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, 2014

(With Independent Auditors' Report 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.:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Medical College of Wisconsin, Inc. (the College), which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of unrestricted activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the College as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State Single Audit Guidelines*, 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 expenditure of federal and state awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2014 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

/s/ KPMG LLP

Milwaukee, Wisconsin
October 3, 2014

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Consolidated Statements of Financial Position

June 30, 2014 and 2013

(In thousands)

Assets		**2014**	**2013**
Cash and cash equivalents	$	99,832	96,222
Deposits with bond trustees		7,936	9,500
Investments, at fair value		1,338,903	1,110,811
Receivables:			
Patient accounts, net		46,183	49,253
Other accounts, net		25,183	29,307
Grants and contracts, net		19,213	21,875
Contributions, net		11,908	9,338
Student loans, net		18,131	16,501
Notes receivable from Children's Specialty Group		26,588	24,838
Total receivables		147,206	151,112
Prepaid expenses and other assets		42,519	32,913
Beneficial interest in charitable trusts		5,302	4,885
Land, buildings, and equipment, net		206,862	217,834
Total assets	$	1,848,560	1,623,277
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	64,368	52,438
Construction accounts payable		326	2,102
Accrued payroll and related liabilities		107,421	89,051
Deferred revenue		14,857	15,595
Estimated liability for unpaid professional liability claims		15,787	18,363
Long-term debt		208,637	203,399
Refundable advance for U.S. government-sponsored loan funds		10,156	9,408
Interest rate swap		13,113	12,622
Other liabilities		8,292	8,040
Total liabilities		442,957	411,018
Commitments and contingencies			
Net assets:			
Unrestricted		787,219	662,158
Temporarily restricted		233,367	168,522
Permanently restricted		385,017	381,579
Total net assets		1,405,603	1,212,259
Total liabilities and net assets	$	1,848,560	1,623,277

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, 2014 and 2013

(In thousands)

		2014	2013
Revenues:			
Net patient services	$	371,647	406,657
Provision for bad debts		(28,212)	(27,397)
Net patient services revenue less provision for bad debts		343,435	379,260
Children's Specialty Group contract fees		206,201	201,461
FH-MCW Community Physicians contract fees		63,966	—
Affiliate hospital contracts		93,656	103,833
Children's Research Institute contract fees		7,587	8,132
Grants and contracts		111,704	112,543
Facilities and administrative cost recovery on grants and contracts		28,292	30,476
Tuition and fees		36,726	34,924
Endowment investment income		1,014	142
Other investment income		9,982	10,546
Contributions		6,845	6,843
State of Wisconsin appropriation		3,283	2,950
Other		25,529	14,634
Total revenues		938,220	905,744
Net assets released from restrictions for operations		23,620	20,566
Total revenues and net assets released from restrictions		961,840	926,310
Expenses:			
Faculty salaries		348,383	325,601
Staff salaries		210,692	211,590
Fringe benefits		127,778	129,797
Services, supplies, and other		117,478	119,949
Rent and occupancy		35,573	43,218
Subcontracts		30,232	28,764
Depreciation and amortization		28,249	28,198
Interest on indebtedness		8,754	8,538
Total expenses		907,139	895,655
Revenues in excess of expenses before nonoperating gains and losses		54,701	30,655
Nonoperating gains and losses:			
Realized gain on investments		9,962	11,648
Unrealized gain on investments		60,996	30,142
Endowment income earned over spendable income under the total return concept		794	1,113
Loss on sale of land, buildings, and equipment		(916)	(302)
Unrealized (loss) gain on interest rate swap		(491)	7,603
Other gains		15	22
Nonoperating gains, net		70,360	50,226
Increase in unrestricted net assets		125,061	80,881

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Consolidated Statements of Unrestricted Activities and Changes in Net Assets

Years ended June 30, 2014 and 2013

(In thousands)

	2014	2013
Temporarily restricted net assets:		
Contributions	$ 7,126	3,657
Investment income	8,687	8,971
Realized gain on investments	16,194	8,156
Unrealized gain on investments	56,398	39,360
Net assets released from restrictions for operations	(23,620)	(20,566)
Change in fair value of charitable trusts	60	56
Increase in temporarily restricted net assets	64,845	39,634
Permanently restricted net assets:		
Contributions	2,733	2,763
Investment income	147	131
Realized gain on investments	35	18
Unrealized gain on investments	121	173
Change in fair value of charitable trusts	402	113
Increase in permanently restricted net assets	3,438	3,198
Increase in net assets	193,344	123,713
Net assets at beginning of year	1,212,259	1,088,546
Net assets at end of year	$ 1,405,603	1,212,259

See accompanying notes to consolidated financial statements.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2014 and 2013

(In thousands)

		2014	2013
Cash flows from operating activities:			
Increase in net assets	$	193,344	123,713
Adjustments:			
Depreciation and amortization		28,249	28,198
Provision for bad debts		28,212	27,397
Contributions restricted for long-term investment		(3,131)	(4,214)
Permanently restricted investment income		(303)	(322)
Loss on sale of land, buildings, and equipment		916	302
Gain on investments in affiliates, net		(9,854)	(3,354)
Net realized and unrealized gain on investments		(143,706)	(89,497)
Unrealized loss (gain) on interest rate swap		491	(7,603)
Increase in receivables		(24,306)	(35,895)
Increase in prepaid expenses and other assets		(854)	(428)
Increase in beneficial interest in charitable trusts		(417)	(47)
Increase in accounts payable and accrued payroll and related liabilities		25,702	42,698
Decrease in deferred revenue		(738)	(535)
(Decrease) increase in estimated liability for unpaid professional liability claims		(2,576)	1,573
Increase in refundable advance for U.S. government-sponsored loan funds		748	223
Increase in other liabilities		1,620	529
Net cash provided by operating activities		93,397	82,738
Cash flows from investing activities:			
Purchases of investments		(953,454)	(652,285)
Proceeds from sales and maturities of investments		873,666	621,335
Deposits with bond trustees		(23,313)	(64,648)
Reduction of deposits with bond trustees		24,877	76,362
Capital expenditures		(19,312)	(23,172)
Decrease in construction accounts payable		(1,776)	(1,318)
Proceeds from sale of land, buildings, and equipment		122	418
Investments in affiliates, net		1,058	(5,713)
Net cash used in investing activities		(98,132)	(49,021)
Cash flows from financing activities:			
Restricted contributions and permanently restricted investment income		3,434	4,536
Proceeds from long-term debt		17,506	—
Payments on capital lease		(360)	(324)
Repayments of long-term debt		(12,235)	(3,660)
Net cash provided by financing activities		8,345	552
Net increase in cash and cash equivalents		3,610	34,269
Cash and cash equivalents at beginning of year		96,222	61,953
Cash and cash equivalents at end of year	$	99,832	96,222
Supplemental data:			
Cash paid for interest (net of amounts capitalized of $7,399 and $448 in 2014 and 2013, respectively)	$	8,658	8,430
Noncash purchase of equipment acquired with capital lease obligation		—	1,083
Noncash change in receivable from Children's Specialty Group		1,750	1,255

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 and staff physicians provide medical care. The College also has affiliations with a number of hospitals in which the College's faculty and staff 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 and staff physicians provide professional services to patients and provides for the allocation of all fees generated from such services. As of June 30, 2014, the College had 845 practicing faculty and staff physicians. Currently, the medical education activities are performed at or near the College's main campus in Milwaukee, Wisconsin. Under a program known as the Community Medical Education Program, the College is partnering with colleges, universities and health systems in Green Bay and Central Wisconsin to expand its medical degree and resident training programs to these areas with a target opening of July 2015.

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

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

College faculty and staff physicians 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 services revenue. Patient accounts receivable represent an estimate of net realizable amounts from third-party payors, patients, and others for unpaid professional fees for patient services. The estimate is based upon contract terms, 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 as the contributions are received are included in unrestricted revenues.

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

(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 and unrealized derivative gains and losses.

(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. The 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 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 2014 and 2013 were $5,465,000 and $5,865,000, respectively. The estimated cost of these community care services was determined using a ratio of cost to gross charges and applying that ratio to the gross charges associated with providing care to 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 charges. Amounts received by the College under Medicare and Medicaid are subject to audit by governmental agencies.

The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (often referred to, collectively, as the Affordable Care Act), was signed into law on March 23, 2010. A provision of the Affordable Care Act includes improving Medicaid payments for primary care physician services. Effective for dates of service on and after January 1, 2013 through December 31, 2014, states are required by law to reimburse qualified providers at the rate that would be paid for the service under Medicare. During 2014, the College recognized $6,825,000 in additional net patient services revenue under this provision. The outstanding patient accounts receivable for the additional primary care Medicaid payments are $1,500,000 as of June 30, 2014.

(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 amount expended from net appreciation appropriated for expenditure (spendable income) from pooled endowment funds. The difference between the net appreciation and the amount expended is reported as a nonoperating gain or loss for funds designated by the Board of Trustees to function as endowments and as a change in temporarily restricted net assets for donor-restricted endowment funds.

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

(j) Deposits with Bond Trustees

Deposits held by bond trustees consist of investments restricted for debt service. These funds are invested in highly liquid securities by the bond trustees.

(Continued)

(k) Student Loans, Net

The College receives awards to make loans to eligible students under certain federal student loan programs. The Department of Education's Direct Loan program consists of federally guaranteed loans directly issued to the students of the College. 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. 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. In addition to these federal loan programs, the College also makes student loans to eligible students from funding received from philanthropic and other sources. 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. The net interest cost incurred on borrowed funds during the period of major construction or renovation is capitalized as a component of the cost of acquiring those assets in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 835-20, *Capitalization of Interest*. 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, 2014 and 2013.

(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.

(Continued)

(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 debt 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 interest rate swap 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 and changes in net assets. The net cash received or paid under the terms of the interest rate swap agreement over its term is recorded as a component of interest expense.

(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, and it is exempt from federal and state income taxes, except for taxes pertaining to unrelated business income. 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 2014 and 2013.

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. The College does not have a liability for unrecognized tax benefits as of June 30, 2014 and 2013.

(q) Use of Estimates

The presentation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, the disclosures of contingencies at the date of the consolidated financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates. Changes in prior year estimates are accounted for within the consolidated statements of unrestricted activities and changes in net assets in the current year.

(Continued)

(r) New Accounting Pronouncements

In October 2012, the FASB issued Accounting Standards Update No. 2012-05, S*tatement of Cash Flows (ASC Topic 230): Not-for-profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows* (ASU No. 2012-05). The new standard requires entities to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows. The new standards provide guidance to eliminate diversity in practice among entities. The College implemented ASU No. 2012-05 for the year ended June 30, 2014. Its adoption did not have a significant impact on the College's consolidated financial statements.

(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 and staff physician services at hospital and clinic sites. During 2014 and 2013, the College recognized affiliate hospital contract revenue of approximately $71,182,000 and $80,250,000, 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, 2014 and 2013 is $13,575,000 and $19,757,000, respectively (see note 8).

Many faculty and staff 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 $8,365,000 and $11,658,000 in 2014 and 2013, 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 $2,716,000 and $1,596,000 in 2014 and 2013, respectively.

In March 2011, the College entered into a memorandum of understanding to transition governance, employment, and operation of certain specialty clinics to Froedtert to create a common ambulatory platform that more effectively delivers services to patients and more efficiently uses resources. The final transition of governance and operational activities was completed in December 2012. During the transition period, the College leased back clinic management and staff from Froedtert. The cost of these leased employees for fiscal year 2014 and 2013 was $0 and $2,054,000, 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.

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 2014 and 2013. The College's share of the Surgery Center's gains and (losses) for fiscal years 2014 and 2013 of ($32,000) and $239,000, respectively, is recorded in other revenue. The College's investment in the Surgery Center is approximately $1,146,000 and $1,178,000 as of June 30, 2014 and 2013, 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 did not make any capital contributions during fiscal years 2014 and 2013. The College's share of the Real Estate Venture's gains and (losses) for fiscal years 2014 and 2013 of $20,000 and ($85,000), respectively, is recorded in other revenue. The College's investment in the Real Estate Venture is approximately $4,570,000 and $4,550,000 as of June 30, 2014 and 2013, 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, which was paid in full in 2013. The College received cash distributions of $522,000 and $494,000 as of June 30, 2014 and 2013, respectively. The College accounts for its investment using the equity method of accounting. The College's share of WRCG's gains for fiscal years 2014 and 2013 of $624,000 and $566,000, respectively, is recorded in other revenue. The College's investment in WRCG is approximately $858,000 and $756,000 as of June 30, 2014 and 2013, respectively, and is included in the prepaid expenses and other assets on the consolidated statements of financial position.

On November 21, 2011, the College entered into a joint venture with 6 other healthcare systems to form Accountable Care Solutions, LLC (ACS). As of June 30, 2014, other members of ACS include Agnesian Healthcare, Inc., Ministry Health Care, Centegra Health System, Columbia St. Mary's, Inc., Froedtert Health, Inc., and Wheaton Franciscan Healthcare – Southeast Wisconsin, Inc. The College has a 14% interest in ACS. The purpose of ACS is to support a network of health care facilities and professionals intended to improve patient health, enhance patient experience, and reduce or control the cost of health care in the members' shared communities. The College accounts for its investment using the equity method of accounting. The College made no capital contributions during fiscal years 2014 and 2013. The College's share of ACS's gains and (losses) for fiscal years 2014 and 2013 of ($7,000) and $0, respectively, is recorded in other revenue. The College's investment in ACS is approximately $59,000 and $66,000 as of June 30, 2014 and 2013, respectively, and is included in the prepaid expenses and other assets on the consolidated statements of financial position.

On May 8, 2012, the College entered into a joint venture with Froedtert and Wheaton Franciscan Medical Group to form Cardiology Joint Venture, LLC (the Cardiology Venture) to operate a cardiology practice. The College has a 10% interest in the Cardiology Venture. The College accounts for its investment using the equity method of accounting. The College made capital contributions to the Cardiology Venture in the amounts of $0 and $467,000 in fiscal years 2014 and 2013, respectively. The College's share of the Cardiology Venture's losses for fiscal years 2014 and 2013 of $14,000 and $61,000, respectively, is recorded in other revenue. The College's investment in the Cardiology Venture is approximately $392,000 and $406,000 as of June 30, 2014 and 2013, respectively, and is included in the prepaid expenses and other assets on the consolidated statements of financial position.

On December 31, 2012, the College entered into a joint venture with Bio-Medical Applications of Wisconsin, Inc. and Froedtert to form Fresenius Medical Care Midwest Dialysis, LLC (Fresenius). The purpose of Fresenius is to own, operate, develop, and manage renal dialysis facilities and programs. The College has a 10% interest in Fresenius. The College received cash distributions of $535,000 and $0 as of June 30, 2014 and 2013, respectively. The College accounts for its investment using the equity method of accounting. The College made capital contributions to Fresenius in the amounts of $0 and $5,164,000 in fiscal years 2014 and 2013, respectively. The College's share of Fresenius' gains for fiscal years 2014 and 2013 of $776,000 and $618,000, respectively, are recorded in other revenue. The College's investment in Fresenius is approximately $6,023,000 and $5,782,000 as of June 30, 2014 and 2013, respectively, and is included in the prepaid expenses and other assets on the consolidated statements of financial position.

On January 30, 2013, the College entered into a definitive agreement with Froedtert to form a joint clinical practice group effective July 1, 2013 named Froedtert & The Medical College of Wisconsin Community Physicians (FH-MCW Community Physicians). FH-MCW Community Physicians combines many of the community-based practices of Froedtert and the College's Medical College Physicians. The College has a 50% interest in the governance of the entity, but Froedtert is the sole financial member. Under the definitive and subsequent agreements, the College started transitioning employment of primary care and clinical-based physicians and staff and certain administrative staff to FH-MCW Community Physicians during the year and will finalize the transition in 2015. Additionally, during 2015 the College will assume employment of specialty physicians that are currently employees of Froedtert. The College receives payments for those employees leased to and performing services on behalf of FH-MCW Community Physicians. Additionally, the College contracts with FH-MCW Community Physicians to perform billing services for its clinic-based sites. During 2014, the College recognized $63,966,000 of FH-MCW Community Physician contract fees related to these services. The outstanding balance of accounts receivable from FH-MCW Community Physicians as of June 30, 2014 is $6,880,000 (see note 8). The College also collects net patient services revenue for certain specialty services provided by FH-MCW Community Physicians providers. These collections, net of assessments, are remitted to FH-MCW Community Physicians and $4,533,000 was recorded in service, supplies, and other expense in 2014. The outstanding balance of accounts payable to FH-MCW Community Physicians as of June 30, 2014 is $861,000.

(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 distributes to the College 5% of its net patient services and Medicaid electronic health record incentive revenues and any CSG revenues and gains in excess of expenses and losses will be retained by CSG for program development.

The College's revenues include $206,201,000 and $201,461,000 for the years ended June 30, 2014 and 2013, respectively, for certain physician services, leased equipment, and supplies purchased by CSG. The College's share of CSG's change in net assets of $8,378,000 and $2,189,000 for the fiscal years ended June 30, 2014 and 2013, respectively, is recorded in other revenue. At June 30, 2014 and 2013, respectively, CSG has total assets of $67,133,000 and $48,627,000 and net assets of $40,545,000 and $23,789,000. The College's investment in CSG is approximately $20,273,000 and $11,894,000 as of June 30, 2014 and 2013, 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 was transferred to CSG effective July 1, 2000 in exchange for a revolving note receivable. In 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 and 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 $1,773,000 and $1,794,000 for the years ended June 30, 2014 and 2013, 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, 2014 and 2013 is $266,000 and $398,000, respectively (see note 8).

The College leases space from Children's for certain administrative purposes. Rent paid to Children's by the College is $3,839,000 and $3,704,000 in 2014 and 2013, respectively.

(c) Other Related Parties

On October 1, 2011, the College entered into a joint venture with APM Wisconsin MSO LLC to form Pain Centers of Wisconsin – Wauwatosa, LLC (the Pain Center). The College has a 49% interest in the joint venture. The purpose of the Pain Center is to provide comprehensive pain treatment and pain-related surgical services. The College accounts for its investment using the equity method of accounting. The College made capital contributions of $0 and $576,000 during fiscal years 2014 and 2013, respectively. The College's share of the Pain Center's gains and (losses) for fiscal years 2014 and 2013 of $108,000 and ($112,000), respectively, is recorded in other revenue. The College's investment in the Pain Center is approximately $679,000 and $571,000 as of June 30, 2014 and 2013, respectively, and is included in the prepaid expenses and other assets on the consolidated statements of financial position.

The College is a member of the Milwaukee Regional Medical Center (MRMC), a consortium of six health care institutions located on the Milwaukee Regional Medical Center Campus. In June 2014, the College executed a financial guarantee to a financial institution for a borrowing of the Milwaukee Regional Medical Center Thermal Services, Inc. (MRMC Thermal), a subsidiary of MRMC. The guarantee requires the College to reimburse the financial institution if MRMC Thermal fails to make principal or interest payments when due in accordance with the terms of their borrowing. The guarantee expires when the obligations of MRMC Thermal are satisfied, which is on or before December 26, 2015. The maximum amount payable under this guarantee is $4,450,000. At this time, it is not probable that any amount will be payable under the arrangement and a liability is not recorded.

In June 2014, the College executed a performance guarantee to a utility company for the full and prompt payment and performance of MRMC Thermal's obligations under a Capital Expenditure Reimbursement Agreement. The guarantee requires the College to reimburse the utility company if MRMC Thermal fails to reimburse the utility company for capital expenditure investments made during the duration of this agreement. Reimbursement can be made in either a lump sum payment or through rate increases paid by the College for chilled water and steam services. The guarantee expires on or before June 10, 2015 and the maximum amount payable as a lump sum under this guarantee is $3,780,000. At this time, it is not probable that any additional amount will be payable under the agreement and a liability is not recorded.

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 2014 and 2013, the College purchased from these related parties $442,000 and $575,000, respectively, of employee benefit services; $293,000 and $0, respectively, of investment, banking, and lending services; $514,000 and $276,000, respectively, of legal services; $363,000 and $472,000, respectively, of building services equipment and $8,649,000 and $9,310,000, respectively, of information systems consulting and computer equipment. Significant purchases of goods and services from related parties are reviewed to ensure such transactions are competitively priced as compared to other goods and services available in the market place.

(4) Investments

Cost and fair value of investments as of June 30, 2014 and 2013 are summarized below (in thousands):

	2014		2013	
	Cost	**Fair value**	**Cost**	**Fair value**
Money market funds	$ 9,415	9,415	3,504	3,504
Accrued investment income	381	381	460	460
U.S. government obligations	63,269	63,105	60,280	59,012
State and municipal bonds	25	25	25	25
Corporate bonds	1,981	889	1,981	854
Asset- and mortgage-backed securities	5,968	5,650	6,675	6,079
Bond mutual funds	159,119	158,262	183,807	178,573
Equity mutual funds	152,863	249,225	208,749	273,005
Commingled bond funds	166,538	179,863	115,694	125,694
Commingled equity funds	233,485	373,976	190,810	276,645
Equity securities	29,743	47,547	30,974	42,427
Other equity securities	217,085	246,984	126,298	140,914
Guaranteed investment contracts	3,581	3,581	3,619	3,619
Total	$ 1,043,453	1,338,903	932,876	1,110,811

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, venture capital, 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, 2014 and 2013 is summarized below (in thousands):

	Year ended June 30, 2014			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Endowment spendable income	$ 1,014	2,755	(3)	3,766
Endowment investment income required to be reinvested	—	5,727	40	5,767
Endowment income earned over spendable income under the total return concept	794	198	—	992
Interest and dividends, net of fees, on pooled endowments	1,808	8,680	37	10,525
Other investment income	9,982	7	110	10,099
Total interest and dividends, net of fees	11,790	8,687	147	20,624
Realized gain on investments	9,962	16,194	35	26,191
Unrealized gain on investments	60,996	56,398	121	117,515
	$ 82,748	81,279	303	164,330

	Year ended June 30, 2013			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Endowment spendable income	$ 142	2,826	(1)	2,967
Endowment investment income required to be reinvested	—	6,000	45	6,045
Endowment income earned over spendable income under the total return concept	1,113	136	—	1,249
Interest and dividends, net of fees, on pooled endowments	1,255	8,962	44	10,261
Other investment income	10,546	9	87	10,642
Total interest and dividends, net of fees	11,801	8,971	131	20,903
Realized gain on investments	11,648	8,156	18	19,822
Unrealized gain on investments	30,142	39,360	173	69,675
	$ 53,591	56,487	322	110,400

Investment management and custodial fees incurred in 2014 and 2013 were $4,498,000 and $4,049,000, 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 value of investments is based on valuations provided by external investment managers and the custodial financial institutions. Valuations of investments in Level 1, which include money market instruments, accrued investment income, bond and equity mutual funds, and equity securities, are provided by the custodial financial institutions based on observable market quotation prices. Valuations of certain investments in Level 2, which include U.S. government obligations and asset-backed and mortgage-backed securities, are provided by the custodial financial institutions based on observable inputs other than quoted prices, such as pricing services or indices.

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 a readily determinable fair value including private investments, hedge funds, real estate, and comingled equity and bond 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 $800,823,000 and $543,253,000 were estimated using the net asset value per share provided by external investment managers as of June 30, 2014 and 2013, respectively. Commingled bond and equity funds and other equity securities, without redemption restrictions, were classified as Level 2 with a fair value of $316,314,000 and $215,217,000 as of June 30, 2014 and 2013, respectively. Commingled bond and equity funds and other equity securities, with redemption restrictions, were classified as Level 3 with a fair value of $484,509,000 and $328,036,000 as of June 30, 2014 and 2013, 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 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, 2014 and 2013 (in thousands):

	June 30, 2014				Redemption	Days
	Level 1	Level 2	Level 3	Total	frequency	notice
Assets:						
Cash and cash equivalents	$ 99,832	—	—	99,832	Daily	1 day
Deposits with bond trustees	36	7,900	—	7,936	Daily	1 day
Investments:						
Money market funds	9,415	—	—	9,415	Daily	1 day
Accrued investment income	149	232	—	381	Daily	1 day
U.S. government obligations	—	63,105	—	63,105	Daily	1 day
State and municipal bonds	—	25	—	25	Daily	1 day
Corporate bonds	—	889	—	889	Daily	1 day
Asset- and mortgage-backed securities	—	5,650	—	5,650	Daily	1 day
Bond mutual funds	158,262	—	—	158,262	Daily	1 day
Equity mutual funds	249,225	—	—	249,225	Daily	1 day
Commingled bond funds:						
Global bonds [a]	—	81,180	—	81,180	Monthly	10 days
High yield bonds [b]	—	—	98,683	98,683	Monthly	45 days
Subtotal	—	81,180	98,683	179,863		

		June 30, 2014					
		Level 1	**Level 2**	**Level 3**	**Total**	**Redemption frequency**	**Days notice**
Commingled equity funds:							
U.S. equities [c]	$	—	33,818	95,433	129,251	Daily, monthly, quarterly	1-60 days
International equities [d]		—	123,920	41,305	165,225	Monthly	5-6 days
Emerging markets [e]		—	29,947	25,333	55,280	Monthly	30 days
Public/private equity [f]		—	—	24,220	24,220	Annually	90 days
Subtotal		—	187,685	186,291	373,976		
Equity securities		47,547	—	—	47,547	Daily	1 day
Other equity securities:							
Real estate [g]		—	—	142	142	—	—
Equity long/short hedge funds [h]		—	47,449	89,958	137,407	Monthly, quarterly	30-90 days
Multi-strategy funds [i]		—	—	89,982	89,982	Quarterly, annually	45-90 days
Private equity [j]		—	—	4,456	4,456	—	—
Private real assets [k]		—	—	14,997	14,997	—	—
Subtotal		—	47,449	199,535	246,984		
Guaranteed investment contracts [l]		—	—	3,581	3,581	—	—
Total investments		464,598	386,215	488,090	1,338,903		
Contributions receivable, net		—	—	11,908	11,908	—	—
Beneficial interest in charitable trusts		—	—	5,302	5,302	—	—
Subtotal		564,466	394,115	505,300	1,463,881		
Disclosure only:							
Student loans receivable, net		—	18,131	—	18,131	—	—
Total assets	$	564,466	412,246	505,300	1,482,012		
Liabilities:							
Deferred compensation	$	3,597	—	3,581	7,178	—	—
Interest rate swap		—	—	13,113	13,113	—	—
Subtotal		3,597	—	16,694	20,291		
Disclosure only:							
Long-term debt		—	216,038	—	216,038	—	—
Total liabilities	$	3,597	216,038	16,694	236,329		

There were no transfers between Level 1 and Level 2 for the years ended June 30, 2014 and 2013.

	June 30, 2013 Level 1	Level 2	Level 3	Total	Redemption frequency	Days notice
Assets:						
Cash and cash equivalents	$ 96,222	—	—	96,222	Daily	1 day
Deposits with bond trustees	1,676	7,824	—	9,500	Daily	1 day
Investments:						
Money market funds	3,504	—	—	3,504	Daily	1 day
Accrued investment income	180	280	—	460	Daily	1 day
U.S. government obligations	—	59,012	—	59,012	Daily	1 day
State and municipal bonds	—	25	—	25	Daily	1 day
Corporate bonds	—	854	—	854	Daily	1 day
Asset- and mortgage-backed securities	—	6,079	—	6,079	Daily	1 day
Bond mutual funds	178,573	—	—	178,573	Daily	1 day
Equity mutual funds	273,005	—	—	273,005	Daily	1 day
Commingled bond funds:						
Global bonds [(a)]	—	72,306	—	72,306	Monthly	10 days
High yield bonds [(b)]	—	—	53,388	53,388	Monthly	30 days
Subtotal	—	72,306	53,388	125,694		
Commingled equity funds:						
U.S. equities [(c)]	—	27,032	68,144	95,176	Daily, monthly, quarterly	1-60 days
International equities [(d)]	—	95,584	40,749	136,333	Monthly	5-90 days
Emerging markets [(e)]	—	—	20,573	20,573	Monthly	30 days
Public/private equity [(f)]	—	—	24,563	24,563	Annually	90 days
Subtotal	—	122,616	154,029	276,645		
Equity securities	42,427	—	—	42,427	Daily	1 day
Other equity securities:						
Real estate [(g)]	—	—	143	143	—	—
Equity long/short hedge funds [(h)]	—	20,295	54,099	74,394	Monthly, quarterly	30-90 days
Multi-strategy funds [(i)]	—	—	54,325	54,325	Quarterly, annually	45-90 days
Private equity [(j)]	—	—	2,840	2,840	—	—
Private real assets [(k)]	—	—	9,212	9,212	—	—
Subtotal	—	20,295	120,619	140,914		

	June 30, 2013					
	Level 1	**Level 2**	**Level 3**	**Total**	**Redemption frequency**	**Days notice**
Guaranteed investment contracts [l]	$ —	—	3,619	3,619	—	—
Total investments	497,689	281,467	331,655	1,110,811		
Contributions receivable, net	—	—	9,338	9,338	—	—
Beneficial interest in charitable trusts	—	—	4,885	4,885	—	—
Subtotal	595,587	289,291	345,878	1,230,756		
Disclosure only:						
Student loans receivable, net	—	16,501	—	16,501	—	—
Total assets	$ 595,587	305,792	345,878	1,247,257		
Liabilities:						
Deferred compensation	$ 3,056	—	3,619	6,675	—	—
Interest rate swap	—	—	12,622	12,622	—	—
Subtotal	3,056	—	16,241	19,297		
Disclosure only:						
Long-term debt	—	209,639	—	209,639	—	—
Total liabilities	$ 3,056	209,639	16,241	228,936		

(a) The global bonds 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) The high yield bonds 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) The U.S. equities class includes investments in collective investment trusts and limited partnerships that invest primarily in U.S. equity securities.

(d) The international equities class includes investments in collective investment trusts, limited liability companies, and private limited companies that invest primarily in non-U.S. equity securities in developed markets. Investments representing approximately 8% and 7% of the value of the investments in this class as of June 30, 2014 and 2013, respectively, cannot be redeemed in the first 36 months after acquisition due to manager restrictions. The remaining restriction period for these investments is 15 and 18 months at June 30, 2014 and 2013, respectively.

(e) The emerging markets equity class includes investments in limited liability companies or collective investment trusts that invest primarily in non-U.S. equity securities of companies operating in one or more global emerging markets.

(f) The public/private equity 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 manager-held cash and cash equivalents as of June 30, 2014 and 2013, respectively. The commitment on this investment expired on December 31, 2012 and is eligible for redemption subject to the redemption restrictions in the original subscription agreement. 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 liquidated. The unfunded commitment at June 30, 2014 is $5,200,000.

(g) The real estate equity class includes a real estate fund that invests primarily in U.S. real estate mortgage loans. The fair value of the investment in this class has 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) The equity long/short hedge funds 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 12 to 36 months at June 30, 2014 and from 0 to 33 months at June 30, 2013.

(i) The multi-strategy funds class includes investments in hedge funds that utilize a multi-strategy, multi-manager approach. Investments representing approximately 63% and 62% of the value of the investments in this class as of June 30, 2014 and 2013, 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 12 months at June 30, 2014 and from 10 to 12 months at June 30, 2013. For one investment, valued at $354,000 and $474,000 as of June 30, 2014 and 2013, respectively, a gate has been imposed by the hedge fund manager and redemptions are only permitted as the gated assets are liquidated. The redemption restriction has been in place for 63 months and redemption of the gated assets is expected to take place over the next 30 months. As of June 30, 2014 and 2013, $1,532,000 and $1,834,000, respectively, is restricted due to investment in illiquid special investments (side pockets). The special investments are expected to be liquidated over the next 30 months.

(j) The private equity class includes investments in limited partnerships that invest in private equity, venture capital, 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 liquidated. The remaining length of the investment terms for the partnerships ranges from 3 to 13 years. These investments have unfunded commitments of $5,924,000 and $4,288,000 as of June 30, 2014 and 2013, respectively.

(Continued)

(k) The private real assets 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 liquidated. The remaining length of the investment terms for the partnerships ranges from 5 to 17 years. These investments have unfunded commitments of $8,239,000 and $9,610,000 as of June 30, 2014 and 2013, 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 and liabilities measured at fair value on a recurring basis using significant unobservable inputs, as defined in ASC Topic 820 for the years ended June 30, 2014 and 2013 (in thousands):

		Assets				Liabilities	
		Commingled bond funds	Commingled equity funds	Other equity securities	Guaranteed investment contracts	Interest rate swap	Deferred compensation
Balance as of July 1, 2013	$	53,388	154,029	120,619	3,619	12,622	3,619
Purchases		57,657	20,492	68,387	—	—	—
Sales		(15,144)	(19,086)	(2,211)	(38)	—	(38)
Net realized gain (loss)		1,937	3,382	(11)	—	—	—
Net change in unrealized appreciation		845	27,474	12,751	—	491	—
Transfers into Level 3 from Level 2		—	—	—	—	—	—
Transfers into Level 2 from Level 3		—	—	—	—	—	—
Balance as of June 30, 2014	$	98,683	186,291	199,535	3,581	13,113	3,581
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, 2014	$	2,782	30,856	12,740	—	491	—

		Assets				Liabilities	
		Commingled bond funds	Commingled equity funds	Other equity securities	Guaranteed investment contracts	Interest rate swap	Deferred compensation
Balance as of July 1, 2012	$	50,542	129,017	91,479	3,651	20,225	3,651
Purchases		4,619	8,337	31,318	—	—	—
Sales		(3,819)	(6,956)	(12,778)	(32)	—	(32)
Net realized gain		510	1,829	1,791	—	—	—
Net change in unrealized appreciation (depreciation)		1,536	21,802	8,809	—	(7,603)	—
Transfers into Level 3 from Level 2		—	—	—	—	—	—
Transfers into Level 2 from Level 3		—	—	—	—	—	—
Balance as of June 30, 2013	$	53,388	154,029	120,619	3,619	12,622	3,619
The amount of total gains (losses) for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held as of June 30, 2013	$	2,046	23,631	10,600	—	(7,603)	—

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 fiscal year.

(6) Endowment Net Asset Classification

The College's endowment is comprised of approximately 420 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 investments, while providing a level of investment return and liquidity that funds its purposes within a reasonable and prudent level of risk.

(c) Strategies Employed for Achieving Objectives

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.

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

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

Effective July 1, 2012, the Board of Trustees amended the spending policy to consider the funds appropriated for expenditure when the spendable income is expended for the use and purpose for which the fund was established.

The spendable income rate is calculated as the product of the quarterly appropriation rate and the market value of the endowment investments. The quarterly appropriation rate is calculated as one-quarter of the current spending rate of 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, 2014 and 2013 in total and by type is summarized below (in thousands):

	June 30, 2014			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowments:				
Advancing a Healthier Wisconsin	$ —	151,527	288,689	440,216
Other endowments	—	46,355	79,463	125,818
Endowments designated by the Board of Trustees	182,233	—	—	182,233
Total	$ 182,233	197,882	368,152	748,267

	June 30, 2013			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowments:				
Advancing a Healthier Wisconsin	$ —	104,838	288,689	393,527
Other endowments	—	30,710	76,190	106,900
Endowments designated by the Board of Trustees	97,278	—	—	97,278
Total	$ 97,278	135,548	364,879	597,705

(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, 2014 and 2013 are as follows (in thousands):

	Year ended June 30, 2014			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Investment income	1,808	8,680	37	10,525
Realized gain on investments	4,669	16,194	35	20,898
Unrealized gain on investments	11,793	56,398	121	68,312
Total investment return	18,270	81,272	193	99,735
Contributions	69,239	—	3,120	72,359
Expenditures	(2,554)	(18,938)	(40)	(21,532)
Redesignated prior period unspent funds	—	—	—	—
Total change in endowments	84,955	62,334	3,273	150,562
Net assets, beginning of year	97,278	135,548	364,879	597,705
Net assets, end of year	182,233	197,882	368,152	748,267

	Year ended June 30, 2013			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Investment income	$ 1,255	8,962	44	10,261
Realized gain on investments	1,393	8,156	18	9,567
Unrealized gain on investments	5,200	39,360	173	44,733
Total investment return	7,848	56,478	235	64,561
Contributions	64,239	—	4,144	68,383
Expenditures	(1,393)	(14,961)	(43)	(16,397)
Redesignated prior period unspent funds	10,613	—	—	10,613
Total change in endowments	81,307	41,517	4,336	127,160
Net assets, beginning of year	15,971	94,031	360,543	470,545
Net assets, end of year	$ 97,278	135,548	364,879	597,705

(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 $0 and $95,000 as of June 30, 2014 and 2013, 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.

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(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, 2014 and 2013 is as follows (in thousands):

		2014	2013
Commercial/managed care	$	26,163	29,241
Self-pay		20,325	24,949
Medicaid		3,699	1,866
Medicare		5,217	5,095
Other		1,610	1,922
Patient accounts receivable		57,014	63,073
Allowance for doubtful accounts		10,831	13,820
Patient accounts receivable, net	$	46,183	49,253

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.

The allowance for doubtful accounts for self-pay patient accounts receivable decreased from 55.4% of self-pay accounts receivable at June 30, 2013 to 53.3% of self-pay accounts receivable at June 30, 2014. Actual losses from uncollectible self-pay patient accounts receivable were $31,201,000 and $24,823,000 for the years ended June 30, 2014 and 2013, respectively.

(8) Other Accounts Receivable, Net

Other accounts receivable at June 30, 2014 and 2013 consist of the following (in thousands):

		2014	2013
Affiliated hospitals	$	11,572	23,064
Other		13,735	6,614
Other accounts receivable		25,307	29,678
Allowance for doubtful accounts		124	371
Other accounts receivable, net	$	25,183	29,307

The College has affiliations with a number of hospitals in which College faculty and staff physicians 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, 2014 and 2013 consist of the following (in thousands):

		2014	2013
Grants and contracts	$	19,319	21,961
Allowance for doubtful accounts		106	86
Grants and contracts receivable, net	$	19,213	21,875

Unexpended research and training awards committed to the College by federal sponsoring agencies were approximately $77,209,000 and $81,509,000 at June 30, 2014 and 2013, respectively; other committed awards were approximately $9,521,000 and $10,447,000 at June 30, 2014 and 2013, 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.

(10) Contributions Receivable, Net

Net contributions receivable consists primarily of donor pledges and is summarized as follows at June 30, 2014 and 2013 (in thousands):

		2014	2013
Total contributions receivable	$	12,465	9,738
Allowance for uncollectible contributions		313	281
Adjustment to present value		244	119
Contributions receivable, net	$	11,908	9,338

The discount rates used to adjust the contributions receivable to present value range from 5.14% to 0.15% at June 30, 2014 and 2013. Contributions receivable at June 30, 2014 are expected to be collected in future fiscal years as follows (in thousands):

2015	$	7,219
2016		2,491
2017		1,296
2018		811
2019		263
2020 and beyond		385
Total	$	12,465

(11) Student Loans Receivable, Net

Student loans receivable at June 30, 2014 and 2013 consist of the following loan funds (in thousands):

		2014	2013
Federal Primary Care Loan Program	$	4,821	4,096
Federal Perkins Loan Program		6,737	5,882
College loans		6,810	6,731
Students loans receivable		18,368	16,709
Allowance for loan loss		237	208
Student loans receivable, net	$	18,131	16,501

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, which approximates fair value, 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. Write-offs of actual losses are charged against the allowance. The allowance for loan loss is increased through charges to expense (provision) and recoveries of loans previously charged to the allowance.

The activity in the allowance for loan loss and recorded student loans receivable for the years ended June 30, 2014 and 2013 is as follows (in thousands):

		2014	2013
Allowance for loan loss:			
Beginning balance	$	208	209
Write-offs		—	(21)
Recoveries		—	—
Provision		29	20
Ending balance		237	208
Ending balance individually evaluated for impairment		86	75
Ending balance collectively evaluated for impairment	$	151	133
Student loans receivable:			
Ending balance	$	18,368	16,709
Ending balance individually evaluated for impairment		174	183
Ending balance collectively evaluated for impairment	$	18,194	16,526

The credit risk profiles of the student loans receivable are based on payment activity as of June 30, 2014 and 2013 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):

		2014	2013
Student loans receivable:			
Performing	$	18,194	16,620
Nonperforming		174	89
Total student loans receivable	$	18,368	16,709

The following table provides an analysis of the aging of the past due student loans receivable less accrued interest as of June 30, 2014 and 2013 (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, 2014	845	246	30	145	1,266	16,799
June 30, 2013	795	53	40	143	1,031	15,419

The recorded investment in student loans receivable for which an impairment has been recognized at June 30, 2014 and 2013 is $1,266,000 and $1,031,000, respectively. The related allowance for loan loss at June 30, 2014 and 2013 is $237,000 and $208,000, respectively. The average recorded investment in impaired student loans receivable during fiscal years 2014 and 2013 is $1,149,000 and $1,011,000, respectively. Interest income recognized on student loans receivable is $431,000 and $376,000 during fiscal years 2014 and 2013, respectively. For the years ended June 30, 2014 and 2013, 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, 2014 and 2013 (in thousands):

	2014	2013
Land, buildings, and improvements	$ 300,152	294,417
Equipment and furnishings	217,639	211,306
Library books	950	948
Construction in progress	5,456	6,449
	524,197	513,120
Accumulated depreciation	317,335	295,286
Land, buildings, and equipment, net	$ 206,862	217,834

The College is a party to construction contracts that exist for various building renovation and grounds improvement projects. As of June 30, 2014, the College's outstanding commitment on these contracts approximates $3,311,000.

(13) Leases

During 2013, the College entered into a capital lease for the purchase of equipment that expires on August 20, 2015. At June 30, 2014, the gross amount of equipment and related accumulated amortization recorded under the capital lease was $1,083,000 and $159,288, respectively. Amortization of the asset held under the capital lease is recorded in depreciation expense.

The College leases land and buildings for clinical, educational, and administrative purposes under operating leases. Rent expense is $19,415,000 and $25,856,000 in 2014 and 2013, respectively.

Future minimum lease payments under capital leases and operating leases that have initial noncancelable terms in excess of one year at June 30, 2014 are as follows (in thousands):

		Capital lease		Operating leases
2015	$	373		17,177
2016		31		13,049
2017		—		11,672
2018		—		11,042
2019		—		9,390
2020 and beyond		—		48,330
Total minimal lease payments		404	$	110,660
Less estimated executory costs		—		
Net minimal lease payments		404		
Less amount representing interest at 2.17%		(5)		
Present value of net minimal capital lease payments	$	399		

The College also is a lessor of buildings for clinical and educational purposes under operating leases. Rental income is $2,838,000 and $1,760,000 in 2014 and 2013, respectively.

Future minimum rental income under leases that have initial noncancelable terms in excess of one year at June 30, 2014 is as follows (in thousands):

2015	$	1,492
2016		1,469
2017		1,469
2018		1,469
2019		1,469
2020 and beyond		8,841
Total	$	16,209

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 escalates at 1.5% per year through April 30, 2025. As of May 1, 2025, the base rent shall be adjusted by a current market rent adjustment determined by Milwaukee County or by a defined appraisal process. The land shall be used for facilities that support the operation of a comprehensive educational and research facility, including a parking facility. The lease has a single 50-year renewal option.

Rental expense 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 2014 and 2013, the College made contributions to the Program in the amounts of $1,496,000 and $1,500,000, respectively. The Program has net assets of approximately $4,523,000 and $1,798,000 as of June 30, 2014 and 2013, respectively.

Investments held in trust for the professional liability program, as reported in investments at fair value, are approximately $20,345,000 and $20,206,000 as of June 30, 2014 and 2013, respectively.

(Continued)

(15) Long-Term Debt

Long-term debt consists of the following at June 30, 2014 and 2013 (in thousands):

	2014	2013
Tax-exempt variable rate WHEFA Revenue Bonds Series 1990 B, redeemed in 2014 using proceeds from the taxable term loan.	$ —	$ 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 4.90% at June 30, 2014. Interest is payable semiannually.	19,810	21,145
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 5.04% at June 30, 2014. Interest is payable semiannually.	79,030	79,980
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 (0.04% at June 30, 2014).	67,500	67,500
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 5.21% at June 30, 2014. Interest is payable semiannually.	23,980	25,275
Taxable variable rate term loan, with principal payments due annually through 2021. Interest is payable monthly at rates reset on a monthly basis (0.90% at June 30, 2014).	16,000	—
Taxable variable rate revolving loan, due November 2018. Interest is payable monthly at rates reset on a monthly basis (0.70% at June 30, 2014).	1,506	—

		2014	2013
Notes payable, with simple interest at 8% per annum. The notes are payable from net revenues of the Office of Technology Development Division of Marketing and Licensing prior to March 1, 2016 and from a specified, declining percentage of gross revenues thereafter. All repayment rights expire on March 1, 2021.		1,495	1,495
Total long-term debt before unamortized premium and discount		209,321	204,050
Unamortized premium on Series 2004 A		569	624
Unamortized premium on Series 2010		1,165	1,259
Unamortized discount and premium (net) on Series 2008 A		(2,418)	(2,534)
Total long-term debt	$	208,637	203,399

The aggregate maturities under the original bond indentures of the long-term debt for each of the five years subsequent to June 30, 2014 and thereafter are as follows (in thousands):

2015	$	6,725
2016		7,320
2017		7,665
2018		7,985
2019		8,261
2020 and beyond		171,365
Total	$	209,321

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.
- 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 $216,038,000 and $209,639,000 at June 30, 2014 and 2013, respectively, and the carrying values are $208,637,000 and $203,399,000 at June 30, 2014 and 2013, 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 B bonds were redeemed in 2014 using proceeds from the taxable term loan.

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, to fund the construction of research capital projects at the Biomedical Research Facility and certain additional capital projects, and to fund a debt service reserve fund. At June 30, 2014, the balance of the debt service reserve fund is $7,912,000. 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 with a financial institution under which the financial institution issued a renewable direct pay letter of credit. On September 1, 2013, the Credit Agreement was amended to extend the expiration date of the letter of credit to September 15, 2018. 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 by the second business day prior to its expiration date. If any liquidity advances are drawn, the outstanding advances will automatically 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 Credit 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 Credit Agreement contains various covenants and restrictions, including a requirement that the College maintain a minimum number of days of unrestricted cash on hand, a minimum debt service coverage ratio and a maximum debt to capitalization ratio. As of June 30, 2014, there were no outstanding liquidity advances or term loans under the Credit Agreement.

(d) WHEFA Revenue Bond Series 2010

The Series 2010 bonds, totaling $27,745,000, were issued on November 24, 2010 to refund the WHEFA Revenue Bond Series 1996 and Series 1997 bonds, which had been issued to fund the construction and equipping of a health research center, an obstetrical unit, a medical office building and certain other capital projects. The Series 2010 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) Taxable Loans

On November 1, 2013, the College entered into a Loan Agreement with a financial institution under which a taxable term loan and a taxable revolving loan were made to the College by the financial institution. The term loan is for $16,000,000 and was used to redeem the Series 1990 B bonds and to finance technology-related capital expenditures. The revolving loan is for $20,000,000 and is to be used for working capital expenditures for the Community Medical Education Program.

The obligations of the College to the financial institution under the Loan Agreement are evidenced by notes 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 Loan Agreement contains various covenants and restrictions, including a requirement that the College maintain a minimum number of days of unrestricted cash on hand, a minimum debt service coverage ratio, and a maximum debt to capitalization ratio.

(f) 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 $3,826,000 and $2,888,000 were provided as collateral as of June 30, 2014 and 2013, respectively.

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, 2014 and 2013 are as follows (in thousands):

		2014	2013
Investment in land, buildings, and equipment	$	(31,378)	(15,808)
Designated for investment as endowment funds		182,233	97,278
Designated for the Professional Liability Insurance Program		4,523	1,798
Undesignated		631,841	578,890
	$	787,219	662,158

The investment in land, buildings, and equipment is negative at June 30, 2014 due to the related long-term debt, which includes an interest rate swap, and exceeds the net book value of the land, buildings and equipment. The unrealized loss on the swap is $13,113,000 at June 30, 2014.

Donor restrictions of temporarily restricted net assets at June 30, 2014 and 2013 are as follows (in thousands):

		2014	2013
Advancing a Healthier Wisconsin spendable income funds	$	151,527	104,838
Temporarily restricted endowment funds		46,355	30,710
State of Wisconsin construction grant		27,277	26,515
Implied time restrictions on contribution pledges		6,324	4,738
Charitable trusts		1,025	971
Scholarships		182	183
Land, buildings, and equipment		175	175
Split-interest agreements		385	282
Cash surrender value of life insurance policies		117	110
	$	233,367	168,522

Donor restrictions of permanently restricted net assets at June 30, 2014 and 2013 are as follows (in thousands):

		2014	2013
Advancing a Healthier Wisconsin endowed funds	$	288,689	288,689
Perpetual endowment funds		79,463	76,190
Student loans		7,985	7,771
Charitable trusts		4,277	3,913
Nontrust assets		160	177
Pledges receivable		4,153	4,551
Split-interest agreements		175	180
Cash surrender value of life insurance policies		115	108
	$	385,017	381,579

(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).

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.

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

(b) State of Wisconsin Construction 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, 2014, $20,451,000 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, 2014, the College has recognized a temporarily restricted contribution of $1,571,000 related to this grant. Portions of the total project were completed and placed into service during fiscal year 2014, and the College began releasing the restriction on the contribution over the estimated life of the related assets. As of June 30, 2014, $6,826,000 remains temporarily restricted.

(17) Employee Benefit Plans

The College sponsors a mandatory Section 403(b) defined contribution retirement plan (the 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 document. 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 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.

Effective October 1, 2013, the mandatory and voluntary Section 403(b) defined contribution retirement plans were merged to form a single plan. All employees may begin participating in the merged plan upon hire or at any later date up to the date on the first month after attaining age 21 and completing two years of service, at which time participants must contribute at least 6% of their pretax annual compensation. The College continues to make matching contributions equal to 6% or 8% (up to the IRS annual limit) of the mandatory participant's compensation. The contributions made by the College and recognized as expense were approximately $33,234,000 and $32,189,000, respectively, for the years ended June 30, 2014 and 2013.

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 $7,178,000 and $6,675,000 at June 30, 2014 and 2013, respectively, are reflected in cash and cash equivalents and investments at fair value. Accrued benefits totaling approximately $7,178,000 and $6,675,000 at June 30, 2014 and 2013, 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 and staff physicians. The College paid health and dental benefit claims, net of employee contributions, of $57,429,000 and $1,465,000 respectively, during the year ended June 30, 2014 and $63,539,000 and $1,336,000, respectively, during the year ended June 30, 2013.

(Continued)

(18) Functional Expenses

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

		2014	2013
Patient care	$	550,024	533,885
Research		218,770	234,905
Instruction		64,400	55,957
Community service		11,733	10,461
Institutional support		43,524	42,561
Student services		8,877	8,453
Academic support		6,528	6,293
Fundraising		3,283	3,140
	$	907,139	895,655

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) Electronic Heath Record Incentives

Under certain provisions of the American Recovery and Reinvestment Act of 2009 (ARRA), federal incentive payments are available to hospitals, physicians and certain other professionals (Providers) when they adopt, implement or upgrade (AIU) certified electronic health record (EHR) technology or become “meaningful users,” as defined under ARRA, of EHR technology in ways that demonstrate improved quality, safety and effectiveness of care. Providers can receive their initial incentive payment by satisfying AIU criteria, but must demonstrate meaningful use of EHR technology in subsequent years in order to qualify for additional payments. Providers may be eligible for either Medicare or Medicaid incentive payments, but not both. Medicaid EHR incentive payments to Providers are 100% federally funded and administered by the states. The Centers for Medicare and Medicaid Services (CMS) established calendar year 2011 as the first year states could offer Medicaid EHR incentive payments. Before a state may offer Medicaid EHR incentive payments, the state must submit and CMS must approve the state’s incentive plan.

The College recognizes EHR incentive payments in the statement of activities when: (1) CMS approves a state’s Medicaid EHR incentive plan; (2) affiliated hospitals adopt, implement or upgrade certified EHR technology; (3) Providers are determined not to be hospital based; and (4) contingencies in estimating the amount of the incentive payments to be received are resolved. EHR incentive payments are recognized in the period during which the specified meaningful use criteria are met. Certain College Providers have satisfied the eligibility and meaningful use criteria. As a result, the College recognized $10,463,000 and

$6,319,000 of EHR incentive payments as other revenues in the statement of unrestricted activities and changes in net assets for the years ended June 30, 2014 and 2013, respectively.

(20) 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.

(21) Business Risks and Uncertainties

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

The Budget Control Act of 2011 (BCA) mandated significant reductions and spending caps on the federal budget for federal fiscal years 2012 through 2021. The BCA required a reduction in the sustainable growth rate formula for physician reimbursement under Medicare, a 2% reduction in Medicare spending and reductions in support to federal agencies that fund research and development, ranging up to 7.3%. The reductions were to be effective January 1, 2013, in a process known as Sequestration. On January 2, 2013, the American Taxpayers Relief Act was signed into law and delayed Sequestration until March 1, 2013 and delayed the reduction in the sustainable growth rate formula for physician reimbursement until January 1, 2014. On April 1, 2014, the Protecting Access to Medicare Act of 2014 was signed into law which further delays the reduction in the sustainable growth rate formula for physician reimbursement until March 1, 2015, when an estimated reduction of 24% may become effective.

The College continues to closely monitor the status and impact of these regulations.

(22) 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 statement of financial position date of June 30, 2014 through October 3, 2014, which was the date the financial statements were available to be 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, 2014

Federal government award programs and funding agencies	Pass-through agencies	CFDA #	Expenditures Direct	Pass-through	Total
Major programs:					
Research and Development Cluster:					
Department of Commerce:					
National Institute of Standards and Technology	—	11.RD	$ 4,958	—	4,958
Department of Defense:					
Army Research Medical Command	—	12.RD	2,955,983	—	2,955,983
	Acorda Therapeutics Inc	12.RD	—	31,720	31,720
	Beth Israel Deaconess Medical Center	12.RD	—	194,406	194,406
	National Trauma Institute	12.RD	—	1,447	1,447
	University of Nebraska	12.RD	—	20,923	20,923
Total Army Research Medical Command		12.RD	2,955,983	248,496	3,204,479
Department of the Air Force, Material Command	Teledyne Scientific & Imaging, LLC	12.RD	—	257,807	257,807
Office of Naval Research	—	12.RD	231,348	—	231,348
	National Marrow Donor Program	12.RD	—	138,743	138,743
Total Office of Naval Research		12.RD	231,348	138,743	370,091
Total Department of Defense		12.RD	3,187,331	645,046	3,832,377
Department of Justice	Marquette University	16.RD	—	14,340	14,340
Department of Transportation	—	20.RD	977,788	—	977,788
Total Department of Transportation		20.RD	977,788	—	977,788
National Science Foundation	—	47.RD	97,041	—	97,041
Department of Veterans Affairs	—	64.RD	1,285,894	—	1,285,894
Department of Energy	Battelle Memorial Institute	81.RD	—	210,711	210,711
Department of Education:					
Office of Innovation and Improvement	Milwaukee Board of School Directors (MPS)	84.RD	—	15,019	15,019
Office of Special Education and Rehabilitative Services	Marquette University	84.RD	—	235,829	235,829
Total Department of Education		84.RD	—	250,848	250,848
Department of Health and Human Services:					
Agency for Healthcare Research and Quality	—	93.RD	1,274,620	—	1,274,620
	Children's Hospital of Philadelphia	93.RD	—	6,374	6,374
	University of Michigan	93.RD	—	54,566	54,566
Total Agency for Healthcare Research and Quality		93.RD	1,274,620	60,940	1,335,560
Centers for Disease Control and Prevention	—	93.RD	345,987	—	345,987
	ABT Associates	93.RD	—	21,159	21,159
	Children's Hospital of Boston	93.RD	—	9,187	9,187
Total Centers for Disease Control and Prevention		93.RD	345,987	30,346	376,333
Food and Drug Administration	—	93.RD	23,774	—	23,774
	New York Medical College	93.RD	—	36,691	36,691
	Pennsylvania State University	93.RD	—	2,428	2,428
	Seattle Children's Research Institute	93.RD	—	16,271	16,271
	Vanderbilt University	93.RD	—	17,150	17,150
		93.RD	23,774	72,540	96,314
Health Resources and Services Administration	—	93.RD	4,015,694	—	4,015,694

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2014

Federal government award programs and funding agencies	Pass-through agencies	CFDA #	Expenditures Direct	Pass-through	Total
	Cincinnati Children's Hospital Medical Center	93.RD	$ —	129,915	129,915
	University of North Carolina	93.RD	—	21,819	21,819
	University of Wisconsin-Madison	93.RD	—	95,576	95,576
Total Health Resources and Services Administration		93.RD	4,015,694	247,310	4,263,004
Indian Health Service	Great Lakes Inter-Tribal Council, Inc.	93.RD	—	66,407	66,407
National Institutes of Health (NIH)	—	93.RD	87,755,389	—	87,755,389
	American College of Radiology	93.RD	—	174,826	174,826
	Arkansas Children's Hospital Research Institute	93.RD	—	36,542	36,542
	Blood Center of Wisconsin	93.RD	—	133,508	133,508
	Boston University	93.RD	—	81,037	81,037
	Board of Regents of the University of Oklahoma	93.RD	—	109,929	109,929
	Brain Symphonics, LLC	93.RD	—	120,145	120,145
	Brigham and Women's Hospital, Inc.	93.RD	—	20,476	20,476
	Case Western Reserve University	93.RD	—	105,628	105,628
	Children's Hospital of Boston	93.RD	—	191,528	191,528
	Children's Hospital of Philadelphia	93.RD	—	288,141	288,141
	Children's Hospital of Wisconsin	93.RD	—	9,202	9,202
	Children's Mercy Hospitals and Clinics	93.RD	—	18,720	18,720
	Cincinnati Children's Hospital Medical Center	93.RD	—	35,037	35,037
	Cleveland Clinic Foundation	93.RD	—	148,695	148,695
	Cleveland Clinic Lerner College of Medicine of CWRU	93.RD	—	10,717	10,717
	Columbia University	93.RD	—	7,001	7,001
	Connecticut Children's Medical Center	93.RD	—	7,880	7,880
	Dartmouth College	93.RD	—	481,494	481,494
	Duke University	93.RD	—	153,842	153,842
	Emmes Corporation	93.RD	—	185	185
	Fordham University	93.RD	—	1,080	1,080
	Fox Chase Cancer Center	93.RD	—	15,628	15,628
	Fred Hutchinson Cancer Research Center	93.RD	—	110,129	110,129
	Frontier Science and Technology Research	93.RD	—	15,193	15,193
	Georgia Health Science University	93.RD	—	61,726	61,726
	Georgia Regents University	93.RD	—	57,319	57,319
	Gundersen Lutheran Medical Foundation	93.RD	—	(1,882)	(1,882)
	The Gynecologic Oncology Group	93.RD	—	10,187	10,187
	H Lee Moffitt Cancer Center & Research	93.RD	—	14,455	14,455
	Health Research Inc	93.RD	—	43,005	43,005
	Institute for Clinical Research, Inc.	93.RD	—	73,291	73,291
	InvivoSciences, LLC	93.RD	—	7,429	7,429
	Jaeb Center for Health Research, Inc.	93.RD	—	25,576	25,576
	Johns Hopkins University	93.RD	—	81,884	81,884
	Leidos Biomedical Research, Inc.	93.RD	—	58,083	58,083
	Marquette University	93.RD	—	107,665	107,665
	Massachusetts Eye and Ear Infirmary	93.RD	—	51,911	51,911
	Massachusetts General Hospital	93.RD	—	1,656	1,656
	Mayo Clinic-Arizona	93.RD	—	10,047	10,047
	Mayo Clinic Rochester	93.RD	—	4,557	4,557
	Milwaukee School of Engineering	93.RD	—	5,750	5,750
	Montefiore Medical Center	93.RD	—	16,290	16,290
	National Childhood Cancer Foundation	93.RD	—	9,795	9,795
	National Marrow Donor Program	93.RD	—	287,652	287,652
	New England Research Institutes Inc.	93.RD	—	217,559	217,559
	New York University School of Medicine	93.RD	—	30,964	30,964
	NorthShore University HealthSystem Research Institute	93.RD	—	161,374	161,374

(Continued)

Federal government award programs and funding agencies			Expenditures		
	Pass-through agencies	CFDA #	Direct	Pass-through	Total
	Northwestern University	93.RD	$ —	57,737	57,737
	NSABP Foundation, Inc.	93.RD	—	25,532	25,532
	Oklahoma University Health Science Center	93.RD	—	40,070	40,070
	Oregon Health & Science University	93.RD	—	33,490	33,490
	Physical Sciences Inc.	93.RD	—	92,318	92,318
	Primorigen Biosciences	93.RD	—	18,559	18,559
	Prism Clinical Imaging, Inc.	93.RD	—	114,059	114,059
	QuSpin	93.RD	—	8,879	8,879
	Radiological Society of North America	93.RD	—	26,070	26,070
	Rhode Island Hospital	93.RD	—	15,383	15,383
	Seattle Children’s Research Institute	93.RD	—	63,578	63,578
	Southwest Foundation for Biomedical Research	93.RD	—	21,629	21,629
	Texas Biomedical Research Institute	93.RD	—	65,214	65,214
	The Scripps Research Institute	93.RD	—	51,345	51,345
	Thomas Jefferson University	93.RD	—	106,260	106,260
	Tristan Technologies, Inc.	93.RD	—	46,896	46,896
	Tulane University	93.RD	—	317,964	317,964
	University at Albany	93.RD	—	(2,546)	(2,546)
	University of Alabama at Birmingham	93.RD	—	145,619	145,619
	University of Buffalo	93.RD	—	145,071	145,071
	University of California-Irvine	93.RD	—	379,778	379,778
	University of California-San Francisco	93.RD	—	200,281	200,281
	University of Cambridge	93.RD	—	95,547	95,547
	University of Chicago	93.RD	—	437,606	437,606
	University of Cincinnati	93.RD	—	21,060	21,060
	University of Florida	93.RD	—	55,819	55,819
	University of Hawaii at Manoa	93.RD	—	11,650	11,650
	University of Illinois-Chicago	93.RD	—	5,762	5,762
	University of Iowa	93.RD	—	1,086	1,086
	University of Kansas	93.RD	—	(110)	(110)
	University of Michigan	93.RD	—	309,366	309,366
	University of Minnesota	93.RD	—	239,378	239,378
	University of North Carolina at Greensboro	93.RD	—	599	599
	University of Oregon	93.RD	—	10,507	10,507
	University of Pennsylvania	93.RD	—	608,898	608,898
	University of Pittsburgh	93.RD	—	51,063	51,063
	University of Rochester	93.RD	—	33,042	33,042
	University of South Carolina	93.RD	—	11,962	11,962
	University of South Florida	93.RD	—	10,326	10,326
	University of Tennessee	93.RD	—	29,756	29,756
	University of Texas Medical Branch at Galveston	93.RD	—	16,297	16,297
	University of Texas – Health Science Center at Houston	93.RD	—	428,662	428,662
	University of Utah	93.RD	—	34,857	34,857
	University of Washington	93.RD	—	330,229	330,229
	University of Wisconsin-Madison	93.RD	—	228,784	228,784
	University of Wisconsin-Milwaukee	93.RD	—	744,673	744,673
	Vanderbilt University	93.RD	—	198,053	198,053
	Wake Forest University	93.RD	—	27,387	27,387
	Washington University in St. Louis	93.RD	—	3,877	3,877
	Wayne State University	93.RD	—	605	605
	Weill Medical College of Cornell University	93.RD	—	159,809	159,809
	Westat, Inc.	93.RD	—	557,663	557,663
	Wisconsin Corporation for Biomedical Research	93.RD	—	35,582	35,582
	Yale University	93.RD	—	11,995	11,995

(Continued)

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2014

Federal government award programs and funding agencies	Pass-through agencies	CFDA #	Expenditures Direct	Expenditures Pass-through	Expenditures Total
Total National Institutes of Health		93.RD	$ 87,755,389	10,297,832	98,053,221
NIH American Recovery and Reinvestment Act (ARRA)	—	93.RD	160,636	—	160,636
	Cincinnati Children's Hospital Medical Center	93.RD	—	1,800	1,800
	Duke University	93.RD	—	2	2
	Leidos Biomedical Research, Inc.	93.RD	—	8,867	8,867
	University of Michigan	93.RD	—	60,995	60,995
Total NIH American Recovery and Reinvestment Act (ARRA)		93.RD	160,636	71,664	232,300
Office of the Secretary	—	93.RD	6,074	—	6,074
	Cellerant Therapeutics	93.RD	—	1,946	1,946
	Dartmouth College	93.RD	—	90,659	90,659
Total Office of the Secretary			6,074	92,605	98,679
Substance Abuse and Mental Health Services Administration:	Mental Health America of Wisconsin	93.RD	—	45,149	45,149
Total Department of Health and Human Services			93,582,174	10,984,793	104,566,967
Total Research and Development Cluster			99,135,186	12,105,738	111,240,924
Student Financial Assistance Cluster (notes 2(b) and 3):					
Department of Education:					
Federal Perkins Loan Program	—	84.038	1,772,232	—	1,772,232
Federal Direct Loan Program	—	84.268	27,582,510	—	27,582,510
Total Department of Education			29,354,742	—	29,354,742
Department of Health and Human Services:					
Federal Primary Care Loans	—	93.342	825,000	—	825,000
Total Student Financial Assistance Cluster			30,179,742	—	30,179,742
Total major programs			129,314,928	12,105,738	141,420,666
Nonmajor programs:					
Department of Education:					
National Institute on Disability and Rehabilitation Research	Marquette University	84.133	—	4,043	4,043
Department of Health and Human Services:					
Centers for Disease Control and Prevention:					
Preventive Health Services – Sexually Transmitted Diseases Control Grants	State of Wisconsin	93.977	—	66,330	66,330
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	State of Wisconsin	93.074	—	14,912	14,912
Administration for Children and Families:					
Affordable Care Act (ACA) Personal Responsibility Education Program	State of Wisconsin	93.092	—	943,131	943,131
Temporary Assistance for Needy Families	Milwaukee County, Department of Health and Human Services	93.558	—	115,097	115,097
Children's Justice Grants to States	State of Wisconsin	93.643	—	703	703
Adoption Assistance	Community Advocates	93.659	—	29,001	29,001
Social Services Block Grant	Milwaukee County, Department of Health and Human Services	93.667	—	203,155	203,155
Centers for Medicare and Medicaid Services:					
Medical Assistance Program	State of Wisconsin	93.778	—	5,533	5,533
Health Resources and Services Administration (HRSA):					
Affordable Care Act (ACA) Public Health Training Centers Program	University of Wisconsin-Madison	93.516	—	93,061	93,061
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	—	93.153	880,769	—	880,769

(Continued)

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2014

Federal government award programs and funding agencies			Expenditures		
	Pass-through agencies	CFDA #	Direct	Pass-through	Total
Emergency Medical Services for Children	Children's Hospital of Wisconsin	93.127	$ —	26,841	26,841
Grants for Primary Care Training and Enhancement	—	93.884	414,207	—	414,207
HIV Care Formula Grants	State of Wisconsin	93.917	—	320,596	320,596
Special Projects of National Significance	State of Wisconsin	93.928	—	122,669	122,669
Coal Miners Respiratory Impairment Treatment Clinics and Services	Washington University in St Louis	93.965	—	2,974	2,974
Geriatric Education Centers	Marquette University	93.969	—	89,364	89,364
Maternal and Child Health Services Block Grant to the States	City of Milwaukee	93.994	—	47,212	47,212
Maternal and Child Health Services Block Grant to the States	State of Wisconsin	93.994	—	31,965	31,965
National Institutes of Health:					
Cancer Treatment Research	American College of Radiology	93.395	—	5,000	5,000
Cardiovascular Diseases Research	—	93.837	150,327	—	150,327
Aging Research	—	93.866	84,428	—	84,428
Diabetes, Digestive, and Kidney Diseases Extramural Research	—	93.847	11,620	—	11,620
Substance Abuse and Mental Health Services Administration					
Block Grants for Prevention and Treatment of Substance Abuse	Jewish Family Services	93.959	—	(1)	(1)
Total nonmajor programs			1,541,351	2,121,586	3,662,937
Total federal expenditures			130,856,279	14,227,324	145,083,603
Wisconsin Department of Health and Family Services:					
Division of Child and Family Services:					
Basic County Allocation	Milwaukee County, Division of Behavioral Health	435.561	—	687,747	687,747
Child Abuse and Neglect Prevention Board	—	433.181	7,651	—	7,651
Division of Family Medicine					
Wisconsin Rural Physician Residency Assistance Program	University of Wisconsin-Madison	unknown	—	24,871	24,871
Division of Public Health:					
Congenital Disorders	—	435.12801	258,833	—	258,833
Hospital Preparedness	—	435.155174	14,912	—	14,912
Family Planning	HealthCare Education & Training Inc.	435.159327	—	11,864	11,864
Milwaukee Adolescent Pregnancy Prevention Partnership	—	435.159352	70,355	—	70,355
Milwaukee Adolescent Pregnancy Prevention Partnership – Pregnancy Outreach	—	435.159353	5,533	—	5,533
State of Wisconsin Appropriations:					
Family Medicine and Practice (note 8)	—	20.25	3,207,017	—	3,207,017
General Program Operations Tuition Capitation (note 8)	—	20.25	1,929,295	—	1,929,295
Breast and Prostate Cancer Research Programs (note 8)	—	20.25	87,058	—	87,058
Total state expenditures			5,580,654	724,482	6,305,136
			$ 136,436,933	14,951,806	151,388,739

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, 2014 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, 2014, the College charged facilities and administrative costs of $27,098,582 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.

(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, 2014 are summarized as follows:

Direct loan programs:		
Primary Care Loan Program	$	825,000
Federal Perkins Loan Program		1,772,232
Total loans directly disbursed		2,597,232
Guaranteed loan programs:		
Federal Direct Loan Program – PLUS		3,294,359
Federal Direct Loan Program – subsidized		—
Federal Direct Loan Program – unsubsidized		24,288,151
Total guaranteed loans disbursed		27,582,510
Total loans disbursed	$	30,179,742

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 $88,582 for the year ended June 30, 2014. The balance of loans outstanding under the Perkins and Primary Care/Health Professions Student Loan Programs was $6,907,686 and $4,894,862, respectively, at June 30, 2014.

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. 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, 2014.

(4) 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, 2014 are summarized as follows:

Funding agency	CFDA #	Program description		Total expenditures passed through to subrecipients
Department of Transportation	20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	$	4,666
Department of Energy	81.RD	Global Threat Reduction Initiative – Radiation Safety		22,610
Department of Health and Human Services:				
Administration for Children and Families	93.092	Affordable Care Act Personal Responsibility Education Program		747,939
Health Resources and Services Administration	93.127	Emergency Medical Services for Children		32,174
Centers for Disease Control and Prevention	93.136	Injury Prevention and Control Research and State and Community Based Programs		66,697
Health Resources and Services Administration	93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth		392,157
National Institutes of Health	93.172	Human Genome Research		57,750
Agency for Healthcare Research and Quality	93.226	Research on Healthcare Costs, Quality and Outcomes		1,038,670
National Institutes of Health	93.242	Mental Health Research Grants		755,531
National Institutes of Health	93.279	Drug Abuse and Addiction Research Programs		280,833
National Institutes of Health	93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health		177,617
National Institutes of Health	93.307	Minority Health and Health Disparities Research		88,716
National Institutes of Health	93.350	National Center for Advancing Translational Sciences		754,721
National Institutes of Health	93.361	Nursing Research		22,909
National Institutes of Health	93.393	Cancer Cause and Prevention Research		154,246
National Institutes of Health	93.394	Cancer Detection and Diagnosis Research		75,528
National Institutes of Health	93.395	Cancer Treatment Research		2,084,803
National Institutes of Health	93.701	Trans-NIH Recovery Act Research Support		51,781
National Institutes of Health	93.837	Cardiovascular Diseases Research		10,044,667
National Institutes of Health	93.838	Lung Diseases Research		63,768
National Institutes of Health	93.839	Blood Diseases and Resources Research		2,500,850
National Institutes of Health	93.846	Arthritis, Musculoskeletal and Skin Diseases Research		62,523
National Institutes of Health	93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research		1,234,857
National Institutes of Health	93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders		584,219
National Institutes of Health	93.855	Allergy, Immunology, and Transplantation Research		810,335
National Institutes of Health	93.859	Biomedical Research and Research Training		605,722
National Institutes of Health	93.865	Child Health and Human Development Extramural Research		338,028
National Institutes of Health	93.867	Vision Research		24,762
Health Resources and Services Administration	93.884	Grants for Primary Care Training and Enhancement		29,674
Health Resources and Services Administration	93.913	Grants to States for Operation of Offices of Rural Health		149,054
Health Resources and Services Administration	93.917	HIV Care Formula Grants		194,866
Health Resources and Services Administration	93.994	Maternal and Child Health Services Block Grant to the States		24,127
National Institutes of Health	93.999	Pragmatic, Randomized Optimal Platelets and Plasma Ratios		17,636
Health Resources and Services Administration	93.unknown	Stem Cell Therapeutic Outcomes Database		1,865,630
National Institutes of Health	93.unknown	BMT-CTN		499,787
Total Department of Health and Human Services				25,832,577
Total federal awards passed through to subrecipients			$	25,859,853

(5) 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, 2014 are summarized as follows:

Federal grantor/program title	CFDA #	Expenditures
Department of Health and Human Services:		
Administration for Children and Families:		
Children's Justice Grants to States	93.643	$ 703
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	943,131
Temporary Assistance for Needy Families	93.558	115,097
Social Services Block Grant	93.667	203,155
Hospital Preparedness Program and Public Health Emergency Preparedness Aligned Cooperative Agreements	93.074	14,912
Preventive Health Services – Sexually Transmitted Diseases Control Grants	93.977	66,330
Centers for Medicare and Medicaid Services:		
Medical Assistance Program	93.778	(5,533)
Health Resources and Services Administration:		
HIV Care Formula Grants	93.917	348,394
Special Projects of National Significance	93.928	94,871
Maternal and Child Health Services Block Grant to the States	93.994	43,031
		$ 1,824,091

(6) 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, 2014 are summarized as follows:

		July 1 through December 31, 2013	January 1 through June 30, 2014	Total
Program expenditures:				
Salaries	$	301,623	280,794	582,417
Employee benefits		82,910	76,612	159,522
Supplies and other		75,990	47,968	123,958
Professional fees and assessments		23,063	15,807	38,870
Occupancy		68,482	68,482	136,964
Total program expenditures		552,068	489,663	1,041,731
Revenue from non-MCDHS sources:				
Other insurance		21,541	14,191	35,732
Total revenue from non-MCDHS sources		21,541	14,191	35,732
Net MCDHS expenditures	$	530,527	475,472	1,005,999

			Federal	State	Total
Sources of MCDHS support:					
State Funded Basic County Allocation	435.561	$	—	687,747	687,747
Social Services Block Grant	93.667		203,155	—	203,155
Temporary Assistance for Needy Families	93.558		115,097	—	115,097
		$	318,252	687,747	1,005,999

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2014

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

The College's settlement of State of Wisconsin Department of Health Services (DHS) cost reimbursement awards presented in the Schedule for the year ended June 30, 2014 are summarized as follows:

						Actual allowable cost of award							
						Program expenses			Management and general expenses allocated to program				
DHS identification number (CARS profile)	Award title	Award amount	Award period	Period of award within audit period	Expenditures reported to DHS for payment	Salaries and wages	Other expenses	Total program expenses	Other salaries and wages, allocated based on salaries and wages program expenses	Other expenses, allocated based on other program expenses	Total management and general expense allocated to program	Less program revenue and other offsets to costs	Total allowable costs
128010	Wisconsin Sickle Cell Disease Comprehensive Program	$ 499,203	7/1/12-6/30/13	—	$ 314,336	—	82,610	82,610	—	—	—	—	82,610
128010	Wisconsin Sickle Cell Disease Comprehensive Program	330,229	7/1/13-6/30/14	7/1/13-6/30/14	88,463	74,518	22,567	97,085	—	—	—	—	97,085
128010	Wisconsin Sickle Cell Disease Comprehensive Program	168,974	7/1/13-6/30/14	7/1/13-6/30/14	75,531	61,394	17,745	79,139	—	—	—	—	79,139
155027	STD Syphilis Elimination Program at JDC, DHC and SBHC	70,000	1/1/12-12/31/12	—	34,791	22,365	10,189	32,554	2,237	—	2,237	—	34,791
155027	STD Syphilis Elimination Program at JDC, DHC and SBHC	35,000	1/1/14-12/31/14	1/1/14-6/30/14	31,540	22,755	6,509	29,264	2,276	—	2,276	—	31,540
155174	Assist in Developing the State's Performance Improvement Plan	30,000	7/1/13-6/30/14	7/1/13-6/30/14	26,878	21,041	6,100	27,141	2,104	579	2,683	—	29,824
155915	Ryan White Part B Supplement	75,188	4/1/13-3/31/14	7/1/13-3/31/14	72,190	45,740	12,998	58,738	4,574	1,300	5,874	—	64,612
155919	Wisconsin HIV Primary Care Support Network-Statewide Medical Case Management Services	200,000	4/1/12-3/31/13	—	—	—	25,267	25,267	—	2,527	2,527	—	27,794
155919	Wisconsin HIV Primary Care Support Network-Statewide Medical Case Management Services	196,000	4/1/13-3/31/14	7/1/13-3/31/14	196,000	8,229	172,999	181,228	823	10,357	11,180	—	192,408
155919	Wisconsin HIV Primary Care Support Network-Statewide Medical Case Management Services	200,000	4/1/14-3/31/15	4/1/14-6/30/14	3,851	2,474	680	3,154	247	68	315	—	3,469
155994	SPNS Systems Linkages and Access to Care for Populations at High Risk for HIV Infection Initiative	163,799	9/1/12-8/31/13	7/1/13-8/31/13	27,797	19,774	5,496	25,270	1,977	550	2,527	—	27,797
155994	SPNS Systems Linkages and Access to Care for Populations at High Risk for HIV Infection Initiative	52,000	9/1/13-8/31/14	9/1/13-6/30/14	45,465	32,062	9,270	41,332	3,206	927	4,133	—	45,465
159352	Milwaukee Adolescent Pregnancy Prevention Partnership – Genera	100,483	1/1/12-12/31/12	—	5,928	—	2,217	2,217	—	—	—	—	2,217
159352	Milwaukee Adolescent Pregnancy Prevention Partnership – Genera	100,483	1/1/13-12/31/13	7/1/13-12/31/13	67,962	14,112	52,439	66,551	1,411	—	1,411	—	67,962
159352	Milwaukee Adolescent Pregnancy Prevention Partnership – Genera	100,483	1/1/14-12/31/14	1/1/14-6/30/14	32,140	13,738	17,028	30,766	1,374	—	1,374	—	32,140
159354	MAPPP PREP Expansion Grant	898,331	1/1/13-12/31/13	7/1/13-12/31/13	164,007	65,998	91,409	157,407	6,600	—	6,600	—	164,007
159354	MAPPP PREP Expansion Grant	845,849	10/1/13-9/30/14	10/1/13-6/30/14	445,126	63,934	374,799	438,733	6,393	—	6,393	—	445,126
159356	MAPPP PREP Expansion Grant	904,248	1/1/12-9/30/13	7/1/13-9/30/13	333,998	7,518	325,728	333,246	752	—	752	—	333,998
155990	Ryan White Part B Supplement	30,825	9/30/12-9/29/13	7/1/13-9/29/13	3,542	836	2,384	3,220	84	238	322	—	3,542
155990	Ryan White Part B Supplement	55,618	9/30/13-9/29/14	9/30/13-6/30/14	28,770	19,010	7,145	26,155	1,901	714	2,615	—	28,770
159353	Milwaukee Adolescent Pregnancy Prevention Partnership – Outrea	11,520	1/1/13-12/31/13	7/1/13-12/31/13	6,219	—	6,219	6,219	—	—	—	—	6,219
159353	Milwaukee Adolescent Pregnancy Prevention Partnership – Outrea	11,520	1/1/14-12/31/14	1/1/14-6/30/14	4,848	—	4,848	4,848	—	—	—	—	4,848
155947	Ryan White Part B Supplement- Linkage to Care SPNS	66,958	9/1/13-8/31/14	9/1/13-6/30/14	49,405	33,552	11,362	44,914	3,355	1,136	4,491	—	49,405
					$ 2,058,787	529,050	1,268,008	1,797,058	39,314	18,396	57,710	—	1,854,768

(Continued)

(8) 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 $3,207,017 for the year ended June 30, 2014. The College receives an annual appropriation from the State of Wisconsin for in-state student tuition capitation to support general program operations. The appropriation was $1,929,295 for the year ended June 30, 2014. The College also receives annual appropriations from the State of Wisconsin to support breast and prostate cancer research. The College expended $87,058 of the cancer research appropriations during the year ended June 30, 2014. 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.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

(1) Summary of Auditors' Results

Financial Statements

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

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 and State Awards

D. Internal control over major program:

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

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

F. Any audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

G. Identification of major federal programs:

Program name

Research and Development Cluster

Student Financial Assistance Cluster

H. Identification of major state programs:

Program name

Basic County Allocation (State ID 435.561)

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

J. Auditee qualified as low-risk auditee? Yes

Financial Statement Findings: **None**

(2) Federal and State Award Findings and Questioned Cost: None

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

(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*? **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 3, 2014

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of The Medical College of Wisconsin, Inc. (the College), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of unrestricted activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 3, 2014.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

KPMG LLP

Milwaukee, Wisconsin
October 3, 2014

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

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

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

Report on Compliance for Each Major Federal and State Program

We have audited The Medical College of Wisconsin, Inc.'s (the College) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *State Single Audit Guidelines* that could have a direct and material effect on each of the College's major federal and state programs for the year ended June 30, 2014. The College's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal and state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State Single Audit Guidelines*. Those standards, OMB Circular A-133 and the *State Single Audit Guidelines* 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 or state 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 on compliance for each major federal and state program. However, our audit does not provide a legal determination of the College's compliance.

Opinion on Each Major Federal and State Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and *the State Single Audit Guidelines*, 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.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and the *State Single Audit Guidelines*. Accordingly, this report is not suitable for any other purpose.

KPMG LLP

Milwaukee, Wisconsin
October 3, 2014