$19,063 in general distributions, \$2,165 in employee retention credits, \$1,059 in reimbursement of unemployment contributions and \$82 in higher education relief funds under the CARES Act. The general distribution funds are not subject to repayment, provided MCW is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for healthcare-related expenses or lost revenue attributable to COVID-19. Such payments are accounted for as government grants and are recognized on a systematic and rational basis as other income once there is reasonable assurance that the applicable terms and conditions required to retain the funds will be met. Based on analysis of the compliance and reporting requirements of the CARES Act and the state relief program, and the impact of the pandemic on operating results through the end of 2021, MCW has recorded \$61,151 as coronavirus relief funds revenue in the consolidated statements of operations and changes in net assets. MCW continues to monitor compliance with the terms and conditions of the Provider Relief Fund and the impact of the pandemic on revenues and

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expenses. If MCW is unable to attest to or comply with current or future terms and conditions, the ability to retain some or all of the distributions received may be impacted.

On April 16, 2020, MCW received approximately \$9,000 of payments under the Medicare Advanced Payment Program (APP) which allows eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. Beginning 365 days after receipt of the APP funds (April 2021), the APP balance will be applied to 25% of claims for services provided to Medicare beneficiaries. Any unapplied APP amounts must be paid in full within 29 months from receipt of the advance payment. As of June 30, 2021 and 2020, the APP balance of \$6,973 and \$9,000, respectively, is included in accounts payable on the consolidated statements of financial position.

MCW has also deferred employment tax deposits and payments of \$10,766 and \$8,062 as of June 30, 2021 and 2020, respectively, under the IRS deferral of employment tax deposits and payments. The program allows MCW to defer deposits of the employer's share of social security tax due and payments of the tax imposed on wages paid during the period from March 27, 2020 to December 31, 2020. Half of the deferred employment taxes will be paid in fiscal 2022 and the remaining half in fiscal 2023. The tax deposits and payments deferred are included in accrued payroll and related liabilities on the consolidated statements of financial position.

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(23) Financial Responsibility Standards

MCW participates in federal Title IV student financial assistance programs, which require it to meet standards of financial responsibility based on criteria determined by the U.S. Department of Education (ED), as set forth in 34 CFR 668.171. The criteria for private institutions include the annual calculation by ED of a financial responsibility composite score, as further outlined in 34 CFR 668.172, using audited financial statements submitted through ED's eZ-Audit system. The composite score has been and will continue to be based on three ratios: Primary Reserve, Equity, and Net Income. These ratios utilize the following financial data of MCW, which are not otherwise presented in the financial statements or other notes to the financial statements, as of and for the year ended June 30, 2021:

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			130,433	Note 7(e), Endowment Net Asset Classification
Total term endowments with donor restrictions	Primary reserve	\$ 420,911		
Gifts restricted for student loans			9,390	Note 17, Net Assets
Time implied pledges restricted in perpetuity			19,933	Note 17, Net Assets
Total net assets with donor restrictions restricted in perpetuity	Primary reserve	29,323		
AHW endowments restricted by time or purpose			267,819	Note 7(e), Endowment Net Asset Classification
Other endowments restricted by time or purpose			106,860	Note 7(e), Endowment Net Asset Classification
Time implied pledges restricted only for time			30,971	Note 17, Net Assets
Gifts restricted for capital projects, research, scholarship and education			31,523	Note 17, Net Assets
Total net assets with donor restrictions other, for purpose or time	Primary reserve	437,173		
Froedtert account receivables			23,860	Note 3(a), Related-Party Transactions
F&MCW Community Physicians account receivables			8,625	Note 3(a), Related-Party Transactions
CSG notes receivable			30,561	Consolidated Statement of Financial Position
Total secured and unsecured related party receivables	Primary reserve	63,046		

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<u>Required input per standards</u>	<u>Ratio(s) used</u>	<u>Input amount</u>	<u>Amount not used as input on supplementary schedule</u>	<u>Reference</u>
Froedtert account receivables			\$ 23,860	Note 3(a), Related-Party Transactions
F&MCW Community Physicians account receivables			8,625	Note 3(a), Related-Party Transactions
CSG notes receivable			5,471	Note 3(a), Related-Party Transactions
Total unsecured related party receivables	Primary reserve Equity	\$ 37,956		
Goodwill			1,149	Not otherwise presented
Deferred and capitalized patent costs, net			5,543	Not otherwise presented
Total intangible assets	Equity	6,692		
Long-term debt for the purchase of property plant and equipment	Primary reserve	283,921		Not otherwise presented
Long-term debt not for the purchase of property, plant and equipment or liability greater than asset value	Primary reserve	29,762		Not otherwise presented
Total long-term debt			313,683	Consolidated Statement of Financial Position
Other losses				Consolidated Statement of Operations and Change in Net Assets
Total nonoperating and net investment loss	Primary reserve	(1,223)	(1,223)	
Total revenues and net assets released from donor restrictions			1,312,988	Consolidated Statement of Operations and Change in Net Assets
Add realized gain on investments, net			9,439	Consolidated Statement of Operations and Change in Net Assets
Add unrealized gain on investments, net			284,137	Consolidated Statement of Operations and Change in Net Assets

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<u>Required input per standards</u>	<u>Ratio(s) used</u>	<u>Input amount</u>	<u>Amount not used as input on supplementary schedule</u>	<u>Reference</u>
Add endowment income earned over spendable income under the total return concept			\$ 3,390	Consolidated Statement of Operations and Change in Net Assets
Unrealized gain on interest rate swap			5,216	Consolidated Statement of Operations and Change in Net Assets
Gain on extinguishment of debt			2,749	Consolidated Statement of Operations and Change in Net Assets
Less endowment spendable income released from restrictions reported separately			(5,748)	Not otherwise presented
Total operating revenue and other additions (gains)	Net income	\$ 1,612,171		
Endowment spendable income released from restrictions	Net income	5,748		Not otherwise presented

(24) 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, 2021 through October 20, 2021, which was the date the consolidated financial statements were available to be issued.

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

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Supplementary Schedule of Financial Responsibility Data
As of and for the year ended June 30, 2021
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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	\$ 1,459,279		Consolidated Statement of Financial Position
Net assets with donor restriction	894,209		Consolidated Statement of Financial Position
Annuities with donor restrictions	6,547		Note 17, Net Assets
Life income funds with donor restrictions	254		Note 17, Net Assets
Term endowments with donor restrictions		420,911	Note 24, Financial Responsibility Standards
Net assets with donor restrictions: restricted in perpetuity		29,323	Note 24, Financial Responsibility Standards
Net assets with donor restrictions: other, for purpose or time		437,173	Note 24, Financial Responsibility Standards
Secured and unsecured related party receivables		63,046	Note 24, Financial Responsibility Standards
Unsecured related party receivable		37,956	Note 24, Financial Responsibility Standards
Property, plant and equipment, net (includes construction in progress and capital leases)	283,921		Consolidated Statement of Financial Position – Land, building and equipment, net
Property, plant and equipment – post-implementation with outstanding debt (includes capital leases)		283,921	Consolidated Statement of Financial Position – Land, building and equipment, net
Construction in progress			
Lease right-of-use assets, net	81,105		Consolidated Statement of Financial Position
Lease right-of-use assets post-implementation	81,105		Consolidated Statement of Financial Position
Intangible assets		6,692	Note 24, Financial Responsibility Standards
Post-employment and pension liabilities	5,290		Note 18, Employee Benefit Plans – deferred compensation payable
Total long-term debt – for long term purposes	313,683		Consolidated Statement of Financial Position
Total long-term debt – for long term purposes post-implementation		283,921	Note 24, Financial Responsibility Standards
Lease right-of-use liability	87,816		Consolidated Statement of Financial Position
Post-implementation lease right-of-use liabilities	87,816		Consolidated Statement of Financial Position
Primary Reserve Ratio: Total Expenses and Losses			
Total expenses without donor restrictions	\$ 1,269,867		Consolidated Statement of Operations and Changes in Net Assets
Non-operating and net investment loss		(1,223)	Note 24, Financial Responsibility Standards
Equity Ratio: Modified Net Assets			
Net assets without donor restriction	\$ 1,459,279		Consolidated Statement of Financial Position
Net assets with donor restriction	894,209		Consolidated Statement of Financial Position
Intangible assets		6,692	Note 24, Financial Responsibility Standards
Unsecured related party receivable		37,956	Note 24, Financial Responsibility Standards
Equity Ratio: Modified Assets			
Total assets	\$ 3,152,337		Consolidated Statement of Financial Position
Intangible assets		6,692	Note 24, Financial Responsibility Standards
Unsecured related party receivable		37,956	Note 24, Financial Responsibility Standards
Net Income Ratio: Change in Net Assets Without Donor Restrictions			
Change in net assets without donor restrictions	\$ 346,829		Consolidated Statement of Operations and Changes in Net Assets
Net Income Ratio: Total Revenues and Gains			
Total operating revenue and other additions (gains)		1,612,171	Note 24, Financial Responsibility Standards
Investment return appropriated for spending		5,748	Note 24, Financial Responsibility Standards

See accompanying independent auditors' report.

THE MEDICAL COLLEGE OF WISCONSIN, INC.
Schedule of Expenditures of Federal and State Awards
Year ended June 30, 2021

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				
Student Financial Assistance Cluster (notes 3 and 5)				
U.S. Department of Education				
Federal Perkins Loan Program	84.038	—	\$ —	2,750,475
Federal Direct Loan Program	84.268	—	—	48,279,258
Total U.S. Department of Education			—	51,029,733
U.S. Department of Health and Human Services				
Health Professions Student Loans	93.342	—	—	269,491
Federal Primary Care Loans	93.342	—	—	6,244,458
Total U.S. Department of Health and Human Services			—	6,513,949
Total Student Financial Assistance Cluster				
U.S. Department of the Treasury			—	57,543,682
COVID-19 State of Wisconsin	21.019	N/A	—	4,137,875
COVID-19 Milwaukee County Department of Health and Human Services	21.019	N/A	—	48,960
Total Federal assistance listing number 21.019	21.019	N/A	—	4,186,835
U.S. Department of Health and Human Services				
Health Resources and Services Administration (HRSA)			—	—
COVID-19 Provider Relief Fund	93.498	—	—	19,063,377
Total major federal programs			—	80,793,894
Nonmajor federal programs				
Research and Development Cluster				
U.S. Department of Agriculture				
National Institute of Food and Agriculture	10.310	—	50,000	143,353
U.S. Department of Defense				
Department of the Army	12.420	—	—	2,859,392
Department of the Army	12.431	—	—	404,643
Children's Hospital of Boston	12.RD	TEAMMATE-002	—	1,359
Christopher & Dana Reeve Foundation	12.RD	Various	—	39,761
Indiana University	12.RD	PO# 0046077	189,768	795,492
InnoVital Systems, Inc.	12.RD	S208-03-WI-01	—	33,640
National Trauma Institute	12.RD	NTI-CLOTT17-06	—	32,683
Oklahoma University Health Science Center	12.RD	RS20201654-01	—	5,681
Paxauris	12.RD	PAXC006	—	31,115
Prevent Biometrics, Inc.	12.RD	N/A	162,834	274,029
Southwest Research Institute	12.RD	L99043RI	—	121,579
University of California-San Francisco	12.RD	Various	—	343,112
University of Colorado at Denver	12.RD	FY18.794.019	—	23,221
University of North Carolina at Chapel Hill	12.RD	5119035	—	16,008
Total Department of the Army	12.RD	—	352,602	4,981,715
Department of the Navy				
Fundacion Oceanografic de la Comunitat Valenciana	12.RD	GRANT12802991	—	34,325
Johns Hopkins University	12.RD	APL No. 151534	—	(2,559)
National Marrow Donor Program	12.RD	Various	—	513,132
Total Department of the Navy	12.RD	—	—	544,898
Uniformed Services University of the Health Sciences				
Indiana University	12.RD	IN-4486955-MCW	—	173,636
Total U.S. Department of Defense	12.RD	—	352,602	5,700,249
U.S. Department of Justice				
Office of Justice Programs				
Children's Hospital of Wisconsin	16.DOJ	—	—	77,107
Institute for Intergovernmental Research	16.RD	#2018-V3-GX-K033-A1	—	56,600
Michigan State University	16.RD	2020-COAP-0003	—	94,655
Milwaukee County Department of Health and Human Services	16.RD	RC105656 MCW	—	3,837
State of Wisconsin	16.RD	HD19-032019-A	—	38,086
West Allis Health Department	16.RD	Various	—	110,351
Total U.S. Department of Justice	16.RD	2018-AR-BX-K106	—	166,520
Total U.S. Department of Transportation	16.RD	—	—	547,156
U.S. Department of Transportation				
Federal Aviation Administration	20.108	—	—	187,811
National Highway Traffic Safety Administration (NHTSA)	20.DOT	—	—	902,057
Total U.S. Department of Transportation	20.RD	—	—	1,089,868
National Aeronautics and Space Administration				
National Aeronautics and Space Administration	43.003	—	157,364	477,588
National Endowment for the Humanities				
National Endowment for the Humanities	45.162	—	—	50,624
National Science Foundation	47.049	—	—	3,063
National Science Foundation	47.074	—	—	2,834
COVID-19 National Science Foundation	47.074	—	—	186,608
Total Federal assistance listing number 47.074	47.074	—	—	189,442
National Science Foundation				
University of Wisconsin-Milwaukee	47.076	—	—	173,254
Vasognosis, Inc.	47.RD	203.405.433	—	91,773
Total National Science Foundation	47.RD	N/A	—	27,262
Total National Science Foundation	47.RD	—	—	484,794
U.S. Department of Veterans Affairs				
Wisconsin Corporation for Biomedical Research	64.VA	—	—	798,766
Total U.S. Department of Veterans Affairs	64.RD	PO Number 21-10	—	61,501
Total U.S. Department of Veterans Affairs	64.RD	—	—	860,267
U.S. Department of Health and Human Services				
Agency for Healthcare Research and Quality				
Mayo Clinic Rochester	93.RD	MED-230704-01, PO 66109532	—	(685)
University of Wisconsin-Madison	93.RD	0000000833	—	40,264
Total Agency for Healthcare Research and Quality	93.RD	—	—	39,579
Centers for Disease Control and Prevention	93.CDC	—	—	147,398
Centers for Disease Control and Prevention	93.080	—	—	79,602
Centers for Disease Control and Prevention	93.136	—	276,559	511,655
American Public Health Association	93.RD	N/A	—	11,108
Children's Hospital of Wisconsin	93.RD	U01DD001239	—	6,866
Northwestern University	93.RD	60056845 MCW	—	21,452

THE MEDICAL COLLEGE OF WISCONSIN, INC.
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Federal grantor/pass-through grantor/cluster title	Federal assistance listing number	Pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
State of Wisconsin	93.RD	Various	—	398,939
COVID-19 The Task Force for Global Health, Inc.	93.RD	N/A	—	42
University of Kansas Medical Center Research Institute Inc.	93.RD	Z9L00010	—	12,177
Total Centers for Disease Control and Prevention	93.RD	—	276,559	1,189,239
Centers for Medicare and Medicaid Services				
New York University	93.RD	PO# M210419345	—	6,079
State of Wisconsin	93.RD	435400-G19-GrMedEdRes-00	—	307,583
The American College of Cardiology	93.RD	3098 W1 01	—	275
Total Centers for Medicare and Medicaid Services	93.RD	—	—	313,937
Administration for Community Living				
Marquette University	93.RD	002069-01-01	—	37,714
Medical University of South Carolina	93.RD	A00-3837-S001	—	28,141
Total Administration for Community Living	93.RD	—	—	65,855
Food and Drug Administration	93.FDA	—	46,221	80,266
Applied Research Associates, Inc.	93.RD	PO21-00578; S-003956-02-MCW	—	66,482
New York Medical College	93.RD	Various	—	31,130
University of Colorado at Denver	93.RD	FY21.827.001	—	18,041
Total Food and Drug Administration	93.RD	—	46,221	195,919
Health Resources and Services Administration (HRSA)	93.HRSA	—	2,094,965	4,058,953
Health Resources and Services Administration (HRSA)	93.127	—	48,183	52,224
Health Resources and Services Administration (HRSA)	93.134	—	—	23,545
Health Resources and Services Administration (HRSA)	93.186	—	880	295,500
Health Resources and Services Administration (HRSA)	93.247	—	5,317	556,366
Children's Hospital of Wisconsin	93.RD	4500002633	—	52,468
Cincinnati Children's Hospital Medical Center	93.RD	Various	—	213,411
University of Buffalo	93.RD	R1240116	—	89,582
Total Health Resources and Services Administration (HRSA)	93.RD	—	2,149,345	5,342,049
National Institutes of Health (NIH)	93.113	—	70,526	215,381
National Institutes of Health (NIH)	93.121	—	—	179,411
National Institutes of Health (NIH)	93.173	—	1,589	559,576
National Institutes of Health (NIH)	93.213	—	—	325,396
National Institutes of Health (NIH)	93.233	—	—	567,761
National Institutes of Health (NIH)	93.242	—	380,572	2,627,233
National Institutes of Health (NIH)	93.279	—	290,494	1,831,643
National Institutes of Health (NIH)	93.286	—	—	61,917
National Institutes of Health (NIH)	93.307	—	379,733	1,433,256
National Institutes of Health (NIH)	93.310	—	1,523,629	2,587,033
COVID-19 National Institutes of Health (NIH)	93.310	—	49,918	1,185,017
Total Federal assistance listing number 93.310	93.310	—	1,573,547	3,772,050
National Institutes of Health (NIH)	93.350	—	521,499	3,601,718
COVID-19 National Institutes of Health (NIH)	93.350	—	110,562	234,627
Total Federal assistance listing number 93.350	93.350	—	632,061	3,836,345
National Institutes of Health (NIH)	93.351	—	—	1,366,071
COVID-19 National Institutes of Health (NIH)	93.351	—	—	274,291
Total Federal assistance listing number 93.351	93.351	—	—	1,640,362
National Institutes of Health (NIH)	93.353	—	964,987	1,950,801
National Institutes of Health (NIH)	93.361	—	136,858	943,792
National Institutes of Health (NIH)	93.393	—	860,750	3,236,586
National Institutes of Health (NIH)	93.394	—	228,509	1,864,750
National Institutes of Health (NIH)	93.395	—	3,121,955	7,995,286
National Institutes of Health (NIH)	93.396	—	41,365	2,157,950
National Institutes of Health (NIH)	93.398	—	6,520	399,452
National Institutes of Health (NIH)	93.837	—	2,121,721	21,090,327
National Institutes of Health (NIH)	93.838	—	21,204	1,521,735
National Institutes of Health (NIH)	93.839	—	11,671,419	16,564,700
National Institutes of Health (NIH)	93.846	—	48,459	223,032
National Institutes of Health (NIH)	93.847	—	868,711	8,761,821
National Institutes of Health (NIH)	93.853	—	259,483	5,543,362
National Institutes of Health (NIH)	93.855	—	762,266	7,702,531
National Institutes of Health (NIH)	93.859	—	182,118	5,469,352
National Institutes of Health (NIH)	93.865	—	596,313	2,044,956
National Institutes of Health (NIH)	93.866	—	112,259	1,012,413
National Institutes of Health (NIH)	93.867	—	908,766	4,056,322
Advanced Medical Electronics Corp.	93.RD	AME18-mTBIDetection-07	—	10,824
Albany Research Institute, Inc.	93.RD	92.6.02	—	44,233
Alliance for Clinical Trials in Oncology Foundation	93.RD	Various	—	56,421
Alliance Foundations Trials, LLC	93.RD	202010115	—	8,255
Ascending Hearing Technologies, LLC	93.RD	N/A	—	1,612
Augusta University	93.RD	32307-78	—	33,789
Beckman Research Institute of the City of Hope	93.RD	Various	—	36,770
Board of Regents of the University of Oklahoma	93.RD	RS20182223	24,416	862,162
Brio Device	93.RD	Brio09052019(01)	—	80,103
California Institute of Technology	93.RD	S455213	—	345,362
Case Western Reserve University	93.RD	RES510758	1,691	1,691
Childrens Hospital Los Angeles	93.RD	RGF010603-C	—	15,454
Children's Hospital of Boston	93.RD	Various	—	144,989
Children's Hospital of Philadelphia	93.RD	Various	—	108,398
Children's Mercy Hospitals and Clinics	93.RD	Various	—	37,612
Cleveland Clinic Lerner College of Medicine of CWRU	93.RD	1360-SUB	—	20,239
CNMC-Children's Research Institute	93.RD	30004942-07	—	23,592
Columbia University	93.RD	Various	—	20,784
Dignity Health dba St. Joseph's Hospital and Medical Center	93.RD	Various	—	80,833
Duke University	93.RD	Various	—	200,064
ECOG-ACRIN	93.RD	Various	—	125
Emory University	93.RD	N/A	—	65,912
Fina BioSolutions	93.RD	N/A	—	38,388
Fred Hutchinson Cancer Research Center	93.RD	Various	—	27,309
Great Lakes Inter-Tribal Council, Inc	93.RD	N/A	28,121	282,888
H Lee Moffitt Cancer Center & Research	93.RD	10-20664-99-01-G1	—	70,659
Hospital for Special Surgery	93.RD	003	—	20,182

THE MEDICAL COLLEGE OF WISCONSIN, INC.
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Federal grantor/pass-through grantor/cluster title	Federal assistance listing number	Pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Indiana University	93.RD	Various	—	38,541
Innovation Pathways	93.RD	N/A	—	549,309
Institute For Clinical Research, Inc	93.RD	M54-WI-052-1101-3	—	15
Jaeb Center for Health Research Inc	93.RD	N/A	—	13,504
Johns Hopkins University	93.RD	2004212990	—	2,339
Kitware, Inc.	93.RD	K002587-00-S02	—	14,279
Marquette University	93.RD	Various	—	749,164
Marshfield Clinic Research Foundation	93.RD	277591-00	14,000	2,460,675
Massachusetts General Hospital	93.RD	A5332	—	5,708
Mayo Clinic Jacksonville	93.RD	MED-235640-02	—	2,115
Mayo Clinic Rochester	93.RD	Various	—	15,629
Myelo Therapeutics GmbH	93.RD	Wiscon-001	—	41,595
National Marrow Donor Program	93.RD	Various	—	138,347
Nationwide Children's Hospital	93.RD	Various	—	126,608
New England Research Institutes, Inc.	93.RD	Various	—	228,413
Northwestern University	93.RD	Various	—	81,913
NRG Oncology Foundation, Inc.	93.RD	Various	—	30,420
NYU Winthrop Hospital	93.RD	PO# M200323081	—	96,121
Oregon Health & Science University	93.RD	1011985_Wisconsin	—	27,637
Pennsylvania State University	93.RD	MCWEY023533	—	2,272
COVID-19 PPD Development, LP	93.RD	ACTIV-2/A5401	—	12,231
ReNeurogen LLC	93.RD	N/A	—	7,693
Rush University Medical Center	93.RD	Various	—	46,590
Rutgers, The State University	93.RD	1506	—	202
The Mind Research Network	93.RD	6010509 SubN5	—	33,577
Thomas Jefferson University	93.RD	080-05001-S33301	—	124,944
Translational Imaging Innovations, Inc.	93.RD	Various	—	165,500
Tufts University School of Medicine	93.RD	HH4091; 100970-00001	—	236,035
University of Alabama at Birmingham	93.RD	Various	—	50,094
University of Arizona	93.RD	Various	—	36,347
University of Arkansas for Medical Sciences	93.RD	53542-MCW	—	165,425
University of California-Irvine	93.RD	Various	—	41,456
University of California-Los Angeles	93.RD	Various	—	268,791
University of California-San Francisco	93.RD	Various	—	318,350
University of Chicago	93.RD	Various	—	113,534
University of Chicago Medical Center	93.RD	AWD100391 (SUB00000181)	—	4,501
University of Cincinnati	93.RD	011414-137497	—	1,938
University of Florida	93.RD	UFDSP00011952	—	28,065
University of Illinois	93.RD	084238-16030	—	3,850
University of Iowa	93.RD	Various	—	4,819
University of Kansas Medical Center Research Institute Inc.	93.RD	GR12331/ZAR00080	—	5,325
University of Michigan	93.RD	Various	—	103,030
COVID-19 University of Michigan	93.RD	SUBK00013692-005	—	851
Total University of Michigan	93.RD	—	—	103,881
University of Minnesota	93.RD	Various	—	166,891
University of North Carolina at Chapel Hill	93.RD	5118648	—	28,476
University of Pennsylvania	93.RD	Various	—	277,663
University of Pittsburgh	93.RD	Various	—	96,287
University of South Florida	93.RD	Various	—	17,371
University of Texas Medical Branch at Galveston	93.RD	UOSPC-1747; 20-84923-01	—	12,902
University of Texas-Health Science Center at Houston	93.RD	0014326C	—	24,461
University of Utah	93.RD	PO U000246199 10044863-17	—	8,581
University of Virginia	93.RD	GB10094.PO#2200832	—	4,025
University of Washington	93.RD	UWSC8718; BPO10465	—	30,688
University of Wisconsin-Madison	93.RD	Various	—	164,660
University of Wisconsin-Milwaukee	93.RD	Various	—	61,363
Vanderbilt University Medical Center	93.RD	Various	—	70,208
Versiti Wisconsin, Inc.	93.RD	Various	—	327,381
Virginia Commonwealth University	93.RD	FP00007735_SA001	—	12,665
Wake Forest University	93.RD	WFUHS 113519	—	(619)
Washington University in St Louis	93.RD	Various	—	4,910
Wayne State University	93.RD	Various	—	260,292
Yale University	93.RD	GR100921 (CON-80000970)	—	4,865
Total National Institutes of Health	93.RD	—	26,310,413	119,298,951
Substance Abuse and Mental Health Services Administration				
State of Wisconsin	93.RD	Various	—	442,443
Office of Assistant Secretary for Health	93.137	—	—	65,269
Marquette University	93.RD	001592-02-04	—	8,997
Total Office of Assistant Secretary for Health	93.RD	—	—	74,266
Immediate Office of the Secretary				
Janssen Research & Development, LLC	93.RD	C2019003234	—	68,405
Total U.S. Department of Health and Human Services	93.RD	—	28,782,538	127,030,643
Total Research and Development Cluster			29,342,504	136,384,542

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Federal grantor/pass-through grantor/cluster title	Federal assistance listing number	Pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
National Aeronautics And Space Administration				
WI Space Grant Consortium	43.008	HEI19_4.0	—	(84)
U.S. Department of Veterans Affairs	64.034	—	—	1,160
COVID-19 U.S. Department of Education Coronavirus Aid, Relief, and Economic Security Act (CARES)	84.425E	—	—	345,056
COVID-19 U.S. Department of Education Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA)	84.425F	—	—	234,853
COVID-19 U.S. Department of Education American Rescue Plan Act (ARP)	84.425N	—	—	92,105
Total U.S. Department of Education			—	672,014
U.S. Department of Health and Human Services				
Centers for Disease Control and Prevention				
Southeast Wisconsin Healthcare Emergency Readiness Coalition, Inc.	93.074	N/A	—	85,172
State of Wisconsin	93.136	155080	—	36,444
State of Wisconsin	93.940	155958	59,782	67,059
State of Wisconsin	93.977	155027	—	72,298
Total Centers for Disease Control and Prevention			59,782	260,973
Administration for Children and Families				
State of Wisconsin	93.092	Various	—	95,569
State of Wisconsin	93.566	437004-G20-0001509-000-07	—	32,040
State of Wisconsin	93.576	437004-G20-0001509-000-07	—	10,773
State of Wisconsin	93.778	159363	—	27,779
Total Administration for Children and Families			—	166,161
Health Resources and Services Administration (HRSA)	93.153	—	578,327	914,925
COVID-19 Health Resources and Services Administration (HRSA)	93.153	—	43,092	58,046
Total Federal assistance listing number 93.153	93.153	—	621,419	972,971
Health Resources and Services Administration (HRSA)	93.918	—	32,665	38,984
COVID-19 Uninsured Relief Fund	93.461	—	—	111,655
State of Wisconsin	93.110	152018	—	275,115
Immune Deficiency Foundation	93.110	MCW1800.868	—	28,392
Total Federal assistance listing number 93.110			—	303,507
University of California-San Francisco	93.145	PO# B001880878	—	19,238
State of Wisconsin	93.917	Various	333,194	1,321,553
COVID-19 State of Wisconsin	93.917	155952	—	79,504
Total Federal assistance listing number 93.917	93.917	—	333,194	1,401,057
State of Wisconsin	93.994	Various	—	244,450
Total Health Resources and Services Administration (HRSA)			987,278	3,091,862
Centers for Medicare and Medicaid Services				
State of Wisconsin	93.778	159363	—	(23,759)
Substance Abuse And Mental Health Services Administration				
State of Wisconsin	93.243	Various	—	42,725
Immediate Office of the Secretary				
State of Wisconsin	93.889	435100-G21-EMSTrauma-00	—	49,901
Total U.S. Department of Health and Human Services			1,047,060	3,587,863
Agency For International Development				
Consortium of Universities for Global Health	98.001	0002	—	2,478
Total nonmajor federal programs			30,389,564	140,647,973
Total expenditures of federal awards			30,389,564	221,441,867
Major state programs				
Wisconsin Department of Health Services				
Division of Public Health		435.128010	—	217,587
Division of Public Health		435.128012	—	475,208
Division of Public Health		435.181010	340,123	363,202
Total major state expenditures			340,123	1,055,997
Nonmajor state programs				
Wisconsin Department of Health Services				
Division of Public Health		435.159363	—	52,277
Division of Public Health		435.155201	—	1,249,349
Division of Public Health		435.155202	—	106,984
Division of Public Health		435.155957	17,636	31,665
Division of Public Health		435.155950	—	2,942
COVID-19 Division of Public Health		435-155901	7,012	7,713
University of Wisconsin-Madison		003L194	—	56,441
University of Wisconsin-Madison		0000000935	—	13,671
University of Wisconsin-Madison		851K981	—	193
Wisconsin Economic Development Corporation		TIP FY19-24612	—	134,784
Wisconsin Department of Justice				
Milwaukee County District Attorney's Office		2018-PE-01-15399	—	10,615
Wisconsin Department of Corrections		None	—	102,925
Wisconsin Department of Corrections		410021-W19-ELB6762-GEN-04	—	97
Total nonmajor state expenditures			24,648	1,769,656
Total expenditures of state awards			364,771	2,825,653
Total expenditures of federal awards and state expenditures			\$ 30,754,335	224,267,520

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, 2021

(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, 2021 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, 2021

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, 2021, MCW charged facilities and administrative costs of \$33,939,525 based on predetermined rates approved by DHHS.

(2) Summary of Significant Accounting Policies

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

(3) Federal Major Programs

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.

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 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 1 defined as payments received between April 10, 2020 to June 30, 2020.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2021

State Coronavirus Relief Fund

The Coronavirus Relief Fund (CRF) program is administered by the Department of Treasury to provide direct payments to state governments to cover necessary expenditures incurred due to the public health emergency with respect to COVID-19, costs that were not accounted for in the governments' most recently approved budget as of March 27, 2020, and costs that were incurred between March 1, 2020 and December 31, 2021. The State of Wisconsin received CRF funds that were awarded to MCW during the year ended June 30, 2021.

(4) Research and Development Program Cluster

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

(5) Federal Government Student Loan Programs

The Perkins, Primary Care, and Health Professions Student Loan Programs are administered directly by MCW, and balances and transactions relating to these programs are included in MCW's consolidated financial statements. Under the Perkins Loan Program Extension Act of 2015, no Perkins Loan disbursements could be made to students after June 30, 2017. The administrative cost allowance charged to the Perkins Loan Program is based on disbursements, and no disbursements occurred during the year ended June 30, 2021.

Loans outstanding at the beginning of the year, loans made during the year, and administrative charges are included in the federal expenditures presented in the Schedule. The balance of loans outstanding under the Perkins, Primary Care, and Health Professions Student Loan Programs was \$2,099,430, \$5,671,602, and \$266,988 respectively, at June 30, 2021.

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, 2021.

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

MCW receives an annual appropriation from the State of Wisconsin to support the training of health professionals in family medicine and practice. The appropriation was \$5,507,310 for the year ended June 30, 2021. MCW receives an annual appropriation from the State of Wisconsin based on a per capita formula for an amount for each Wisconsin resident enrolled at the college who is paying full tuition. The appropriation was \$1,926,600 for the year ended June 30, 2021. MCW also receives annual appropriations from the State of Wisconsin to support breast and prostate cancer research. MCW expended \$56,561 of the cancer research appropriations during the year ended June 30, 2021. 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

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2021

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 \$164,051 and \$204,238, respectively, for the year ended June 30, 2021. The Division also supports an Addiction Psychiatry Fellowship Program and Child and Adolescent Psychiatry Fellowship Program. The funding was \$6,380 and \$128,098, respectively, for the year ended June 30, 2021. This funding and the related expenditures have been excluded from the scope of this audit. MCW must annually report to the Division a full accounting of all funds received and expenditures. These actions thereby satisfy the state requirement.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2021

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

MCW's settlement of State of Wisconsin Department of Health Services (DHS) cost reimbursement awards presented in the Schedule for the year ended June 30, 2021 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	48,131	487	48,618
128010	Congenital Disorders	168,974	7/1/20-6/30/21	168,969	159,286	9,683	168,969
128012	Congenital Disorders 2	330,229	7/1/19-6/30/20	328,425	207,088	—	207,088
128012	Congenital Disorders 2	330,229	7/1/20-6/30/21	304,227	260,478	7,642	268,120
150426	1815 Diabetes	19,665	7/1/19-6/30/20	9,382	1,058	275	1,333
150426	1815 Diabetes	19,747	7/1/20-6/30/21	18,812	11,582	3,012	14,594
150427	1815 Heart Disease Prev	19,664	7/1/19-6/30/20	9,333	1,057	275	1,332
150427	1815 Heart Disease Prev	19,747	7/1/20-6/30/21	17,966	14,194	3,690	17,884
152018	Pediatric Mental Health Care Access	240,000	10/1/19-9/30/20	113,430	19,255	5,007	24,262
152018	Pediatric Mental Health Care Access	390,000	10/1/20-9/30/21	—	199,090	51,763	250,853
155027	Infertility Prevention	64,753	1/1/20-12/31/20	64,731	35,928	3,593	39,521
155027	Infertility Prevention	67,355	1/1/21-12/31/21	32,776	29,797	2,979	32,776
155080	Rape Prevention and Education	30,000	2/1/20-1/31/21	30,000	27,273	2,727	30,000
155080	Rape Prevention and Education	30,000	2/1/21-1/31/22	6,444	5,858	586	6,444
155201	Child Psychiatry Consultation Program GPR	864,500	7/1/19-6/30/20	832,129	48	5	53
155201	Child Psychiatry Consultation Program GPR	1,635,000	7/1/20-6/30/21	1,256,013	1,149,111	100,185	1,249,296
155202	School Based Mental Health GPR	175,000	7/1/20-6/30/21	107,005	97,545	9,439	106,984
155901	HIV Outreach Services	10,000	4/1/20-3/31/21	7,713	7,012	701	7,713
155915	HIV Home/Community Care (Ryan White)	1,014,878	4/1/20-3/31/21	988,198	712,423	71,243	783,666
155919	HIV Home/Community Care (Ryan White)	535,290	4/1/20-3/31/21	535,292	461,342	36,064	497,406
155950	HIV Care Services	10,000	4/1/20-3/31/21	2,942	2,675	267	2,942
155952	Ryan White HIV COVID	88,962	4/1/20-3/31/21	88,960	72,276	7,228	79,504
155958	HIV Prevention Targeted	94,190	1/1/20-12/31/20	88,564	78,947	7,895	86,842
155958	HIV Prevention Targeted	155,000	1/1/21-12/31/21	52,160	47,418	4,742	52,160
155959	HIV Demonstration Project	120,000	1/1/20-12/31/20	101,866	44,602	4,460	49,062
155991	Ryan White Minority AIDS Initiative	53,738	4/1/20-3/31/21	53,738	36,802	3,680	40,482
159354	Personal Responsibility Educational Program-PREP	63,750	10/1/20-9/30/21	40,341	36,673	3,668	40,341
159363	Adolescent Pregnancy	80,620	1/1/20-12/31/20	80,620	23,260	2,326	25,586
159363	Adolescent Pregnancy	80,620	1/1/21-12/31/21	30,709	27,918	2,791	30,709
159364	Reproduction Health Personal Responsibility Educational Program-Federal	85,000	1/1/20-12/31/20	85,000	50,207	5,021	55,228
181010	Tobacco Prevention and Control Program Community Intrvns	520,000	7/1/20-6/30/21	493,272	361,104	2,098	363,202
533130	Opioid Treatment Development	368,374	6/1/20-9/30/20	249,041	171,565	75,488	247,053
533130	Opioid Treatment Development	883,002	10/1/20-9/30/21	—	136,050	59,340	195,390
				<u>\$ 6,367,032</u>	<u>4,537,053</u>	<u>488,360</u>	<u>5,025,413</u>



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of The Medical College of Wisconsin, Inc. , which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of operations 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 20, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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Purpose of this Report

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

KPMG LLP

Milwaukee, Wisconsin
October 20, 2021



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

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

Report on Compliance for Each Major Federal and State Program

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

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal and State Program

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



Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2021-01, 2021-02, and 2021-03. Our opinion on each major federal and state program is not modified with respect to these matters.

The Medical College of Wisconsin, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Medical College of Wisconsin, Inc. is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The Medical College of Wisconsin, Inc.'s response and corrective action plan were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or the corrective action plan.

Report on Internal Control over Compliance

Management of The Medical College of Wisconsin, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered The Medical College of Wisconsin, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Medical College of Wisconsin, Inc.'s internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2021-01, 2021-02, and 2021-03, that we consider to be significant deficiencies.

The Medical College of Wisconsin, Inc.'s response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Medical College of Wisconsin, Inc. is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The Medical College of Wisconsin, Inc.'s response and corrective action plan were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or the corrective action plan.



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

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

We have audited the consolidated financial statements of The Medical College of Wisconsin, Inc. as of and for the year ended June 30, 2021, and have issued our report thereon dated October 20, 2021, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the Uniform Guidance and the State Single Audit Guidelines for Wisconsin and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and the schedule of expenditures of state awards are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Milwaukee, Wisconsin
June 27, 2022

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

(1) Summary of Auditors' Results

Financial Statements

- A. Type of report issued on whether the consolidated financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- B. Internal control deficiencies over financial reporting disclosed by the audit of the consolidated financial statements:
- Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- C. Noncompliance material to the consolidated financial statements: **No**

Federal and State Awards

- D. Internal control deficiencies over major programs disclosed by the audit:
- Material weaknesses: **No**
 - Significant deficiencies: **Yes**
- 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): **Yes**
- G. Major federal programs:
- Program names:**
Student Financial Aid Cluster – Various CFDA Numbers
Provider Relief Funds – 93.498
Coronavirus Relief Funds – 21.019
- H. Major state programs:
- Program names:**
Division of Public Health – Congenital Disorders Programs – State ID Number 435.128010 and 435.128012.
Division of Public Health – Tobacco Prevention and Program Control – State ID Number 435.181010
- 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**

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

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

None

(3) Findings and Questioned Costs Relating to Federal Awards

Finding 2021-01 General Information Technology Controls

Federal Agency: U.S. Department of Education

Program Name: Student Financial Aid Cluster

CFDA Number: Various

Grant Identification Number: Various

Grant Award Period: July 1, 2020 through June 30, 2021

Criteria

The 2 CFR Section 200.303 requires that non-federal entities receiving federal awards establish and maintain internal control over the federal awards that provides reasonable assurance that the non-federal entity is managing the federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal awards.

Condition Found

During testwork performed over the Student Financial Aid Cluster, we noted that within the student information system (the system), certain general information technology controls surrounding change management and user access appeared to be missing or ineffectively designed. Specifically, users with certain administrative access rights have access to the underlying source code of the system and could implement changes directly in the system. There were no monitoring controls over these accounts regarding source code changes. In addition, the password to certain administrative accounts that are used to provision/de-provision user access is not routinely changed, and thus could result in employees with inappropriate access.

Cause

A new student information system was implemented resulting in controls which previously were manual in nature, being replaced with automated controls within the system. As automated control reliance on the system increased, monitoring of system changes and policies surrounding access to administrator and super user accounts were not adequately considered or developed consistent with overall information technology policies and procedures in place at MCW.

Effect

If controls surrounding change management and user access are ineffectively designed, student financial aid may be disbursed in the incorrect amount or to a student who does not meet the eligibility requirements as stated in the Compliance Supplement.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

Questioned Costs

None

Statistically Valid Sample

The sample was not intended to be, and was not, a statistically valid sample

Repeat Finding

No

Recommendation

We recommend MCW implement policies and procedures over monitoring of student financial aid system changes and user access.

Management's Response

While manual controls mitigated the disbursement of an incorrect amount or disbursement to a student who does not meet the eligibility requirements, MCW concurs and has put significant effort into adding additional change management and user access controls to the student information system.

As stated above, these conditions occurred when MCW changed student information systems and began relying more heavily on automated controls within the system, instead of solely relying on manual controls outside of the system. Two areas that needed to be addressed were related to general information technology controls:

1. Users with certain administrative access rights have access to the underlying source code of the system and lack monitoring controls over these accounts regarding source code changes.
2. Password requirements for certain administrative accounts were not routinely changed.

In the future, MCW will ensure that all controls relating to student information systems are effectively designed to ensure compliance with regulations for federal funding.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

Finding 2021-02 Payroll Costs

Federal Agency: U.S Department of Treasury
Program Name: Coronavirus Relief Fund
CFDA Number: 21.019
Grant Identification Number: Various
Grant Award Period: March 1, 2020 through December 31, 2021

Criteria

The 2 CFR Section 200.303 requires that non-federal entities receiving federal awards establish and maintain internal control over the federal awards that provides reasonable assurance that the non-federal entity is managing the federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal awards.

Condition Found

Management submitted costs allocations to the State of Wisconsin, the passthrough entity of the federal award issued by the U.S. Department of Treasury, as evidence of need for the award. Costs submitted cannot be lawfully funded using a line item, allotment, or allocation within the budget or for substantially different use from expected use of funds in such line item, allotment, or allocation. The costs submitted, specifically relating to the payroll costs, included costs allocated to other awards.

The error reported above resulted in an extrapolated difference of \$30,137 over duplicate allocations. Management did not establish adequate internal control procedures to ensure allowable cost requirements were followed in accordance with federal and state regulations for this award.

Cause

Management incorrectly allocated payroll costs related to time spent on COVID-19 tasks, but reimbursed from other awards received, to the Coronavirus Relief Fund award passed through the State of Wisconsin.

Effect

Inadequate management review of the accuracy of the payroll allocation, including establishing an appropriate level of precision to identify potential errors in allocation also contributed to the inaccurate allocation.

Questioned Costs

\$30,137

Statistically Valid Sample

The sample was not intended to be, and was not, a statistically valid sample.

Repeat Finding

No

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

Recommendation

We recommend management implement internal controls that will provide for accurate allocations of payroll costs.

Management's Response

As stated above, MCW did not perform a management review at an appropriate level of precision to identify potential errors in the allocation of payroll costs to the Coronavirus Relief Fund award passed through the State of Wisconsin. Upon additional review, MCW identified 7 employees with payroll costs in excess of the amount allowable on Coronavirus Relief Fund award passed through the State of Wisconsin due to payroll costs allocated to other awards. In addition, MCW determined that fringe benefit costs are understated on the Coronavirus Relief Fund award passed through the State of Wisconsin and the excess payroll costs for the 7 employees are more than offset by the under-allocation of fringe benefit costs.

In the future, MCW will ensure that all controls relating to management review of the use of Coronavirus Relief Funds passed through the State of Wisconsin are in place and documented, with an appropriate level of precision and a review of calculations is performed to ensure accuracy.

(4) Findings and Questioned Costs Relating to State Awards

Finding 2021-03 Subrecipient Monitoring

State Agency: Division of Public Health
Program Name: Tobacco Prevention and Control Program
Grant Identification Number: 435.181010
Grant Award Period: July 1, 2020 – June 30, 2021

Criteria

The State Single Audit Guidelines of Wisconsin implement the federal audit requirements in the Federal CFR Part 200 subpart F "Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards" for certain state programs and federal programs passed through state agencies.

Per 2 CFR 200.331 a pass-through entity (PTE) must:

Evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward (2 CFR section 200.332(b)). This evaluation of risk may include consideration of such factors as the following:

- The subrecipient's prior experience with the same or similar subawards;
- The results of previous audits including whether or not the subrecipient receives single audit in accordance with 2 CFR Part 200, Subpart F, and the extent to which the same or similar subaward has been audited as a major program;
- Whether the subrecipient has new personnel or new or substantially changed systems; and

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

- The extent and results of federal awarding agency monitoring (e.g., if the subrecipient also receives federal awards directly from a federal awarding agency).

Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals (2 CFR sections 200.332(d) through (f)). In addition to procedures identified as necessary based upon the evaluation of subrecipient risk or specifically required by the terms and conditions of the award, subaward monitoring must include the following:

- Reviewing financial and programmatic (performance and special reports) required by the PTE.
- Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the federal award provided to the subrecipient from the PTE detected through audits, on-site reviews, and other means.
- Issuing a management decision for audit findings pertaining to the federal award provided to the subrecipient from the PTE as required by 2 CFR section 200.521.

Condition Found

During testwork performed over the Tobacco Prevention and Control Program award, we noted the policies and procedures in effect during the fiscal year over subrecipient monitoring of state awards did not include risk assessment as noted in the above criteria and within the Compliance Supplement. As such, the control appears to be missing or ineffectively designed.

Cause

The policies and procedures in effect during the fiscal year did not address the requirements pertaining to risk assessment of subrecipients for state awards.

Effect

If there is no procedure in place nor documentation of risk assessment for subrecipients of state awards, the determination of level of monitoring could be incorrect and the grant would not be in compliance with the Compliance Supplement and State Single Audit Guidelines.

Questioned Costs

None

Statistically Valid Sample

The sample was not intended to be, and was not, a statistically valid sample

Repeat Finding

No

Recommendation

We recommend the policies and procedures over subrecipient monitoring of state awards be updated in accordance with the Compliance Supplement and State Single Audit Guidelines and that a formal process to document risk assessment, determined level of monitoring, and monitoring to be created.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

Management's Response

As stated above, MCW did not perform preliminary risk assessments on subrecipients of funds awarded through the State of Wisconsin Tobacco Prevention and Control Program. Partial monitoring of the subrecipients of this award was performed by reviewing invoices and programmatic reports.

In the future, MCW will ensure that all controls relating to subrecipient monitoring of state awards will be in accordance with the Compliance Supplement and State Single Audit Guidelines and that a formal process to document risk assessment, determined level of monitoring, and monitoring is created.

(5) Other Issues

- A. Does the auditors' report or notes to the financial statements include disclosure with regard to substantial doubt as to the auditees' ability to continue as a going concern? **No**
- B. Does the audit report show audit issues (i.e., material noncompliance, nonmaterial noncompliance, questioned costs, material weakness, significant deficiencies, management letter comment, excess revenue, or excess reserve) related to grants/contract with funding agencies that require audits to be in accordance with the *State Single Audit Guidelines*: **Yes**
- C. Was a management letter or other document conveying audit comments issued as a result of this audit? **No**
- D. Date of Report: **June 27, 2022**



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Department of Finance

**The Medical College of Wisconsin, inc.
EIN #390806261**

Audit in Accordance with Uniform Guidance: Corrective Action Plan

Year Ended June 30, 2021

- Finding Number:** 2021-01 General Information Technology Controls
- Contact Person:** Pamela Stanick, Associate Vice President of Finance and Treasury
- Corrective Action:** In the future, MCW will ensure that all controls relating to student information systems are effectively designed to ensure compliance with regulations for federal funding and are operating effectively.
- Date of Completion:** May 10, 2022
- Finding Number:** Finding 2021-02 Payroll Costs
- Contact Person:** Pamela Stanick, Associate Vice President of Finance and Treasury
- Corrective Action:** In the future, MCW will ensure that all controls relating to management review of the use of Coronavirus Relief Funds passed through the State of Wisconsin are in place and documented, with an appropriate level of precision and a review of calculations is performed to ensure accuracy.
- Date of Completion:** June 27, 2022
- Finding Number:** 2021-03 Subrecipient Monitoring
- Contact Person:** Pamela Stanick, Associate Vice President of Finance and Treasury
- Corrective Action:** In the future, MCW will ensure that all controls relating to subrecipient monitoring of state awards are in accordance with the Compliance Supplement and State Single Audit Guidelines, that a formal process is created to document risk assessment and determine the level of monitoring, and that these controls are operating effectively.
- Date of Completion:** March 23, 2022