THE MEDICAL COLLEGE OF WISCONSIN, INC.

(E.I.N.: 390806261)

Audit Reports in Accordance with
Government Auditing Standards and
Office of Management and Budget
Circular A-133

June 30, 2012

(With Independent Auditors' Reports Thereon)

THE MEDICAL COLLEGE OF WISCONSIN, INC.

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KPMG LLP
Suite 1500
777 East Wisconsin Avenue
Milwaukee, WI 53202-5337

Independent Auditors' Report

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

We have audited the accompanying consolidated statements of financial position of The Medical College of Wisconsin, Inc. (the College) as of June 30, 2012 and 2011, and the related consolidated statements of unrestricted activities and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the College as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2012 on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non Profit Organizations*, the *State Single Audit Guidelines*, and the *Department of Health Services Audit Guide*, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal and state awards is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

KPMG LLP

Milwaukee, Wisconsin
October 1, 2012

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Consolidated Statements of Financial Position

June 30, 2012 and 2011

(In thousands)

Assets		**2012**	**2011**
Cash and cash equivalents	$	61,953	79,415
Deposits with bond trustees		21,261	27,008
Investments, at fair value		989,335	975,755
Receivables:			
Patient accounts, net		44,810	38,721
Other accounts, net		24,212	18,246
Grants and contracts, net		22,849	23,161
Contributions, net		11,138	15,122
Student loans, net		16,022	15,527
Note receivable from Children’s Specialty Group		23,583	17,537
Total receivables		142,614	128,314
Prepaid expenses and other assets		23,561	18,574
Beneficial interest in charitable trusts		4,838	4,805
Land, buildings, and equipment, net		222,279	225,679
Total assets	$	1,465,841	1,459,550
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	39,996	27,989
Construction accounts payable		3,420	697
Accrued payroll and related liabilities		57,766	88,595
Deferred revenue		16,130	9,185
Estimated liability for unpaid professional liability claims		16,790	17,128
Long-term debt		207,093	211,204
Refundable advance for U.S. government-sponsored loan funds		9,185	9,060
Interest rate swap		20,225	8,740
Other liabilities		6,690	6,056
Total liabilities		377,295	378,654
Commitments and contingencies			
Net assets:			
Unrestricted		581,277	558,741
Temporarily restricted		128,888	147,711
Permanently restricted		378,381	374,444
Total net assets		1,088,546	1,080,896
Total liabilities and net assets	$	1,465,841	1,459,550

See accompanying notes to consolidated financial statements.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Consolidated Statements of Unrestricted Activities and Changes in Net Assets

Years ended June 30, 2012 and 2011

(In thousands)

		2012	2011
Revenues:			
Net patient service	$	386,328	366,609
Children's Specialty Group contract fees		196,825	189,433
Affiliate hospital contracts		98,287	95,099
Children's Research Institute contract fees		8,737	8,883
Grants and contracts		114,567	122,252
Facilities and administrative cost recovery on grants and contracts		33,061	35,225
Tuition and fees		34,299	33,110
Endowment investment income		655	660
Other investment income		12,798	13,266
Contributions		8,785	5,259
State of Wisconsin appropriation		2,965	3,293
Sales and services of educational departments		2,217	2,515
Other		6,710	2,822
Total revenues		906,234	878,426
Net assets released from restrictions for operations		22,295	17,423
Total revenues and net assets released from restrictions		928,529	895,849
Expenses:			
Faculty salaries		336,180	324,354
Staff salaries		179,805	171,793
Fringe benefits		128,112	124,249
Services, supplies, and other		118,256	112,004
Rent and occupancy		44,396	43,324
Subcontracts		27,225	27,463
Depreciation and amortization		27,069	27,427
Provision for bad debts		25,053	25,292
Interest on indebtedness		8,001	8,183
Total expenses		894,097	864,089
Revenues in excess of expenses before nonoperating gains and losses		34,432	31,760
Nonoperating gains and losses:			
Loss on extinguishment of debt		—	(1,278)
Gain on investments in affiliates, net		4,689	1,982
Realized gain on investments		1,151	10,142
Unrealized (loss) gain on investments		(5,868)	43,495
Endowment income earned under spendable income under the total return concept		(302)	(290)
Loss on sale of land, buildings, and equipment		(83)	(142)
Unrealized (loss) gain on interest rate swap		(11,485)	2,414
Other gains		2	331
Nonoperating gains and losses, net		(11,896)	56,654
Increase in unrestricted net assets		22,536	88,414

(Continued)

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Consolidated Statements of Unrestricted Activities and Changes in Net Assets

Years ended June 30, 2012 and 2011

(In thousands)

		2012	2011
Temporarily restricted net assets:			
Contributions	$	6,818	8,201
Investment income		9,778	10,170
Realized gain on investments		13,373	12,528
Unrealized (loss) gain on investments		(26,487)	56,691
Net assets released from restrictions for operations		(22,295)	(17,423)
Change in fair value of charitable trusts		(10)	103
(Decrease) increase in temporarily restricted net assets		(18,823)	70,270
Permanently restricted net assets:			
Contributions		3,594	7,151
Investment income		168	172
Change in fair value of charitable trusts		175	626
Increase in permanently restricted net assets		3,937	7,949
Increase in net assets		7,650	166,633
Net assets at beginning of year		1,080,896	914,263
Net assets at end of year	$	1,088,546	1,080,896

See accompanying notes to consolidated financial statements.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2012 and 2011

(In thousands)

	2012	2011
Cash flows from operating activities:		
Increase in net assets	$ 7,650	166,633
Adjustments:		
Depreciation and amortization	27,069	27,427
Provision for bad debts	25,053	25,292
Contributions restricted for long-term investment	(4,218)	(4,687)
Permanently restricted investment income	(168)	(172)
Loss on sale of land, buildings, and equipment	83	142
Loss on extinguishment of debt	—	1,278
Gain on investments in affiliates, net	(4,689)	(1,982)
Net realized and unrealized loss (gain) on investments	17,831	(122,856)
Unrealized loss (gain) on interest rate swap	11,485	(2,414)
Increase in receivables	(33,882)	(31,957)
Increase in prepaid expenses and other assets	(817)	(201)
Increase in beneficial interest in charitable trusts	(33)	(723)
(Decrease) increase in accounts payable and accrued payroll and related liabilities	(24,062)	30,393
Increase in deferred revenue	6,945	287
(Decrease) increase in estimated liability for unpaid professional liability claims	(338)	1,579
Increase in refundable advance for U.S. government-sponsored loan funds	125	437
Increase in other liabilities	666	131
Net cash provided by operating activities	28,700	88,607
Cash flows from investing activities:		
Purchases of investments	(425,149)	(519,817)
Proceeds from sales and maturities of investments	393,507	453,030
Deposits with bond trustees	(78,918)	(237,571)
Reduction of deposits with bond trustees	84,533	246,759
Capital expenditures	(23,537)	(28,733)
Increase (decrease) in construction accounts payable	2,723	(1,167)
Proceeds from sale of land, buildings, and equipment	17	60
Investments in affiliates, net	353	261
Net cash used in investing activities	(46,471)	(87,178)
Cash flows from financing activities:		
Restricted contributions and permanently restricted investment income	4,386	4,859
Proceeds from long-term debt	—	29,248
Repayments of long-term debt	(4,077)	(32,212)
Net cash provided by financing activities	309	1,895
Net (decrease) increase in cash and cash equivalents	(17,462)	3,324
Cash and cash equivalents at beginning of year	79,415	76,091
Cash and cash equivalents at end of year	$ 61,953	79,415
Supplemental data:		
Cash paid for interest (net of amounts capitalized of $957 and $1,331 in 2012 and 2011, respectively)	$ 7,936	8,188
Noncash change in receivable from Children's Specialty Group	5,471	—

See accompanying notes to consolidated financial statements.

(1) Organization

The Medical College of Wisconsin, Inc. (the College) is a private, freestanding medical college that includes 6 basic science departments, 22 clinical departments, and 12 centers and institutes, and offers medical and graduate degrees. The College performs research and maintains multi-specialty clinical programs in which faculty physicians provide medical care. The College also has affiliations with a number of hospitals in which the College's faculty physicians provide services to patients, education to medical students, and training to residents (graduate medical education). The College's Medical College Physicians Practice Plan sets forth the provisions under which faculty physicians provide professional services to patients and provides for the allocation of all fees generated from such services.

The consolidated financial statements include the accounts of the various academic and administrative divisions, the Professional Liability Insurance Program and the Blue and Green I Condominium, Inc. The Professional Liability Insurance Program was created as a grantor trust to self-insure risks related to medical malpractice liability. The Blue and Green I Condominium, Inc. was established as a nonstock, nonprofit corporation to operate a jointly used research facility. The College owns 69% of the Blue and Green I Condominium, Inc. 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 the American Institute of Certified Public Accountants' Audit and Accounting Guide *Not-for-Profit Organizations*.

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

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

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

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

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets occur when the donor-stipulated purpose has been fulfilled, the funds have been appropriated in accordance with the College's endowment fund

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spending policy, or the stipulated time period has elapsed and are reported as reclassifications between the applicable classes of net assets.

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

College faculty physicians and surgeons provide services to patients under agreements the College has with third-party payors, patients, and others. The revenue related to patient services is recorded as net patient service revenue. Patient accounts receivable represent an estimate of net realizable amounts from patients, third-party payors, and others for unpaid professional fees for patient services. The estimate is based upon contract terms, the terms of the various programs and historical payment experience.

(c) Grant and Contract Revenue and Deferred Revenue

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

(d) Contributions and Contributions Receivable, Net

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

Contributions that impose restrictions that are met in the same fiscal year that the contributions are received are included in unrestricted revenues.

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

(e) Revenues in Excess of Expenses

Revenues in excess of expenses in the consolidated statements of unrestricted activities and changes in net assets reflect all transactions increasing or decreasing unrestricted net assets, except loss on extinguishment of debt, those items of a capital nature associated with long-term investment or physical plant, gains and losses in excess of endowment payout for funds designated by the Board of Trustees to function as endowments, unrealized derivative gains and losses, and gains and losses on investments accounted for under the equity method.

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(f) Split Interest Agreements with Donors

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

The College is the beneficiary of several charitable trusts (the Trusts), including charitable remainder trusts, charitable lead trusts and charitable perpetual trusts. Charitable remainder trusts consist of funds invested and administered outside of the College in which the College has the irrevocable right to receive a portion of the Trusts' assets upon death of the donor or assigned beneficiary in accordance with the Trusts' agreements. Charitable lead trusts consist of funds invested and administered outside of the College in which the College has the irrevocable right to receive a specific distribution from the Trusts over the Trusts' term in accordance with the Trusts' agreements. Charitable perpetual trusts consist of funds invested and administered outside of the College in which the College has the irrevocable right to receive a portion of the income earned on the Trusts' assets in perpetuity in accordance with the Trusts' agreements. The fair value of the College's beneficial interest in the Trusts is accounted for as temporarily or permanently restricted net assets (based upon the donor's designation) in the consolidated statements of financial position. Distributions received from perpetual trusts are recorded as investment income in the unrestricted and temporarily restricted net asset classifications in the consolidated statements of unrestricted activities and changes in net assets. The adjustments to the Trusts' fair values are recognized as other income or expense in the temporarily or permanently restricted net asset classifications in the consolidated statements of unrestricted activities and changes in net assets.

(g) Unreimbursed and Partially Reimbursed Care

The College 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 the College's community care policy. Because the College 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 the College to provide services under the College's community care policy during fiscal years 2012 and 2011 were $5,844,000 and $5,016,000, respectively. The estimated cost of these charity 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 charity patients for the period. Gross charges associated with providing care to charity patients includes only the related charges for those patients who are financially unable to pay and qualify under the College's community care policy and who do not otherwise qualify for reimbursement from a governmental program.

The College is a supplier under the Medicare and Title XIX Wisconsin Medical Assistance (Medicaid) programs. Under these programs, the College 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

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charges. Amounts received by the College under Medicare and Medicaid are subject to audit by governmental agencies.

(h) Cash and Cash Equivalents

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

(i) Investments

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

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

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

(j) Deposits with Bond Trustees

Deposits held by bond trustees for the Series 2008 A bonds consist of investments restricted for future construction expenditures and for a debt service reserve fund. Under the terms of the bond trust indenture, proceeds are not released to the College until expenditures are incurred that meet the specific purposes within the bond indenture. Deposits held by bond trustees are invested in highly liquid securities by the bond trustee.

(k) Student Loans, Net

The College receives awards to make loans to eligible students under certain federal student loan programs, and federally guaranteed loans are issued to the students of the College through the Department of Education’s Direct Loan program. The Perkins and the Primary Care Student Loan Programs are administered directly by the College and the balances and transactions relating to these programs are included in the College’s consolidated financial statements. The College is responsible only for the performance of certain administrative duties with respect to the Direct Loan Program and therefore these loans are not included in the College’s consolidated financial statements. In addition to these federal direct and guaranteed loan programs, the College also makes student loans to eligible students from funding received from philanthropic and other sources.

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All loan programs are available to the medical students of the College. Graduate students are only eligible for the Direct Loan Program. The loans may be used for tuition, books, fees and living expenses.

(l) Land, Buildings, and Equipment

Investments in land, buildings, and equipment (including software licenses) are recorded at cost if purchased or at appraised value if donated. Assets are depreciated using the straight-line method over their estimated useful lives, ranging from 3 to 50 years. Net interest cost incurred on borrowed funds during the period of major construction and renovation projects is capitalized as a component of the cost of acquiring those assets in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 835-20, *Capitalization of Interest*. The components of capitalized interest include all interest costs of tax-exempt borrowings that fund the major construction or renovation projects and interest rate-related derivative instruments, less any earnings on the temporary investment of the proceeds of those borrowings, and the change in fair value of the derivative instrument used to manage the interest rate costs of the tax-exempt financing. 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 the College commits to the disposal or abandonment of land, buildings, and equipment, or when such assets are determined to be impaired, the assets are written off or down to the net realizable value.

The College periodically assesses the recoverability of long-lived assets (including land, buildings, and equipment) when there are indications of potential impairment based on estimated undiscounted future cash flows. Management considers such factors as current results, trends, and future prospects, in addition to other economic factors, in determining the impairment of an asset. Management believes the College’s long-lived assets are not impaired at June 30, 2012 and 2011.

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

Funds provided by the U.S. government under the Federal Perkins Student Loan Program and Federal Primary Care Loan Program are loaned to qualified students. Receipts of principal and interest payments are used to finance future loans to students. Funds provided by the U.S. government and earnings thereon are ultimately refundable to the government and, therefore, are presented as a liability.

(n) Deferred Financing Expenses

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

(o) Derivative Instruments

The College 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 transaction is reported on the consolidated statements of financial position. The College 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 unrestricted activities. The net cash received or paid under the terms of the interest rate swap agreement over its term is recorded as a component of interest expense.

(p) Income Taxes

The College 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, except for taxes pertaining to unrelated business income, and it is exempt from federal and state income taxes. No provision has been made for income taxes in the accompanying consolidated financial statements since the College does not have a significant amount of taxable unrelated business income in 2012 and 2011.

The College 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 claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under ASC Topic 740, the College must recognize the tax benefit from an uncertain tax position only 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. ASC Topic 740 also provides guidance on derecognition, classification, interest and penalties on income taxes, and disclosure requirements. The College does not have a liability for unrecognized tax benefits as of June 30, 2012 and 2011.

(q) Use of Estimates

The presentation of 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 and 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 unrestricted activities and changes in net assets in the current year.

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(r) New Accounting Pronouncements

The College adopted the provisions of Accounting Standards Update (ASU) No. 2010-06, *Improving Disclosures about Fair Value Measurements* (ASU No. 2010-06). ASU No. 2010-06 amends ASC Subtopic 820-10, *Fair Value Measurements and Disclosures*, to provide additional disclosure requirements for transfers in and out of Levels 1 and 2, for activity in Level 3 and to clarify certain other existing disclosure requirements. The College implemented ASU No. 2010-06 for the year ended June 30, 2011 and implemented the separate disclosures for Level 3 activities for the year ended June 30, 2012.

The College adopted the provisions of ASU No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (ASU No. 2010-20), which expanded disclosure requirements for exposure to credit losses for lending arrangements, for the year ended June 30, 2012.

The College adopted the provisions of ASU No. 2010-23, *Measuring Charity Care for Disclosure* (ASU No. 2010-23). ASU No. 2010-23 requires that cost be used as the measurement basis for charity care disclosure purposes and that cost includes both the direct and indirect costs of providing charity care. The College implemented ASU No. 2010-23 for the year ended June 30, 2012.

The College adopted the provisions of ASU No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries* (ASU No. 2010-24). ASU No. 2010-24 stipulates that health care entities should not net insurance recoveries against a related claim liability and that the claim liability amount should be determined without consideration of insurance recoveries. The College implemented ASU No. 2010-24 for the year ended June 30, 2012. Its adoption did not have a significant impact on the College's consolidated financial statements.

In July 2011, the FASB issued ASU No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU No. 2011-07). ASU No. 2011-07 requires that entities that recognize significant amounts of patient service revenue at the time the services are rendered, even though they do not assess the patient's ability to pay, present the provision for bad debts related to patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) on the statement of operations. In addition, there are enhanced disclosures of the entity's policies for recognizing revenue and assessing the collectability of bad debts. ASU No. 2011-07 requires disclosure of patient service revenue, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. The adoption of ASU No. 2011-07 will be effective for the College for the year ending June 30, 2013.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (ASC Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS)* (ASU No. 2011-04). The new standards do not extend the use of fair value, but rather provide guidance about how fair value should be applied where it already is required or permitted under IFRS or U.S. GAAP. For U.S. GAAP, the changes are primarily clarifications of existing guidance or wording changes to align with IFRS. The adoption of ASU No. 2011-04 will be effective for the College for the year ending June 30, 2013.

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(3) Related-Party Transactions

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

(a) Froedtert Health, Inc.

The College contracts with Froedtert to receive payment for faculty physician services at hospital and clinic sites. During 2012 and 2011, the College recognized affiliate hospital contract revenue of approximately $73,663,000 and $72,310,000, 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, 2012 and 2011 is $14,283,000 and $10,670,000, respectively (see note 8).

Many faculty physicians render professional medical services to patients at Froedtert. The College leases space from Froedtert for certain services provided at its facilities. Rent paid to Froedtert by the College is $13,269,000 and $13,206,000 in 2012 and 2011, respectively. Other direct costs for equipment, supplies, and general services related to professional medical services at Froedtert are incurred by the College directly. The College also leases clinical space to Froedtert under operating leases. Rental income received from Froedtert by the College is $1,432,000 and $1,302,000 in 2012 and 2011, respectively.

The College entered into an End-User Access Agreement with Froedtert on December 31, 2003. Under this agreement, the College obtained user access rights to electronic medical records software that was implemented by Froedtert. The College paid $5,000,000 for these rights and recorded the cost as an addition to land, buildings, and equipment. The software was put into use and amortization began in fiscal year 2005. The software is being amortized over the term of the software access agreement (10 years). The software access agreement expires on December 31, 2014.

In March 2011, the College entered into a memorandum of understanding to transition governance, employment, and operation of certain specialty clinics to Froedtert. The purpose of this transition is to create a common ambulatory platform that will more effectively deliver services to patients and more efficiently use resources. The transition of clinic management and staff employment began in July 2011 and was completed in December 2011. The transition of governance and operational activities is expected to be completed by December 2012. Until this transition is complete, the College is leasing back clinic management and staff from Froedtert. The cost of these leased employees for fiscal year 2012 was $3,467,000.

On August 12, 2004, the College entered into a joint venture with Froedtert and Aurora Advanced Healthcare, S.C. to form the Froedtert Surgery Center, LLC (the Surgery Center). The purpose of the Surgery Center is to own and operate an ambulatory surgery center and provide a full range of outpatient surgery services. The College has a 30% ownership interest in the Surgery Center. The College accounts for its investment using the equity method of accounting. The College did not make any capital contributions during fiscal years 2012 and 2011. The College's share of the

Surgery Center's gains for fiscal years 2012 and 2011 of $264,000 and $236,000, respectively, is recorded in nonoperating gains and losses. The College's investment in the Surgery Center is approximately $939,000 and $675,000 as of June 30, 2012 and 2011, respectively, and is included in the prepaid expenses and other assets on the consolidated statements of financial position.

On July 15, 2007, the College entered into a joint venture with Froedtert to form FMLH MCW Real Estate Ventures, LLC (the Real Estate Venture). The purpose of the Real Estate Venture is to provide a platform for ongoing real estate ownership, development and/or leasing to contribute to the members' missions and strategic initiatives. Each member has a 50% ownership interest. The College accounts for its investment using the equity method of accounting. The College made capital contributions of $250,000 and $295,000 during fiscal years 2012 and 2011, respectively. The College's share of the Real Estate Venture's losses for fiscal years 2012 and 2011 of $74,000 and $335,000, respectively, is recorded in nonoperating gains and losses. The College's investment in the Real Estate Venture is approximately $4,635,000 and $4,459,000 as of June 30, 2012 and 2011, respectively, and is included in the prepaid expenses and other assets on the consolidated statements of financial position.

On October 1, 2009, the College purchased from Froedtert a 10% ownership interest in Wisconsin Renal Care Group, LLC (WRCG), a joint venture with Froedtert and RCG University Division, Inc. The purpose of WRCG is to provide patient care through the development, operation, and management of renal dialysis facilities and programs. The purchase price of $1,850,000 was financed through a note payable to Froedtert (see note 15). The College received cash distributions of $763,000 and $556,000 as of June 30, 2012 and 2011, respectively, which were used to make principal and interest payments on the note payable to Froedtert. The College accounts for its investment using the equity method of accounting. The College's share of WRCG's gains for fiscal years 2012 and 2011 of $512,000 and $505,000, respectively, is recorded in nonoperating gains and losses. The College's investment in WRCG is approximately $684,000 and $935,000 as of June 30, 2012 and 2011, respectively, and is included in the prepaid expenses and other assets on the consolidated statements of financial position.

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

The College entered into an operations agreement with Children's to form Children's Specialty Group, Inc. (CSG), a provider of pediatric specialty health care services, on July 1, 2000. The College and Children's are the two members of CSG, and the College accounts for its 50% interest in CSG's net assets using the equity method of accounting. Effective July 1, 2011, the College and Children's agreed to amend the CSG Operations Agreement. Under the revised agreement, CSG will distribute to the College 5% of its net patient services revenue and any CSG profits will be retained by CSG for program development.

The College's revenues include $196,825,000 and $189,433,000 for the years ended June 30, 2012 and 2011, respectively, for certain physician services, leased equipment, and supplies purchased by CSG. The College's share of CSG's gains of $3,974,000 and $1,576,000 for the fiscal years ended June 30, 2012 and 2011, respectively, is recorded in nonoperating gains and losses. At June 30, 2012 and 2011, respectively, CSG has total assets of $42,993,000 and $29,000,000 and net assets of $19,411,000 and $11,463,000. The College's investment in CSG is approximately $9,705,000 and $5,731,000 as of June 30, 2012 and 2011, respectively, and is included in the prepaid expenses and other assets on the consolidated statements of financial position.

The pediatric practice patient accounts receivable at June 30, 2000 of approximately $10,243,000 were transferred to CSG effective July 1, 2000 in exchange for a revolving note receivable. In April 2012, the College loaned an additional $5,000,000 to CSG for clinical practice development in exchange for a note receivable. The notes receivable from CSG do not bear interest. The balances of these notes outstanding become due in their entirety upon the dissolution of CSG.

On October 31, 2004, the College entered into a Joint Development Agreement with Children's for development of the Blue & Green I Condominium Association Inc. (the Condominium). The Condominium includes two units, with the College owning one unit to be used for biomedical research and Children's owning the other unit for its Children's Research Institute program. Each owner of a unit has the same percentage interest in the Condominium as the unit owner's interest in the common elements, as set forth in the Declaration of the Condominium. The College's allocated interest is 69% and Children's allocated interest is 31%. The College is acting as the operator and property manager of the facility. Construction of the facility was completed and occupancy began during fiscal year 2007. The College's revenues include $1,710,000 and $1,879,000 for the years ended June 30, 2012 and 2011, respectively, from Children's for its portion of the facility operational and equipment costs. The outstanding balance of the accounts receivable for the Condominium operational and equipment costs from Children's at June 30, 2012 and 2011 is $370,000, and $512,000, respectively (see note 8).

The College leases space from Children's for certain administrative purposes. Rent paid to Children's by the College is $3,862,000 and $3,622,000 in 2012 and 2011, respectively.

(c) Other Related Parties

Members of the College's Board of Trustees may serve in management roles for corporations that provide goods or services to the College, causing these corporations to be related parties. In 2012 and 2011, the College purchased from these related parties $522,000 and $492,000, respectively, of employee benefit services; $278,000 and $486,000, respectively, of investment, banking, and lending services; $218,000 and $506,000, respectively, of legal services; and $449,000 and $669,000, respectively, of building services equipment. In addition, on June 20, 2011, the College's provider of information systems consulting and computer equipment was acquired by another corporation who is a related party to the College. The College purchased information systems consulting and computer equipment of $9,300,000 in 2012 and $278,000 in 2011 from the date of the acquisition. 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) Investments

Cost and fair value of investments as of June 30, 2012 and 2011 are summarized below (in thousands):

	2012		2011	
	Cost	Fair value	Cost	Fair value
Money market	$ 8,899	8,899	5,684	5,684
Accrued investment income	1,353	1,353	1,469	1,469
U.S. government obligations	96,584	101,761	96,580	99,333
State and municipal bonds	2,252	2,376	955	986
Corporate bonds	19,566	19,161	17,389	16,840
Asset – and mortgage-backed securities	34,076	33,312	33,053	32,081
Bond mutual funds	98,611	101,590	117,197	117,343
Equity mutual funds	183,176	217,714	187,388	231,084
Commingled bond funds	112,203	122,359	81,506	91,446
Commingled equity funds	183,393	227,536	168,088	234,923
Equity securities	43,910	52,485	44,618	58,664
Other equity securities	93,401	97,138	77,564	82,253
Guaranteed investment contracts	3,651	3,651	3,649	3,649
Total	$ 881,075	989,335	835,140	975,755

Mortgage-backed securities are comprised of widely traded tranches of principal and interest strips generally derived from underlying mortgages securitized by the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), and the Government National Mortgage Association (GNMA) in the form of collateralized mortgage obligations (CMOs) and real estate mortgage investment conduits (REMICs). Other asset-backed securities are comprised of principal and interest strips derived from underlying credit card receivables, home equity loans, automobile loans, and airline equipment securitized by major financial institutions and manufacturers.

Commingled bond funds are comprised of domestic and foreign investment grade or below investment grade public and private issue debt and debt-like securities. The College also invests in commingled equity funds that are comprised of domestic and foreign common stocks, warrants, stock purchase rights, preferred stocks, real estate investment trusts, depositary receipts, convertible debt securities, long and short positions in equities, and derivative instruments such as forward contracts, futures, options and swaps.

Other equity securities are comprised of ownership interests in limited partnerships and limited companies whose stated objectives are to achieve higher than average investment returns while incurring reasonable risk through the use of multi-manager, multi-strategy investment approaches, direct investment, diversified groups of investment funds, or direct investment in equity or debt securities, private real assets, or private equity. The ownership interests include, but are not limited to, hedge funds, options and warrants, commodities, convertible securities, investment grade and noninvestment grade bonds, reverse repurchase agreements, rated or unrated debt, private real assets, oil and gas properties, timberland, metals and mining, power plants and renewable energy sources, public and private distressed assets, private equity, and illiquid or nonpublicly traded securities. The College owns less than 10% of each limited partnership or limited company. Other equity securities also include an investment fund engaged in the business of originating or acquiring mortgage loans, all secured by deeds of trust and mortgages on real estate in the United States.

The College's return on investments as reported in the consolidated financial statements for the years ended June 30, 2012 and 2011 is summarized below (in thousands):

	Year ended June 30, 2012			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Endowment income	$ 655	3,041	43	3,739
Endowment investment income required to be reinvested	—	6,730	12	6,742
Endowment income earned under spendable income under the total return concept	(302)	—	—	(302)
Interest and dividends on pooled endowments	353	9,771	55	10,179
Other investment income	12,798	7	113	12,918
Total interest and dividends	13,151	9,778	168	23,097
Realized gains on investments	1,151	13,373	—	14,524
Unrealized gains on investments	(5,868)	(26,487)	—	(32,355)
	$ 8,434	(3,336)	168	5,266

	Year ended June 30, 2011			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment income	$ 660	3,013	41	3,714
Endowment investment income required to be reinvested	—	7,152	21	7,173
Endowment income earned under spendable income under the total return concept	(290)	—	—	(290)
Interest and dividends on pooled endowments	370	10,165	62	10,597
Other investment income	13,266	5	110	13,381
Total interest and dividends	13,636	10,170	172	23,978
Realized gains on investments	10,142	12,528	—	22,670
Unrealized gains on investments	43,495	56,691	—	100,186
	$ 67,273	79,389	172	146,834

Investment management and custodial fees incurred in 2012 and 2011 were $3,549,000 and $3,391,000, respectively.

(5) Fair Value Measurements

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

- Level 1 inputs are quoted prices (unadjusted) that are observable in active markets for identical assets or liabilities that the College 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 the College to develop its own assumptions of fair value for the asset or liability.

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

The following section describes the valuation methodologies used for financial assets and liabilities measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used.

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

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

Investments: The fair values of investments are based on valuations provided by external investment managers and the custodial financial institutions. Valuations of investments in Level 1, which include money market instruments, accrued investment income, bond and equity mutual funds, and equity securities, are provided by the custodial financial institutions based on observable market quotation prices. Valuations of certain investments in Level 2, which include U.S. government obligations and asset –and mortgage-backed securities, are provided by the custodial financial institutions based on observable inputs other than quoted prices, such as pricing services or indices.

In conjunction with the adoption of ASC Topic 820, the College also adopted the measurement provisions of ASU No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU No. 2009-12), for certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds. ASU No. 2009-12 allows the College 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 the AICPA Audit and Accounting Guide for Investment Companies. Investments in commingled bond and equity funds and other equity securities with a fair value of $447,033,000 and $408,622,000 were estimated using the net asset value per share provided by external investment managers as of June 30, 2012 and 2011, respectively. Commingled bond and equity funds, without redemption restrictions, were classified as Level 2 with a fair value of $175,995,000 and $195,326,000 as of June 30, 2012 and 2011, respectively. Commingled bond and equity funds, and other equity securities, with redemption restrictions, were classified as Level 3 with a fair value of $271,038,000 and $213,296,000 as of June 30, 2012 and 2011, respectively. Changes in market conditions and the economic environment may impact the net asset value of the funds and consequently the fair value of the College's interest in the funds.

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

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

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 are in the consolidated statements of financial position.

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

The following tables present assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2012 and 2011 (in thousands):

	June 30, 2012				Redemption	Days
	Level 1	Level 2	Level 3	Total	frequency	notice
Assets:						
Cash and cash equivalents	$ 61,953	—	—	61,953	Daily	1 day
Deposits with bond trustees	159	21,102	—	21,261	Daily	1 day
Investments:						
Money market	8,899	—	—	8,899	Daily	1 day
Accrued investment income	285	1,068	—	1,353	Daily	1 day
U.S. government obligations	—	101,761	—	101,761	Daily	1 day
State and municipal bonds	—	2,376	—	2,376	Daily	1 day
Corporate bonds	—	19,161	—	19,161	Daily	1 day
Asset – and mortgage-backed				—		
securities	—	33,312	—	33,312	Daily	1 day
Bond mutual funds	101,590	—	—	101,590	Daily	1 day
Equity mutual funds	217,714	—	—	217,714	Daily	1 day
Commingled bond funds:						
Global bonds [a]	—	71,817	—	71,817	Monthly	10 days
High yield bonds [b]	—	—	50,542	50,542	Monthly	30 days
Subtotal	—	71,817	50,542	122,359		
Commingled equity funds:						
U.S. equities [c]	—	24,722	51,603	76,325	Daily, monthly, quarterly	1-60 days
International equities [d]	—	73,797	32,912	106,709	Monthly	5-90 days
Emerging markets [e]	—	—	19,944	19,944	Monthly	30 days
Public/private equity [f]	—	—	24,558	24,558	Annually	90 days
Subtotal	—	98,519	129,017	227,536		

	June 30, 2012					
	Level 1	**Level 2**	**Level 3**	**Total**	**Redemption frequency**	**Days notice**
Equity securities	$ 52,485	—	—	52,485	Daily	1 day
Other equity securities:						
Real estate [g]	—	—	73	73	—	—
Equity long/short hedge funds [h]	—	5,659	43,387	49,046	Monthly, quarterly	30-45 days
Multi-strategy funds [i]	—	—	39,127	39,127	Quarterly, annually	45-60 days
Private equity [j]	—	—	2,413	2,413	—	—
Private real assets [k]	—	—	6,479	6,479	—	—
Subtotal	—	5,659	91,479	97,138		
Guaranteed investment contracts [l]	—	—	3,651	3,651	—	—
Total investments	380,973	333,673	274,689	989,335		
Total assets	$ 443,085	354,775	274,689	1,072,549		
Liabilities:						
Deferred compensation	$ 3,684	—	3,651	7,335		
Interest rate swap	—	—	20,225	20,225		
Total liabilities	$ 3,684	—	23,876	27,560		

There were no transfers between Level 1 and Level 2 for the years ended June 30, 2012 and 2011.

	June 30, 2011					
	Level 1	**Level 2**	**Level 3**	**Total**	**Redemption frequency**	**Days notice**
Assets:						
Cash and cash equivalents	$ 79,415	—	—	79,415	Daily	1 day
Deposits with bond trustees	2,453	24,555	—	27,008	Daily	1 day
Investments:						
Money market	5,684	—	—	5,684	Daily	1 day
Accrued investment income	329	1,140	—	1,469	Daily	1 day
U.S. government obligations	—	99,333	—	99,333	Daily	1 day
State and municipal bonds	—	986	—	986	Daily	1 day
Corporate bonds	—	16,840	—	16,840	Daily	1 day
Asset – and mortgage-backed securities	—	32,081	—	32,081	Daily	1 day
Bond mutual funds	117,343	—	—	117,343	Daily	1 day
Equity mutual funds	231,084	—	—	231,084	Daily	1 day
Commingled bond funds:						
Global bonds [a]	—	44,270	—	44,270	Monthly	10 days
High yield bonds [b]	—	—	47,176	47,176	Monthly	30 days
Subtotal	—	44,270	47,176	91,446		

		June 30, 2011				Redemption frequency	Days notice
		Level 1	Level 2	Level 3	Total		
Commingled equity funds:							
U.S. equities [c]	$	—	40,274	36,207	76,481	Daily, monthly, quarterly	1-60 days
International equities [d]		—	110,782	—	110,782	Monthly	5-15 days
Emerging markets [e]		—	—	23,466	23,466	Monthly	30 days
Public/private equity [f]		—	—	24,194	24,194	—	—
Subtotal		—	151,056	83,867	234,923		
Equity securities		58,664	—	—	58,664	Daily	1 day
Other equity securities:							
Real estate [g]		—	—	76	76	—	—
Equity long/short hedge funds [h]		—	—	49,663	49,663	Quarterly	45 days
Multi-strategy funds [i]		—	—	28,967	28,967	Quarterly, annually	60 days
Private equity [j]		—	—	841	841	—	—
Private real assets [k]		—	—	2,706	2,706	—	—
Subtotal		—	—	82,253	82,253		
Guaranteed investment contracts [l]		—	—	3,649	3,649	—	—
Total investments		413,104	345,706	216,945	975,755		
Total assets	$	494,972	370,261	216,945	1,082,178		
Liabilities:							
Deferred compensation	$	4,067	—	3,649	7,716		
Interest rate swap		—	—	8,740	8,740		
Total liabilities	$	4,067	—	12,389	16,456		

(a) This class includes an investment in a bond fund that invests primarily in debt or debt-like securities. These debt or debt-like securities are primarily in U.S. or foreign governments or U.S. or foreign corporations.

(b) This class includes an investment in a bond fund that invests in public and private issue debt securities that are generally rated below investment grade or deemed to be below investment grade by the fund. This diversified portfolio may include: domestic and foreign corporate bonds, bank debt, convertible bonds, preferred stocks, and other financial instruments.

(c) This class includes investments in collective investment trusts, limited liability companies, and limited partnerships that invest primarily in U.S. equity securities.

(d) This class includes investments in collective investment trusts, limited liability companies, and limited companies that invest primarily in non-U.S. equity securities in developed markets. Investments representing approximately 8% and 0% of the value of the investments in this class as of June 30, 2012 and 2011, respectively, cannot be redeemed in the first 36 months after acquisition due to manager restrictions. The remaining restriction period for these investments is 30 months at June 30, 2012.

(e) This class includes an investment in a limited liability company that invests primarily in non-U.S. equity securities of companies operating in one or more global emerging markets.

(f) This class includes an investment in a limited partnership that invests in marketable securities and securities of privately held entities. Over 95% of the investments are in U.S. marketable securities and manger-held cash and cash equivalents as of June 30, 2012 and 2011, respectively. The investments in this class cannot be redeemed prior to expiration of the commitment on December 31, 2012. Redemptions are granted over a five-year period after expiration of the commitment for an investor’s public account (established for public investments). Investments in private entities are allocated to partners through the use of a private account. These investments cannot be redeemed but instead are distributed as the underlying assets are sold.

(g) This class includes a real estate fund that invests primarily in U.S. real estate mortgage loans. The fair values of the investments in this class have been estimated using the net asset value of the College’s ownership interest in partners’ capital. These investments are not redeemable. Distributions from the fund will be received as the underlying investments are liquidated. It is estimated that the underlying assets of the fund will be liquidated over the next four years.

(h) This class includes investments in hedge funds that invest both long and short primarily in U.S. and non-U.S. equity securities. The funds may also invest a portion of their assets with managers specializing in strategies such as distressed debt, capital structure arbitrage, merger arbitrage, debt securities, stock warrants and rights, options, and swaps. Investments in this class cannot be redeemed in the first 12 to 36 months after acquisition due to manager restrictions. The remaining restriction period for these investments ranges from 0 to 36 months at June 30, 2012 and from 6 to 36 months at June 30, 2011.

(i) This class includes investments in hedge funds that utilize a multi-strategy, multi-manager approach. Investments representing approximately 69% and 49% of the value of the investments in this class as of June 30, 2012 and 2011, respectively, cannot be redeemed in the first 12 to 36 months after acquisition due to manager restrictions. The remaining restriction period for these investments ranges from 0 to 24 months at June 30, 2012 and from 3 to 24 months at June 30, 2011. For one investment, valued at $919,000 and $1,885,000 as of June 30, 2012 and 2011, respectively, a gate has been imposed by the hedge fund manager and redemptions are only permitted as the gated assets are monetized. The redemption restriction has been in place for 39 months and redemption of the gated assets is expected to take place over the next 30 to 36 months. As of June 30, 2012 and 2011, $2,910,000 and $3,527,000, respectively, is restricted due to investment in illiquid special investments (side pockets). The special investments are expected to be monetized over the next 30 to 36 months.

(j) This class includes 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, and equity securities primarily of U.S. and Canadian companies. These investments cannot be redeemed but instead are distributed as the underlying assets are sold. The remaining length of the investment terms for the partnerships ranges from 5 to 12 years. These investments have unfunded commitments of $4,515,000 and $6,159,000 as of June 30, 2012 and 2011, respectively.

(k) This class includes investments in limited partnerships that invest in oil and gas properties, timberland and real estate, metals and mining, power plants and renewable energy sources, private equity, and distressed investments. These investments cannot be redeemed but instead are distributed as the underlying assets are sold. The remaining length of the investment terms for the partnerships ranges from 7 to 19 years. These investments have unfunded commitments of $11,653,000 and $11,384,000 as of June 30, 2012 and 2011, respectively.

(l) 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.

The following tables present the College's activity for all Level 3 assets measured at fair value on a recurring basis using significant unobservable inputs, as defined in ASC Topic 820 for the years ended June 30, 2012 and 2011 (in thousands):

		Assets	Liabilities	
		Investments	**Interest rate swap**	**Deferred compensation**
Balance as of July 1, 2011	$	216,945	8,740	3,649
Purchases		74,802	—	2
Sales		(11,081)	—	—
Net realized gain (loss)		2,108	—	—
Net change in unrealized appreciation/ depreciation		(2,426)	11,485	—
Transfers into Level 3 from Level 2		—	—	—
Transfers out of Level 3 to Level 2		(5,659)	—	—
Balance as of June 30, 2012	$	274,689	20,225	3,651
The amount of total gains 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, 2012	$	701	11,485	—

		Assets	Liabilities	
		Investments	Interest rate swap	Deferred compensation
Balance as of July 1, 2010	$	183,838	11,154	4,078
Purchases		62,507	—	—
Sales		(55,553)	—	(429)
Net realized gain (loss)		16,420	—	—
Net change in unrealized appreciation/ depreciation		9,733	(2,414)	—
Transfers into Level 3 from Level 2		—	—	—
Transfers out of Level 3 to Level 2		—	—	—
Balance as of June 30, 2011	$	216,945	8,740	3,649
The amount of total gains 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, 2011	$	26,153	(2,414)	—

Transfers between Level 2 and Level 3 are caused by changes in liquidity of the investments, as the redemption lock-up restrictions for portions of the investments expire. The College's policy is to recognize transfers between levels at the end of the year.

(6) Endowment Net Asset Classification

The College's endowment is comprised of approximately 350 individual funds established for the following purposes:

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

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

(a) Interpretation of Relevant Law

The Board of Trustees of the College has interpreted the Wisconsin enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the College to appropriate for expenditure or accumulate so much of an endowment fund as the College 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 by the Board of Trustees. As a result of this interpretation, the College has not changed the way permanently restricted net assets are classified. See note 2(a) for further information on net asset classification. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: a) the duration and preservation of the funds; b) the purposes of the College and the donor-restricted endowment funds; c) general economic conditions; d) the possible effect of inflation and deflation; e) the expected total return from income and the appreciation of investments; f) other resources of the College; and g) the investment policy of the College.

(b) Return Objectives and Risk Parameters

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

(c) Strategies Employed for Achieving Objectives

The College 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.

(Continued)

(d) Spending Policy and How Investment Objectives Relate to Spending Policy

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

Effective January 1, 2010, the Board of Trustees amended the spending policy to change the spendable income rate calculation to be 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 4.50%, 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 the College's investment objective to earn a real rate of return to provide for an appropriation of net appreciation that is prudent, while protecting the original gift value of the endowment assets.

(e) Net Asset Composition by Type of Fund

Composition of endowment by net asset class (excluding pledges receivable) as of June 30, 2012 and 2011 in total and by type is summarized below (in thousands):

	June 30, 2012			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowments:				
Advancing a Healthier Wisconsin	$ —	73,954	288,689	362,643
Other endowments	—	20,077	71,854	91,931
Endowments designated by the Board of Trustees	15,971	—	—	15,971
Total	$ 15,971	94,031	360,543	470,545

	June 30, 2011			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowments:				
Advancing a Healthier Wisconsin	$ —	90,977	288,689	379,666
Other endowments	(176)	23,554	67,695	91,073
Endowments designated by the Board of Trustees	16,844	—	—	16,844
Total	$ 16,668	114,531	356,384	487,583

(f) Changes in Endowment Net Assets

Reconciliations of the beginning and ending balances of endowments by net asset class for the years ended June 30, 2012 and 2011 are as follows (in thousands):

	Year ended June 30, 2012			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Endowment income	$ 353	9,771	55	10,179
Realized gains on investments	486	13,373	—	13,859
Unrealized losses on investments	(1,431)	(26,487)	—	(27,918)
Total investment return	(592)	(3,343)	55	(3,880)
Contributions	551	—	4,147	4,698
Appropriated for expenditure	(656)	(17,157)	(43)	(17,856)
Total change in endowment funds	(697)	(20,500)	4,159	(17,038)
Net assets, beginning of year	16,668	114,531	356,384	487,583
Net assets, end of year	$ 15,971	94,031	360,543	470,545

	Year ended June 30, 2011			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Endowment income	$ 370	10,165	62	10,597
Realized gains on investments	451	12,528	—	12,979
Unrealized gains on investments	5,420	56,691	—	62,111
Total investment return	6,241	79,384	62	85,687
Contributions	—	1,500	4,563	6,063
Appropriated for expenditure	(660)	(13,895)	(41)	(14,596)
Total change in endowment funds	5,581	66,989	4,584	77,154
Net assets, beginning of year	11,087	47,542	351,800	410,429
Net assets, end of year	$ 16,668	114,531	356,384	487,583

(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 the College to retain to preserve the fair value of the original gift in perpetuity. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets, and for the College, such deficiencies are $653,000 and $176,000 as of June 30, 2012 and 2011, respectively. These deficiencies resulted from unfavorable market fluctuations. As deemed prudent by the Board of Trustees, the College continued to appropriate returns for expenditure in accordance with the endowment fund spending policy in support of the purposes and programs of the endowment.

(7) Patient Accounts Receivable, Net

The College grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2012 and 2011 is as follows (in thousands):

		2012	2011
Commercial/managed care	$	27,225	22,988
Self-pay		20,714	18,715
Medicaid		2,515	2,094
Medicare		4,372	4,332
Other		1,230	1,592
Patient accounts receivable		56,056	49,721
Allowance for doubtful accounts		11,246	11,000
Patient accounts receivable, net	$	44,810	38,721

The contractual maturity of these trade accounts receivables is less than one year. The College considers the patient accounts receivable, net of contractual allowances, which are insured under third-party payor agreements, to be fully collectable. No allowance for doubtful accounts has been established for these accounts receivable. An allowance for doubtful accounts for all self-pay patient accounts receivable (which includes co-payments and deductibles for patients with insurance) is established based upon a monthly review of the collectability of the underlying self-pay patient accounts receivable utilizing the self-pay patient accounts receivable aging and the historical loss rates on self-pay patient accounts receivable. The allowance represents management's estimate of the amount of self-pay patient accounts receivable balances for which a loss is probable. Actual losses are charged against the allowance. The allowance for doubtful accounts is increased through charges to expense and recoveries of patient accounts receivable previously charged to the allowance.

(8) Other Accounts Receivable, Net

Other accounts receivable at June 30, 2012 and 2011 consist of the following (in thousands):

		2012	2011
Affiliated hospitals	$	17,559	14,158
Other		6,684	4,161
Total		24,243	18,319
Allowance for doubtful accounts		31	73
Other accounts receivable, net	$	24,212	18,246

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

The contractual maturity of these trade 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.

(9) Grants and Contracts Receivable, Net

Grants and contracts receivable at June 30, 2012 and 2011 consist of the following (in thousands):

		2012	2011
Grants and contracts	$	22,993	23,323
Less allowance for doubtful accounts		144	162
Grants and contracts receivable, net	$	22,849	23,161

Unexpended research and training awards committed to the College by federal sponsoring agencies were approximately $89,177,000 and $88,553,000 at June 30, 2012 and 2011, respectively; other committed awards were approximately $10,170,000 and $8,541,000 at June 30, 2012 and 2011, respectively. These awards are not recognized as assets, but will be recognized as revenue as expenses are incurred by the College in accordance with the related agreements.

The contractual maturity of these trade 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.

(Continued)

(10) Contributions Receivable, Net

Net contributions receivable consists primarily of donor pledges and is summarized as follows at June 30, 2012 and 2011 (in thousands):

		2012	2011
Total contributions receivable	$	11,892	16,055
Less:			
Allowance for uncollectible contributions		317	386
Adjustment to present value		437	547
Contributions receivable, net	$	11,138	15,122

The discount rates used to adjust the contributions receivable to present value range from 0.20% to 5.13% at June 30, 2012 and from 0.32% to 5.26% at June 30, 2011. Contributions receivable at June 30, 2012 are expected to be collected in future fiscal years as follows (in thousands):

2013	$	5,841
2014		1,932
2015		1,703
2016		1,130
2017		463
2018 and beyond		823
Total	$	11,892

(11) Student Loans Receivable, Net

Student loans receivable at June 30, 2012 and 2011 consist of the following loan funds (in thousands):

		2012	2011
Federal Primary Care Loan Program	$	3,949	3,868
Federal Perkins Loan Program		5,811	5,702
College loans		6,471	6,227
Students loans receivable		16,231	15,797
Allowance for loan loss		209	270
Student loans receivable, net	$	16,022	15,527

Although there are multiple funding sources for student loans, the College’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, and the College assesses and monitors risk and performance of the entire portfolio.

(Continued)

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 and recoveries of loans previously charged to the allowance.

The activity in the allowance for doubtful accounts and recorded student loans receivable for the years ended June 30, 2012 and 2011 is as follows (in thousands):

		2012	2011
Allowance for loan loss:			
Beginning balance	$	270	272
Write-offs		—	(2)
Recoveries		—	—
Provision		(61)	—
Ending balance		209	270
Ending balance individually evaluated for impairment		78	87
Ending balance collectively evaluated for impairment	$	131	183
Student loans receivable:			
Ending balance	$	16,231	15,797
Ending balance individually evaluated for impairment		175	188
Ending balance collectively evaluated for impairment	$	16,056	15,609

The credit risk profiles of the student loans receivable are based on payment activity as of June 30, 2012 and 2011 using the Department of Education reporting standards for the Perkins Loan program. 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 (in thousands):

		2012	2011
Student loans receivable:			
Performing	$	16,142	15,693
Nonperforming		89	104
Total student loans receivable		16,231	15,797

The following table provides an analysis of the aging of the past due student loans receivable less accrued interest as of June 30, 2012 and 2011 (in thousands):

	< 270 Days past due	270 Days - 2 Years past due	2-5 Years past due	> 5 Years past due	Total past due	Current
June 30, 2012	730	85	11	164	990	15,000
June 30, 2011	1,097	63	105	83	1,348	14,264

The recorded investment in student loans receivable for which an impairment has been recognized and the related allowance for doubtful accounts at June 30, 2012 and 2011 are $990,000 and $1,348,000, and $209,000 and $270,000, respectively. The average recorded investment in impaired student loans receivable during fiscal years 2012 and 2011 is $1,169,000 and $1,093,000, respectively. Interest income recognized on student loans receivable is $357,000 and $306,000 during fiscal years 2012 and 2011, respectively. For the years ended June 30, 2012 and 2011, there are no sales of student loans receivable.

(12) Land, Buildings, and Equipment

Land, buildings, and equipment is comprised of the following at June 30, 2012 and 2011 (in thousands):

	2012	2011
Land, buildings, and improvements	$ 277,526	272,311
Equipment and furnishings	204,513	192,602
Library books	934	919
Construction in progress	10,988	8,963
	493,961	474,795
Accumulated depreciation	271,682	249,116
Land, buildings, and equipment, net	$ 222,279	225,679

The College is a party to construction contracts that exist for various building renovation and grounds improvement projects. As of June 30, 2012, the College’s outstanding commitment on these contracts approximates $7,862,000.

(13) Leases

The College leases land and buildings for clinical, educational, and administrative purposes under operating leases. Rent expense is $26,607,000 and $24,503,000 in 2012 and 2011, respectively.

Future minimum lease payments under leases that have initial noncancelable terms in excess of one year at June 30, 2012 are as follows (in thousands):

2013	$	23,154
2014		20,036
2015		19,044
2016		14,505
2017		13,272
2018 and beyond		89,883
Total	$	179,894

The College also is a lessor of buildings for clinical and educational purposes under operating leases. Rental income is $1,488,000 and $1,342,000 in 2012 and 2011, respectively.

Future minimum rental income under leases that have initial noncancelable terms in excess of one year at June 30, 2012 is as follows (in thousands):

2013	$	196
2014		196
2015		196
2016		196
2017		196
2018 and beyond		924
Total	$	1,904

The College entered into a land lease agreement with Milwaukee County on September 13, 1974 for 7.47845 acres of land in the City of Wauwatosa. The lease term is 100 years. The initial rental payment of $50 for the period of May 1, 1975 to April 30, 2025 was paid in advance. On May 1, 2025, the rental payment will increase to a mutually agreed-upon amount or 10% of the fair market value of the land. The resulting rental payment will be due monthly, in advance, until April 30, 2075. Additional buildings and building improvements may be constructed by the College on the land. The lease has been subsequently modified and currently provides 17.0008 acres.

The College entered into a second land lease agreement with Milwaukee County on November 11, 2004 for 15.6792 acres of land in the City of Wauwatosa. The lease term is 70 years and 6 months. The initial rental payment was approximately $88,000 for the period November 1, 2004 to October 31, 2005, and the rent will escalate at 1.5% per year through April 30, 2025. As of May 1, 2025, the base rent shall be adjusted by a current market rent adjustment determined by Milwaukee County or by a defined appraisal process. The land shall be used for facilities that support the operation of a comprehensive educational and research facility, including a parking facility. The lease has a single 50-year renewal option.

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

(14) Professional Liability Insurance Program

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

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

During fiscal years 2012 and 2011, the College made contributions to the Program in the amounts of $0 and $1,500,000, respectively. The Program has net assets of approximately $1,603,000 and $2,719,000 as of June 30, 2012 and 2011, respectively.

Investments held in trust for the professional liability program, as reported in investments at fair value, are approximately $18,482,000 and $19,878,000 as of June 30, 2012 and 2011, respectively.

(15) Long-Term Debt

Long-term debt consists of the following at June 30, 2012 and 2011 (in thousands):

	2012	2011
Tax-exempt variable rate WHEFA Revenue Bonds Series 1990 B, due on demand, but not later than March 2015. Interest is payable monthly based on a discounted rate of the 13-week United States Treasury bills (0.93% at June 30, 2012).	$ 8,655	8,655
Tax-exempt fixed rate WHEFA Revenue Bonds Series 2004 A, with mandatory sinking fund serial bond maturities due annually through 2019 and in 2021 and 2025, and term bond maturities due in 2020, 2022, and 2025. The effective interest rate is 4.74% at June 30, 2012. Interest is payable semiannually.	22,435	23,685
Tax-exempt fixed rate WHEFA Revenue Bonds Series 2008 A, with mandatory sinking fund serial bond maturities due annually through 2021 and term bond maturities due in 2029 and 2036. The effective interest rate is 5.01% at June 30, 2012. Interest is payable semiannually.	80,890	81,760
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 weekly basis (0.13% at June 30, 2012).	67,500	67,500

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		2012	2011
Tax-exempt fixed rate WHEFA Revenue Bonds Series 2010, with mandatory sinking fund serial bond maturities due annually through 2021 and a term bond maturity due in 2027. The effective interest rate is 5.05% at June 30, 2012. Interest is payable semiannually.	$	26,525	27,745
Notes payable, with simple interest at 8% per annum. The notes are payable from net revenues of the Office of Technology Development Division of Marketing and Licensing prior to March 1, 2016 and from a specified, declining percentage of gross revenues thereafter. All repayment rights expire on March 1, 2021.		1,495	1,495
Note payable, with simple interest at 4% per annum. The note is payable from quarterly cash distributions received from WRCG with any remaining principal and interest balance due on September 30, 2014.		210	947
Total long-term debt before unamortized premium and discount		207,710	211,787
Unamortized premium on Series 2004 A		678	733
Unamortized premium on Series 2010		1,353	1,447
Unamortized discount and premium (net) on Series 2008 A		(2,648)	(2,763)
Total long-term debt	$	207,093	211,204

The aggregate maturities under the original bond indentures of the long-term debt for each of the five years subsequent to June 30, 2012 and thereafter are as follows (in thousands):

2013	$	3,660
2014		3,580
2015		12,385
2016		5,330
2017		5,575
2018 and beyond		177,180
Total	$	207,710

All or part of the Series 2004 A, 2008 A, 2008 B and 2010 bonds may be redeemed at par plus accrued and unpaid interest, if any, to the date of redemption, as set forth below:

- The Series 2004 A bonds maturing on or after December 1, 2015 may be redeemed beginning on December 1, 2014.
- 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.

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- The Series 2010 bonds maturing on December 1, 2026 may be redeemed beginning on December 1, 2015.

The fair value estimates of the College's long-term debt are $216,983,000 and $214,660,000 at June 30, 2012 and 2011, respectively, and the carrying values are $207,093,000 and $211,204,000 at June 30, 2012 and 2011, respectively, in the consolidated statements of financial position. In accordance with FASB ASU No. 2009-05, *Measuring Liabilities at Fair Value*, the fair value estimates are based on quoted prices for the bonds when traded as assets.

(a) WHEFA Revenue Bond Series 1990

The Series 1990 B bonds, totaling $8,655,000, were issued on June 1, 1990 to refinance a mortgage note. The borrowing agreement contains various covenants, including a requirement that the College maintain a certain minimum liquidity level.

The Series 1990 D bonds were advance-refunded by the WHEFA Revenue Bond Series 1993. Approximately $27,092,000 of the net proceeds from the sale of the Series 1993 bonds were placed in an irrevocable trust with an escrow agent to provide for all the future debt service payments on the refunded bonds through December 1, 2015. As a result, the Series 1990 D bonds are considered to be legally defeased, and the liability for these bonds was derecognized.

(b) WHEFA Revenue Bond Series 2004

The Series 2004 A, B1, and B2 bonds, totaling $120,185,000, were issued on November 17, 2004 to refund the Series 1993 bonds, to fund recently completed capital projects and to acquire construction funds for a Biomedical Research Facility, certain additional capital projects, and a parking structure. The Series 2004 B1 and B2 bonds were refunded by the WHEFA Revenue Bond Series 2008.

The Series 2004 A bonds are collateralized by a pledge of certain revenues of the College, as well as by certain of its land, buildings, and equipment. The borrowing agreements contain continuing disclosure requirements and various covenants and restrictions, including a requirement that the College maintain a minimum debt service coverage ratio.

(c) WHEFA Revenue Bond Series 2008

The Series 2008 A bonds, totaling $83,400,000, were issued on July 30, 2008 to refund the Series 2004 B1 bonds as well as to fund the construction of research capital projects at the Biomedical Research Facility and certain additional capital projects. After issuance costs were incurred and refunding activities were complete, debt proceeds of $50,038,000 were deposited into a construction fund with the bond trustee. Additional debt proceeds of $7,519,000 were deposited into a debt service reserve fund, also held by the bond trustee. At June 30, 2012, the balance of the Series 2008 A construction fund is $13,431,000 and the balance of the debt service reserve fund is $7,830,000. The Series 2008 B bonds, totaling $67,500,000, were issued on September 4, 2008 to refund the outstanding Series 2004 B2 bonds.

The Series 2008 A and B bonds are collateralized by a pledge of certain revenues of the College, as well as by certain of its land, buildings, and equipment. The borrowing agreements contain continuing disclosure requirements and various covenants and restrictions, including a requirement that the College maintain a minimum debt service coverage ratio.

Concurrent with the issuance of the Series 2008 B bonds, the College entered into a Credit Agreement (the Agreement) with a financial institution under which the financial institution issued a renewable direct pay letter of credit, expiring September 15, 2011. On July 1, 2010 the letter of credit term was extended for an additional three years, expiring on September 15, 2014. The $68,277,000 letter of credit is available to secure the Series 2008 B bonds and to make payments (liquidity advances) 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 prior to its expiration date. If any liquidity advances are drawn and are not reimbursed by the College within 60 days, the outstanding advances will convert to a term loan. Payments of outstanding principal and interest under the term loan would be due in monthly installments, commencing on the first business day of the month after the conversion. The outstanding principal balance of any such term loan would bear interest at the LIBOR rate plus 250 basis points or at the financial institution's prime rate plus 100 basis points, as selected by the College. The unpaid principal and accrued interest on the term loan would be due three years after the date of the initial liquidity advance.

The obligations of the College to the financial institution under the Agreement are evidenced by a note issued under the Master Trust Indenture and are secured by a pledge of certain revenues of the College and by certain of its land, buildings, and equipment. The Agreement contains various covenants and restrictions, including a requirement that the College maintain a minimum number of days of unrestricted cash on hand and a minimum debt service coverage ratio. As of June 30, 2012, there were no outstanding liquidity advances or term loans under the Agreement.

(d) WHEFA Revenue Bond Series 2010

The Series 2010 bonds, totaling $27,745,000, were issued on November 24, 2010 to refund the 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 bonds are collateralized by a pledge of certain revenues of the College, as well as by certain of its land, buildings, and equipment. The borrowing agreements contain continuing disclosure requirements and various covenants and restrictions, including a requirement that the College maintain a minimum debt service coverage ratio.

(e) Derivative Instruments

Variable interest rate debt obligations expose the College 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, the College receives variable interest rate payments and makes fixed interest rate payments monthly to the counterparty, thereby creating the equivalent of fixed rate debt. The net difference between the amounts received from and paid to the counterparty is recorded as interest expense.

The College entered into an interest rate swap agreement for the Series 2004 variable rate debt in October 2004. Effective September 15, 2008, the College 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 $67,500,000, 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 the College on the first business day of the month. The revised interest rate swap agreement expires December 1, 2033. The provisions set forth in the interest rate swap agreement require the College 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 $12,492,000 were provided as collateral as of June 30, 2012. No collateral was required as of June 30, 2011.

By using derivative financial instruments to hedge exposure to changes in interest rates, the College 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 the College, which creates credit risk for the College. When the fair value of a derivative contract is negative, the College owes the counterparty, and therefore, it does not possess credit risk. The College 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.

(16) Net Assets

Certain net assets are designated for specific purposes by the Board of Trustees of the College; however the net assets remain unrestricted and can be used for any corporate purposes by the College. The designations at June 30, 2012 and 2011 are as follows (in thousands):

		2012	2011
Investment in land, buildings, and equipment	$	(12,698)	8,664
Designated for investment as endowment funds		15,971	16,668
Designated for the Professional Liability Insurance Program		1,603	2,719
Undesignated		576,401	530,690
	$	581,277	558,741

The investment in land, buildings, and equipment is negative at June 30, 2012 due to the related long-term debt, which includes an interest rate swap, exceeding the net book value of the land, buildings and equipment. The unrealized loss on the swap is $20,225,000 at June 30, 2012.

Donor restrictions of temporarily restricted net assets at June 30, 2012 and 2011 are as follows (in thousands):

		2012	2011
Advancing a Healthier Wisconsin spendable income funds	$	73,954	90,977
Temporarily restricted endowment funds		20,077	23,554
State of Wisconsin construction grant		27,205	25,825
Implied time restrictions on contribution pledges		5,055	4,897
Charitable trusts		1,009	1,025
Scholarships		1,030	926
Land, buildings, and equipment		175	175
Split-interest agreements		282	238
Cash surrender value of life insurance policies		101	94
	$	128,888	147,711

Donor restrictions of permanently restricted net assets at June 30, 2012 and 2011 are as follows (in thousands):

		2012	2011
Advancing a Healthier Wisconsin endowed funds	$	288,689	288,689
Perpetual endowment funds		71,854	67,695
Student loans		7,533	7,313
Charitable trusts		3,829	3,780
Nontrust assets		194	—
Pledges receivable		6,002	6,725
Cash surrender value of life insurance policies		100	91
Split-interest agreements		180	151
	$	378,381	374,444

(a) Advancing a Healthier Wisconsin

In March 2004, the College received marketable securities from The Wisconsin United for Health Foundation, Inc. (WUHF) having a fair value of approximately $303,347,000. These assets are referred to as Advancing a Healthier Wisconsin funds. The funds are proceeds of the conversion of Blue Cross and Blue Shield United of Wisconsin (BCBSUW) from a nonprofit company to a for-profit stock company, as approved by the Wisconsin Commissioner of Insurance in the Findings of Fact, Conclusions of Law, and Order (the Order) issued March 28, 2000. The funds are under the oversight of the MCW Consortium on Public and Community Health, Inc. (the MCW Consortium) and are restricted pursuant to terms of a grant agreement between WUHF and the College. The College is entitled to appoint eight of the nine board members of the MCW Consortium (four of whom shall represent the College).

The College recorded the Advancing a Healthier Wisconsin funds as temporarily and permanently restricted contributions in accordance with the grant agreement. The grant agreement placed a five-year temporary restriction on $30,000,000 of the funds for the initial planning and implementation of programs (defined in the grant agreement as Immediate Funds) and a permanent restriction on the balance of the funds. Pursuant to the grant agreement, AHW dedicates 65% of the spendable funds for research and education initiatives and 35% for community initiatives under the HWPP. The AHW funding allocation remains unless it is changed by the affirmative vote of two-thirds of the MCW Consortium at the time an AHW Five-Year Plan is approved. On October 15, 2009, the MCW Consortium unanimously approved maintaining the 65% research and education and 35% community/HWPP allocations, as part of the 2009-2014 Five-Year Plan approval. In addition, as required by the grant agreement, the MCW Consortium also evaluates the allocation percentages as part of its annual review process. The 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. The grant agreement limited the percentage distribution of the spendable income from the permanently restricted funds for the first three years.

WUHF retained certain of the assets from the conversion of BCBSUW. In accordance with the Order and the grant agreement, $15,229,000 of these remaining assets was distributed to the College as permanently restricted funds in December 2007.

(b) State of Wisconsin Construction Grant

On November 17, 2004, the Wisconsin State Building Commission approved the release of a $25,000,000 grant to the College to aid in the construction of a Biomedical Research Facility. On March 31, 2005, the College entered into a Grant and Land Use Restriction Agreement with the State of Wisconsin Department of Administration to formalize the terms for receipt of these funds. The grant agreement provided support for 28.4% of the eligible construction expenses for the facility, conditioned upon receipt of a requisition documenting that such expenditures had been incurred. As of June 30, 2007, the College had recognized a temporarily restricted contribution for the entire $25,000,000 related to the construction grant. The Biomedical Research Facility was placed into service during fiscal year 2007, and the College began releasing the restriction on the contribution over the 40-year estimated life of the facility. As of June 30, 2012, $21,701,000 remains temporarily restricted.

The Grant and Land Use Restriction Agreement places a restriction on the facility, requiring that it be continuously used as a research and medical education center to conduct biomedical research, create new technologies, train students in the substance and methodology of biomedical research, and provide support to individuals and organizations in the state who are engaged in biomedical research and technological innovation consistent with the tax-exempt charitable missions of the College. The College 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, the College entered into an Amendment to the 2005 Grant and Land Use Restriction Agreement that authorizes an additional $10,000,000 to support the construction and installation of biomedical research magnetic resonance imaging (MRI) equipment at the College, under terms and conditions similar to the original agreement. As of June 30, 2012, the College has recognized a temporarily restricted contribution of $5,617,000 related to this grant. Portions of the total project were completed and placed into service during fiscal year 2012, and the College began releasing the restriction on the contribution over the estimated life of the related assets. As of June 30, 2012, $5,504,000 remains temporarily restricted.

(17) Employee Benefit Plans

The College sponsors a mandatory Section 403(b) defined contribution retirement plan for eligible full-time and part-time nonexempt and exempt employees who are age 21 or older and who have completed two years of service, as defined by the plan. Participants are required to contribute 6% (up to the IRS annual limit) of their compensation to the Plan. The College makes matching contributions equal to 6% or 8% (up to the IRS annual limit) of the participants' compensation. Participants are immediately vested in their contributions, the College's matching contributions, and earnings thereon. The contributions made by the College and recognized as expense were approximately $30,788,000 and $30,000,000, respectively, for the years ended June 30, 2012 and 2011.

The College sponsors a voluntary Section 403(b) defined contribution retirement plan. Employees are eligible to participate in this plan immediately upon hire or at any time during employment. Contributions to this plan are made solely through participant payroll withholdings (up to the IRS annual limit) and are not matched by the College. Participants are immediately vested in their contributions and earnings thereon.

The College provides a deferred compensation retirement benefit for several key employees. Contributions by the College and earnings thereon vest with the employees upon their satisfaction of certain conditions. In addition, the College previously offered Section 457 defined contribution retirement plans to certain faculty, corporate officers, and administrative director employees. Contributions to these plans were made either through payroll withholdings or payments by the College. Assets related to the deferred compensation and defined contribution benefits of $7,352,000 and $7,716,000 at June 30, 2012 and 2011, respectively, are reflected in cash and cash equivalents and investments at fair value. Accrued benefits totaling approximately $7,352,000 and $7,716,000 at June 30, 2012 and 2011, respectively, are reflected in accrued payroll and related liabilities.

The College 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 physicians. The College paid health and dental benefit claims, net of employee contributions, of $63,701,000 and $1,345,000 respectively, during the year ended June 30, 2012 and $61,407,000 and $1,285,000, respectively, during the year ended June 30, 2011.

(18) Functional Expenses

Expenses classified by function are as follows (in thousands):

		2012	2011
Patient care	$	549,349	524,119
Research		222,608	218,985
Instruction		53,956	53,196
Community service		8,037	8,313
Institutional support		40,637	40,089
Student services		9,539	9,882
Academic support		6,796	6,469
Fundraising		3,175	3,036
	$	894,097	864,089

Patient care expenses relate to all clinical and clinical support activities including those that are performed in the presence of residents and medical students. Research expenses pertain to all basic, translational, and clinical research and development activities that are externally sponsored or internally funded. Instruction expenses include credit and noncredit programs for medical students, graduate students, residents, post-doctoral fellows, student trainees and continuing medical education participants.

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

(19) Commitments and Contingent Liabilities

Amounts received and expended by the College 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 the College.

The College periodically conducts internal investigations into deviations from approved research protocols reported to its Institutional Review Board. The investigations are conducted pursuant to the College'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 the College to the Food and Drug Administration and the Office of Human Research Protection. Management is unable to assess the outcome of any pending agency reviews, but it is the opinion of management that these matters will not have a material adverse effect on the consolidated financial statements of the College.

The College 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 the College.

(Continued)

(20) Subsequent Events

In connection with the preparation of the financial statements and in accordance with FASB ASC Topic 855, *Subsequent Events*, the College evaluated subsequent events after the balance sheet date of June 30, 2012 through October 1, 2012, which was the date the financial statements were issued. No significant subsequent events were identified.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2012

Federal government award programs and funding agencies	Pass-through agencies	CFDA #	Expenditures Direct	Expenditures Pass-through	Expenditures Total
Major programs:					
Research and Development Cluster:					
Department of Agriculture	Iowa State University	10.RD	$ —	28,026	28,026
Department of Defense:					
Army Research Medical Command	—	12.RD	1,608,851	—	1,608,851
	National Trauma Institute	12.RD	—	3,488	3,488
	University of Tennessee	12.RD	—	15,405	15,405
Total Army Research Medical Command		12.RD	1,608,851	18,893	1,627,744
Office of Naval Research	—	12.RD	323,161	—	323,161
Total Department of Defense		12.RD	1,932,012	18,893	1,950,905
Department of Justice	Marquette University	16.RD	—	111,029	111,029
Department of Transportation	—	20.RD	1,249,202	—	1,249,202
	University of North Carolina	20.RD	—	24,096	24,096
Total Department of Transportation		20.RD	1,249,202	24,096	1,273,298
National Science Foundation	—	47.RD	498,180	—	498,180
	Case Western Reserve University	47.RD	—	13,097	13,097
	University of Wisconsin - Madison	47.RD	—	20,686	20,686
Total National Science Foundation		47.RD	498,180	33,783	531,963
Department of Veterans Affairs	—	64.RD	1,720,761	—	1,720,761
Department of Education	—	84.RD	245	—	245
	Marquette University	84.RD	—	125,966	125,966
	Rehabilitation Institute of Chicago	84.RD	—	12,581	12,581
Total Department of Education		84.RD	245	138,547	138,792
Department of Health and Human Services:					
Agency for Healthcare Research and Quality	—	93.RD	961,835	—	961,835
	Children’s Hospital of Philadelphia	93.RD	—	21,721	21,721
	Visiting Nurse Service of New York	93.RD	—	16,002	16,002
Total Agency for Healthcare Research and Quality		93.RD	961,835	37,723	999,558
Centers for Disease Control and Prevention	—	93.RD	1,450,862	—	1,450,862
	ABT Associates	93.RD	—	15,879	15,879
	Access Community Health Network	93.RD	—	8,340	8,340
	National Association of EMS Physicians	93.RD	—	6,573	6,573
	State of Wisconsin	93.RD	—	13,475	13,475
	University of Wisconsin - Madison	93.RD	—	22,279	22,279
Total Centers for Disease Control and Prevention		93.RD	1,450,862	66,546	1,517,408
Food and Drug Administration	—	93.RD	34,257	—	34,257
Health Resources and Services Administration	—	93.RD	4,709,815	—	4,709,815
	AIDS Resource Center of Wisconsin	93.RD	—	14,694	14,694
	Children’s Hospital of Wisconsin	93.RD	—	48,131	48,131

(Continued)

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2012

Federal government award programs and funding agencies	Pass-through agencies	CFDA #	Expenditures: Direct	Expenditures: Pass-through	Expenditures: Total
Health Resources and Services Administration, continued	Cincinnati Children's Hospital Medical Center	93.RD	$ —	102,131	102,131
	Columbia University	93.RD	—	4,477	4,477
	University of California-Davis	93.RD	—	13,870	13,870
	University of Michigan	93.RD	—	6,790	6,790
	University of North Carolina	93.RD	—	20,148	20,148
Total Health Resources and Services Administration		93.RD	4,709,815	210,241	4,920,056
Indian Health Service	Great Lakes Inter-Tribal Council, Inc.	93.RD	—	81,875	81,875
National Institutes of Health (NIH)	—	93.RD	96,587,741	—	96,587,741
	American College of Radiology	93.RD	—	238,430	238,430
	Arkansas Children's Hospital Research Institute	93.RD	—	36,458	36,458
	Beth Israel Deaconess Medical Center	93.RD	—	49,711	49,711
	Blood Center of Wisconsin	93.RD	—	101,751	101,751
	Boston University	93.RD	—	34,101	34,101
	Case Western Reserve University	93.RD	—	32,718	32,718
	Children's Hospital of Boston	93.RD	—	150	150
	Children's Hospital of Philadelphia	93.RD	—	51,421	51,421
	Children's Mercy Hospitals and Clinics	93.RD	—	21,495	21,495
	Cincinnati Children's Hospital Medical Center	93.RD	—	5,723	5,723
	Cleveland Clinic Foundation	93.RD	—	47,198	47,198
	Columbia University	93.RD	—	(702)	(702)
	Dartmouth College	93.RD	—	321,259	321,259
	Duke University	93.RD	—	40,163	40,163
	Emmes Corporation	93.RD	—	24,757	24,757
	Emory University	93.RD	—	5,962	5,962
	Fordham University	93.RD	—	13,830	13,830
	Fred Hutchinson Cancer Research Center	93.RD	—	42,037	42,037
	Frontier Science and Technology Research	93.RD	—	46,719	46,719
	Gundersen Lutheran Medical Foundation	93.RD	—	7,375	7,375
	Health Research, Inc.	93.RD	—	26,490	26,490
	iFit Prosthetics, LLC	93.RD	—	30,172	30,172
	Imaging Biometrics, LLC	93.RD	—	34,648	34,648
	Institute for Clinical Research, Inc.	93.RD	—	45,526	45,526
	InvivoSciences, LLC	93.RD	—	97,550	97,550
	Jackson Laboratory	93.RD	—	78,273	78,273
	Jaeb Center for Health Research, Inc.	93.RD	—	30,315	30,315
	Johns Hopkins University	93.RD	—	27,118	27,118
	Marquette University	93.RD	—	160,224	160,224
	Massachusetts Eye and Ear Infirmary	93.RD	—	116,917	116,917
	Massachusetts General Hospital	93.RD	—	40,862	40,862
	Mayo Clinic-Arizona	93.RD	—	6,967	6,967
	Medical University of South Carolina	93.RD	—	8,535	8,535
	Montefiore Medical Center	93.RD	—	27,802	27,802
	Mount Sinai School of Medicine	93.RD	—	325	325
	National Childhood Cancer Foundation	93.RD	—	216,700	216,700
	National Marrow Donor Program	93.RD	—	43,166	43,166
	New England Research Institutes Inc.	93.RD	—	75,876	75,876
	NorthShore University HealthSystem Research Institute	93.RD	—	3,324	3,324
	Northwestern University	93.RD	—	22,461	22,461
	NSABP Foundation, Inc.	93.RD	—	31,258	31,258

(Continued)

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2012

Federal government award programs and funding agencies	Pass-through agencies	CFDA #	Expenditures Direct	Expenditures Pass-through	Expenditures Total
National Institutes of Health (NIH), continued	Oregon Health & Science University	93.RD	$ —	47,256	47,256
	Prism Clinical Imaging, Inc.	93.RD	—	195,378	195,378
	Radiological Society of North America	93.RD	—	195,947	195,947
	Rush University Medical Center	93.RD	—	38,768	38,768
	Seattle Children's Research Institute	93.RD	—	15,859	15,859
	Shared Medical Technology, Inc.	93.RD	—	1,418	1,418
	Southwest Foundation for Biomedical Research	93.RD	—	94,768	94,768
	St. Jude Children's Research Hospital	93.RD	—	1	1
	Stanford University	93.RD	—	6,935	6,935
	The Scripps Research Institute	93.RD	—	3,700	3,700
	The University of British Columbia	93.RD	—	49,708	49,708
	Thomas Jefferson University	93.RD	—	213,155	213,155
	Transonic Systems, Inc.	93.RD	—	(430)	(430)
	Tristan Technologies, Inc.	93.RD	—	82,658	82,658
	Tufts-New England Medical Center	93.RD	—	2	2
	Tulane University	93.RD	—	192,662	192,662
	University of Alabama at Birmingham	93.RD	—	174,029	174,029
	University of Buffalo	93.RD	—	37,868	37,868
	University of California-Irvine	93.RD	—	231,482	231,482
	University of California-Los Angeles	93.RD	—	195,188	195,188
	University of California-San Francisco	93.RD	—	82,439	82,439
	University of Chicago	93.RD	—	606,776	606,776
	University of Cincinnati	93.RD	—	35,140	35,140
	University of Colorado at Boulder	93.RD	—	39,721	39,721
	University of Hawaii at Manoa	93.RD	—	141,323	141,323
	University of Miami	93.RD	—	2,730	2,730
	University of Michigan	93.RD	—	590,764	590,764
	University of Minnesota	93.RD	—	89,580	89,580
	University of Oregon	93.RD	—	67,481	67,481
	University of Pennsylvania	93.RD	—	226,608	226,608
	University of Pittsburgh	93.RD	—	(12,477)	(12,477)
	University of Rochester	93.RD	—	11,384	11,384
	University of South Florida	93.RD	—	4,287	4,287
	University of Texas M.D. Anderson Cancer Center	93.RD	—	300,337	300,337
	University of Texas Medical Branch at Galveston	93.RD	—	14,091	14,091
	University of Texas -Health Science Center at Houston	93.RD	—	68,181	68,181
	University of Utah	93.RD	—	8,982	8,982
	University of Washington	93.RD	—	299,184	299,184
	University of Wisconsin-Madison	93.RD	—	866,094	866,094
	University of Wisconsin-Milwaukee	93.RD	—	967,467	967,467
	Vanderbilt University	93.RD	—	351,702	351,702
	Virginia Commonwealth University	93.RD	—	11,935	11,935
	Visiting Nurse Service of New York	93.RD	—	17,775	17,775
	Wake Forest University	93.RD	—	25,973	25,973
	Washington University in St. Louis	93.RD	—	456,641	456,641
	Wayne State University	93.RD	—	26,881	26,881
	Weill Medical College of Cornell University	93.RD	—	97,272	97,272
	Westat, Inc.	93.RD	—	297,657	297,657
	Yale University	93.RD	—	106	106
Total National Institutes of Health		93.RD	96,587,741	9,717,451	106,305,192

(Continued)

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2012

Federal government award programs and funding agencies	Pass-through agencies	CFDA #	Expenditures Direct	Pass-through	Total
NIH American Recovery and Reinvestment Act (ARRA)	—	93.RD	$ 5,054,671	—	5,054,671
	Carl T. Hayden Medical Research Foundation	93.RD	—	7,573	7,573
	Children's Mercy Hospitals and Clinics	93.RD	—	2,452	2,452
	Duke University	93.RD	—	13,732	13,732
	Fred Hutchinson Cancer Research Center	93.RD	—	1,986	1,986
	Indiana University	93.RD	—	709	709
	Marquette University	93.RD	—	997	997
	Miami University	93.RD	—	22,131	22,131
	Oregon Health & Science University	93.RD	—	84,267	84,267
	Radiological Society of North America	93.RD	—	14,490	14,490
	Southwest Foundation for Biomedical Research	93.RD	—	9,583	9,583
	Stanford University	93.RD	—	16,815	16,815
	University of Alabama at Birmingham	93.RD	—	5,111	5,111
	University of California-Irvine	93.RD	—	3,721	3,721
	University of California-Los Angeles	93.RD	—	27,384	27,384
	University of California-San Francisco	93.RD	—	40,856	40,856
	University of Michigan	93.RD	—	40,552	40,552
	University of Washington	93.RD	—	40,210	40,210
	University of Wisconsin-Madison	93.RD	—	22,177	22,177
Total NIH American Recovery and Reinvestment Act (ARRA)		93.RD	5,054,671	354,746	5,409,417
Office of Population Affairs	University of Wisconsin-Milwaukee	93.RD	—	24,957	24,957
Office of the Secretary	—	93.RD	229,282	—	229,282
	State of Wisconsin	93.RD	—	47,846	47,846
Total Office of the Secretary			229,282	47,846	277,128
Total Department of Health and Human Services		93.RD	109,028,463	10,541,385	119,569,848
Total Research and Development Cluster			114,428,863	10,895,759	125,324,622
Student Financial Assistance Cluster (notes 2(b) and 3):					
Department of Education:					
Federal Perkins Loan Program	—	84.038	820,100	—	820,100
Federal Direct Loan Program	—	84.268	28,740,223	—	28,740,223
Total Department of Education			29,560,323	—	29,560,323
Department of Health and Human Services:					
Federal Primary Care Loans	—	93.342	332,237	—	332,237
Total Student Financial Assistance Cluster			29,892,560	—	29,892,560
Total major programs			144,321,423	10,895,759	155,217,182
Nonmajor programs:					
Department of Housing and Urban Development:					
Office of Healthy Homes and Lead Hazard Control:					
ARRA – Healthy Homes Demonstration Project	City of Milwaukee	14.901	—	13,595	13,595
Department of Justice:					
Juvenile Justice and Delinquency Prevention_Allocation to States	State of Wisconsin	16.540	—	15,788	15,788
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	State of Wisconsin	16.586	—	16,813	16,813
Department of Education:					
National Institute on Disability and Rehabilitation Research	Marquette University	84.133	—	61,758	61,758
Department of Health and Human Services:					
Centers for Disease Control and Prevention:					
Injury Prevention and Control Research	State of Wisconsin	93.136	—	37,176	37,176

(Continued)

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2012

Federal government award programs and funding agencies	Pass-through agencies	CFDA #	Expenditures Direct	Pass-through	Total
HIV Prevention Activities-Health Department Based	Diverse and Resilient, Inc.	93.940	$ —	1,465	1,465
Preventive Health Services - Sexually Transmitted Diseases Control Grants	State of Wisconsin	93.977	—	66,889	66,889
Development of Updated CDC/ASBMT/IDSA Opportunistic Infection Prevention Guidelines for HCT Recipients	—	93.unknown	10,000	—	10,000
Administration for Children and Families:					
Affordable Care Act (ACA) Personal Responsibility Education Program	State of Wisconsin	93.092	—	559,146	559,146
Temporary Assistance for Needy Families	Community Advocates	93.558	—	101,017	101,017
Temporary Assistance for Needy Families	Milwaukee County, Division of Behavioral Health	93.558	—	63,583	63,583
Total Temporary Assistance for Needy Families		93.558	—	164,600	164,600
Children’s Justice Grants to States	State of Wisconsin	93.643	—	5,664	5,664
Social Services Block Grant	Milwaukee County, Division of Behavioral Health	93.667	—	124,093	124,093
Centers for Medicare and Medicaid Services:					
Medical Assistance Program	State of Wisconsin	93.778	—	5,994	5,994
Health Resources and Services Administration (HRSA):					
AIDS Education and Training Centers	University of Wisconsin-Madison	93.145	—	2,755	2,755
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	—	93.153	760,787	—	760,787
ARRA – Grants for Training in Primary Care Medicine and Dentistry Training and Enhancement	—	93.403	773	—	773
Grants for Training in Primary Care Medicine and Dentistry	—	93.884	295,185	—	295,185
HIV Care Formula Grants	State of Wisconsin	93.917	—	319,884	319,884
Special Projects of National Significance	State of Wisconsin	93.928	—	50,173	50,173
Public Health Traineeships	—	93.964	11,675	—	11,675
Coal Miners Respiratory Impairment Treatment Clinics and Services	Washington University in St Louis	93.965	—	2,822	2,822
Geriatric Education Centers	Marquette University	93.969	—	53,121	53,121
Maternal and Child Health Services Block Grant to the States	Children’s Hospital of Wisconsin	93.994	—	13,227	13,227
Maternal and Child Health Services Block Grant to the States	State of Wisconsin	93.994	—	102,017	102,017
Total Maternal and Child Health Services Block		93.994	—	115,244	115,244
National Institutes of Health:					
Cancer Treatment Research	American College of Radiology	93.395	—	7,503	7,503
Cardiovascular Diseases Research	—	93.837	290,941	—	290,941
Aging Research	—	93.866	46,766	—	46,766
Diabetes, Digestive, and Kidney Diseases Extramural Research	—	93.847	37,980	—	37,980
Substance Abuse and Mental Health Services Administration:					
Projects of Regional and National Significance	University of Wisconsin Medical Foundation	93.243	—	(139)	(139)
Projects of Regional and National Significance	Wisconsin Medical Society Foundation	93.243	—	(1,392)	(1,392)
Total Projects of Regional and National Significance		93.243	—	(1,531)	(1,531)
Block Grants for Prevention and Treatment of Substance Abuse	Jewish Family Services	93.959	—	50,640	50,640
Block Grants for Prevention and Treatment of Substance Abuse	Fighting Back Incorporated	93.959	—	(42,959)	(42,959)
Total Block Grants for Prevention and Treatment of Substance Abuse		93.959	—	7,681	7,681
Department of Homeland Security:					
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	State of Wisconsin	97.036	—	63,589	63,589
Total nonmajor programs			1,454,107	1,694,222	3,148,329
Total federal expenditures			145,775,530	12,589,981	158,365,511

(Continued)

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2012

State award programs and funding agencies	Pass-through agencies	State Identification #	Expenditures Direct	Expenditures Pass-through	Expenditures Total
Wisconsin Department of Health and Family Services:					
Division of Child and Family Services:					
Basic County Allocation	Milwaukee County, Division of Behavioral Health	435.561	$ —	901,884	901,884
Division of Public Health:					
Congenital Disorders	—	435.128010	359,747	—	359,747
HIV Prevention	United Migrant Opportunity Services	unknown	—	3,109	3,109
MAPPP	—	435.159352	72,032	—	72,032
MAPPP – Pregnancy Outreach	—	435.159353	5,994	—	5,994
Wisconsin Department of Justice:					
Lupon Pharmaceutical Settlement	—	455.321	1,072	—	1,072
Wisconsin Department of Military Affairs:					
Division of Emergency Management:					
State Match – Federal Disaster Assistance	—	465.305	4,286	—	4,286
Wisconsin Genomic Initiative:					
Age-related Macular Degeneration	Marshfield Clinic Research Foundation	unknown	—	43,856	43,856
State of Wisconsin Appropriations:					
Family Medicine and Practice (note 7)	—	20.250	2,848,500	—	2,848,500
General Program Operations Tuition Capitation (note 7)	—	20.250	1,926,203	—	1,926,203
Breast and Prostate Cancer Research Programs (note 7)	—	20.250	171,419	—	171,419
Total state expenditures			5,389,253	948,849	6,338,102
			$ 151,164,783	13,538,830	164,703,613

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

(1) Basis of Presentation

The schedule of expenditures of federal and state awards (the Schedule) presents expenditures charged to federal and state programs of The Medical College of Wisconsin, Inc. (the College) for the year ended June 30, 2012 on the accrual basis and should be read in conjunction with the College's consolidated financial statements.

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

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

(a) Major Program Determination

Under U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), 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 the College.

Awards to provide financial assistance for research and development activities are combined and considered to be a single program (Research and Development) 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).

(b) Federal Award Expenditures

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

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

The College 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 the College uses to allocate its facilities and administrative costs to both sponsored and nonsponsored activities. The costs allocated to sponsored projects are divided by the direct costs of sponsored projects to arrive at a rate. The U.S. Department of Health and Human Services (DHHS) must approve the rate before the College can use it to charge facilities and administrative costs to federally sponsored projects.

During the year ended June 30, 2012, the College charged facilities and administrative costs of $31,819,377 based on predetermined rates approved by DHHS.

(2) Major Programs

(a) Research and Development Program Cluster

Research and development programs include those awards that are for basic and applied research and development activities. OMB Circular A-133 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.

(b) Student Financial Assistance Program Cluster

The College receives awards to make loans to eligible students under certain federal student loan programs, and federally guaranteed loans are issued to the students of the College 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 OMB Circular A-133; Perkins, Primary Care, and Direct Loan Program disbursements are included in the Schedule. 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.

(Continued)

(3) Federal Government Student Loan Programs

Loans made by the College to eligible students under the Perkins and Primary Care Loan Programs and federally guaranteed loans made under the Direct Loan Program to students of the College during the year ended June 30, 2012 are summarized as follows:

Direct loan programs:		
Primary Care Loan Program	$	332,237
Federal Perkins Loan Program		820,100
Total loans directly disbursed		1,152,337
Guaranteed loan programs:		
Federal Direct Loan Program – PLUS		2,767,382
Federal Direct Loan Program – subsidized		5,903,663
Federal Direct Loan Program – unsubsidized		20,069,178
Total guaranteed loans disbursed		28,740,223
Total loans disbursed	$	29,892,560

The Perkins and Primary Care/Health Professions Student Loan Programs are administered directly by the College, and balances and transactions relating to these programs are included in the College's consolidated financial statements. The administrative cost allowance charged to the Perkins Loan Program was $40,875 for the year ended June 30, 2012. The balance of loans outstanding under the Perkins and Primary Care/Health Professions Student Loan Programs was $5,653,240 and $3,907,550, respectively, at June 30, 2012.

The College 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, and it is not practical to determine the balance of loans outstanding to students and former students of the College under these programs at June 30, 2012.

(Continued)

(4) Expenditures of Federal Awards Passed through the State of Wisconsin

The College's expenditures of federal awards presented in the Schedule that were passed through the State of Wisconsin for the year ended June 30, 2012 are summarized as follows:

Federal grantor/program title	CFDA #	Expenditures
Department of Justice:		
Juvenile Justice and Delinquency Prevention	16.540	$ 15,788
Violent Offender Incarceration and Truth in Sentencing Incentive Grant	16.586	16,813
Department of Health and Human Services:		
Administration for Children and Families:		
Children's Justice Grants to States	93.643	5,664
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	559,146
Temporary Assistance for Needy Families	93.558	63,583
Social Services Block Grant	93.667	124,093
Centers for Disease Control and Prevention:		
Environmental Public Health and Emergency Response	93.070	13,475
Injury Prevention and Control Research and State and Community Based Programs	93.136	37,176
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	66,888
Centers for Medicare and Medicaid Services:		
Medical Assistance Program	93.778	5,994
Health Resources and Services Administration:		
HIV Care Formula Grants	93.917	319,884
Special Projects of National Significance	93.928	50,172
Maternal and Child Health Services Block Grant to the States	93.994	102,017
Office of the Secretary:		
National Bioterrorism Hospital Preparedness Program	93.889	47,846
Department of Homeland Security:		
Disaster Grants-Public Assistance (Presidentially Declared Disasters)	97.036	63,589
		$ 1,492,128

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

The College's expenditures of federal and state awards presented in the Schedule that were passed through the Milwaukee County Department of Human Services Division of Behavioral Health (MCDHS) for the year ended June 30, 2012 are summarized as follows:

		July 1 through December 31, 2011	January 1 through June 30, 2012	Total
Program expenditures:				
Salaries	$	330,038	308,375	638,413
Employee benefits		98,982	92,513	191,495
Supplies and other		64,597	28,635	93,232
Professional fees and assessments		31,057	17,317	48,374
Occupancy		82,613	68,122	150,735
Equipment		—	2,250	2,250
Total program expenditures		607,287	517,212	1,124,499
Revenue from non-MCDHS sources:				
Other insurance		18,134	16,805	34,939
Total revenue from non-MCDHS sources		18,134	16,805	34,939
Net MCDHS expenditures	$	589,153	500,407	1,089,560

			Federal	State	Total
Sources of MCDHS support:					
State Funded Basic County Allocation	435.561	$	—	901,884	901,884
Social Services Block Grant	93.667		124,093	—	124,093
Temporary Assistance for Needy Families	93.558		63,583	—	63,583
		$	187,676	901,884	1,089,560

(6) Expenditures of Federal Awards Passed through to Subrecipients

The College's expenditures of federal awards presented in the Schedule that were passed through to subrecipients for the year ended June 30, 2012 are summarized as follows:

Funding agency	CFDA #	Program description	Total expenditures passed through to subrecipients
Department of Defense	12.420	Military Medical Research and Development	$ 104,082
Department of Housing and Urban Development	14.901	Healthy Homes Demonstration Grants	8,548
Department of Transportation	20.108	Aviation Research Grants	16,569
Department of Health and Human Services:			
National Institutes of Health	93.113	Environmental Health	10,555
Centers for Disease Control and Prevention	93.136	Injury Prevention and Control Research and State and Community Based Programs	153,842
Health Resources and Services Administration	93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth	316,736
National Institutes of Health	93.172	Human Genome Research	894,425
National Institutes of Health	93.173	Research Related to Deafness and Communication Disorders	26,951
National Institutes of Health	93.213	Research and Training in Complementary and Alternative Medicine	32,337
Agency for Healthcare Research and Quality	93.226	Research on Healthcare Costs, Quality and Outcomes	781,243
National Institutes of Health	93.242	Mental Health Research Grants	946,346
National Institutes of Health	93.279	Drug Abuse and Addiction Research Programs	515,811
National Institutes of Health	93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	131,182
National Institutes of Health	93.307	Minority Health and Health Disparities Research	238,748
National Institutes of Health	93.389	National Center for Research Resources	639,306
National Institutes of Health	93.393	Cancer Cause and Prevention Research	664,415
National Institutes of Health	93.395	Cancer Treatment Research	1,723,621
National Institutes of Health	93.701	Trans-NIH Recovery Act Research Support	712,437
National Institutes of Health	93.837	Cardiovascular Diseases Research	8,349,506
National Institutes of Health	93.838	Lung Diseases Research	76,647
National Institutes of Health	93.839	Blood Diseases and Resources Research	2,079,436
National Institutes of Health	93.846	Arthritis, Musculoskeletal and Skin Diseases Research	55,655
National Institutes of Health	93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	157,887
National Institutes of Health	93.848	Digestive Diseases and Nutrition Research	239,356
National Institutes of Health	93.849	Kidney Diseases, Urology, and Hematology Research	60,995
National Institutes of Health	93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	394,897
National Institutes of Health	93.855	Allergy, Immunology, and Transplantation Research	731,108
National Institutes of Health	93.859	Biomedical Research and Research Training	719,453
National Institutes of Health	93.864	Population Research	57,050
National Institutes of Health	93.865	Child Health and Human Development Extramural Research	159,498
Health Resources and Services Administration	93.913	Grants to States for Operation of Offices of Rural Health	347,069
Health Resources and Services Administration	93.917	HIV Care Formula Grants	183,359
National Institutes of Health	93.989	International Research and Research Training	19,416
Health Resources and Services Administration	93.994	Maternal and Child Health Services Block Grant to the States	11,250
Health Resources and Services Administration	93.unknown	Stem Cell Therapeutic Outcomes Database	2,078,410
National Institutes of Health	93.unknown	National Heart, Lung and Blood Institute Proteomics Initiative	55,717
National Institutes of Health	93.unknown	BMT-CTN	224,293
Total Department of Health and Human Services			23,788,957
Total federal awards passed through to subrecipients			$ 23,918,156

(Continued)

(7) State of Wisconsin Appropriations

The College receives an annual appropriation from the State of Wisconsin to support the training of health professionals in family medicine and practice. The appropriation was $2,848,500 for the year ended June 30, 2012. The College also receives an annual appropriation from the State of Wisconsin for in-state student tuition capitation to support general program operations. The appropriation was $1,926,203 for the year ended June 30, 2012. The College also receives annual appropriations from the State of Wisconsin to support breast and prostate cancer research. The College expended $171,419 of the cancer research appropriations during the year ended June 30, 2012. These appropriations and the related expenditures have been excluded from the scope of this audit. The State of Wisconsin statutes mandate that the Legislative Audit Bureau perform an annual audit on the family medicine and practice funds and that the Higher Education Advisory Board review the request for the tuition capitation funds on-site, each semester, prior to the release of the funds. The College 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.

(1) Summary of Auditors' Results

Financial Statements

A. Type of auditors' report issued on the consolidated financial statements: **Unqualified**

B. Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified that are not considered to be material weaknesses? **None reported**

C. Noncompliance material to the consolidated financial statements noted? **No**

Federal Awards

D. Internal control over major program:

- Material weaknesses identified? **No**
- Significant deficiencies identified that are not considered to be material weaknesses? **Yes**

E. Type of auditors' report issued on compliance for major programs: **Unqualified**

F. Any audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

G. Identification of major federal programs:

Program name

Research and Development Cluster

Student Financial Assistance Cluster

H. Dollar threshold used to distinguish between Type A and Type B programs: **$3,000,000**

I. Auditee qualified as low-risk auditee? **Yes**

Financial Statement Findings: **None**

(2) Federal and State Award Findings and Questioned Cost

Finding 2012-1 – Cash Management

Program Name: All direct Department of Health and Human Services grants, excluding those funded by the American Recovery and Reinvestments Act, presented in the Schedule of Expenditures of Federal and State Awards.

CFDA Number: Various

Criteria

According to 45 CFR 74.22(b)(1), recipients will be paid in advance, provided they maintain or demonstrate the willingness to maintain: (i) written procedures that minimize the time elapsing between the transfer of funds and disbursement by the recipient; and (ii) financial management systems that meet the standards for fund control and accountability as established in §74.21. In addition, OMB Circular A-110 requires nonfederal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include procedures to ensure cash draws are made in accordance with the nonfederal entity's established policies.

Condition Found

During audit testwork, we noted the College made an error in the calculation used to determine the monthly draw amounts on a reimbursement basis. This error resulted in the College drawing federal funds in advance during the period of November 16, 2011 through May 18, 2012. The College corrected this in June 2012 and returned all federal funds in excess of prior month-to-date grant and contract expenses to the Department of Health and Human Services, along with interest of $19,480. The overdrafts were intermittent and incremental, ranging from approximately $1.2 million to $8.0 million with an average of 13 days per overdraft.

Questioned Costs

None

Effect

Existing controls did not operate as designed resulting in an unintended advance of federal funds.

Cause

The College's established procedure for minimizing the time elapsing between the transfer of funds and disbursement by the recipient is to draw Federal funds on a reimbursement basis. Under these procedures, the College would draw federal funds on a monthly basis in an amount approximating the prior month's grant and contract expenses. Management indicated the error in the draw calculation occurred this fiscal year when the College changed to a more automated process for calculating the request of funds on a reimbursement basis.

Recommendation

We recommend the College follow its established procedures of drawing federal funds on a reimbursement basis. Additionally, we recommend the College ensure that controls are operating as designed to detect deviations from established procedures.

Management's Response

As stated above, this error occurred when the College changed to a more automated process for calculating the request of funds on a reimbursement basis. There were two primary detective controls that did not operate as designed.

1) As part of the monthly cash draw process, an analysis of the rollforward of the Department of Health and Human Services receivable balance is performed.

2) As part of the grants subledger system month-end close process, cash received is applied to outstanding Letter of Credit invoices through an automated system request. After the request is complete, a report of unapplied cash receipts is generated and is reviewed for reasonableness.

In the future, the College will ensure that all controls relating to cash management operate as designed.

(3) Other Issues

A. Does the auditor have substantial doubt as to the auditee's ability to continue as a going concern? **None reported**

B. Does the audit report show audit issues related to grants/contract with funding agencies that require audits to be in accordance with the *State Single Audit Guidelines* and *Department of Health Services Audit Guide*? **None reported**

C. Was a Management Letter or other document conveying audit comments issued as a result of this audit? **No**

D. Date of Report: **October 1, 2012**

KPMG LLP
Suite 1500
777 East Wisconsin Avenue
Milwaukee, WI 53202-5337

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, the *State Single Audit Guidelines*, and the *Department of Health Services Audit Guide*

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

We have audited the consolidated financial statements of The Medical College of Wisconsin, Inc. (the College) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 1, 2012. 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, the *State Single Audit Guidelines*, issued by the State of Wisconsin Department of Administration and State Single Audit Committee, and the *Department of Health Services Audit Guide*.

Internal Control over Financial Reporting

Management of the College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Trustees, its Audit Committee, management of the College, and federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Milwaukee Wisconsin
October 1, 2012

KPMG
KPMG LLP
Suite 1500
777 East Wisconsin Avenue
Milwaukee, WI 53202-5337

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited The Medical College of Wisconsin, Inc.'s (the College) compliance of with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2012. The College's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We did not audit the College's compliance with the requirements governing billing, collecting, and due diligence in accordance with the requirements of the Student Financial Assistance Cluster as described in the Compliance Supplement. Those requirements govern functions performed by Campus Partners. Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. Campus Partner's compliance with the requirements governing the functions that it performs for the College for the year ended June 30, 2012 was examined by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' examination of Campus Partner's compliance with such requirements. In addition, we did not audit the College's compliance with the state requirements governing State of Wisconsin appropriations and expenditures. These requirements were audited by the Legislative Audit Bureau and the Higher Education Advisory Board. Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 program occurred. An audit includes examining, on a test basis, evidence about the College'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. Our audit does not provide a legal determination of the College's compliance with those requirements.

In our opinion, the College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2012-1.

Internal Control over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 College's internal control over compliance.

Requirements governing student loan repayments are performed by Campus Partners. Internal control over compliance related to such functions for the year ended June 30, 2012 was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountant's testing of Campus Partner's internal control over compliance related to such functions. Requirements governing State of Wisconsin appropriations and expenditures were audited by the Legislative Audit Bureau and the Higher Education Advisory Board.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or 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 program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2012-1. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The College's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the College's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Board of Trustees, its Audit Committee, management of the College, and federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Milwaukee, Wisconsin
October 1, 2012

The Medical College of Wisconsin, Inc.
EIN #390806261

Audit in Accordance with OMB Circular A-133: Corrective Action Plan

Year Ended June 30, 2012

Finding Number: **2012-1**

Contact Person: Pamela Stanick, Controller

Corrective Action: In the future, the College will ensure that all controls relating to cash management operate as designed.

Date of Completion: June 27, 2012