



**Consolidated Financial Statements and Report of
Independent Certified Public Accountants**

University of Wisconsin Foundation

June 30, 2016 and December 31, 2015

Contents

	Page
Report of Independent Certified Public Accountants	3
Consolidated Financial Statements	
Statements of financial position	5
Statement of activities	6
Statement of cash flows	7
Notes to consolidated financial statements	8
Supplementary Information	
Supplemental schedule of expenses	31



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Grant Thornton LLP
100 E Wisconsin Avenue, Suite 2100
Milwaukee, WI 53202-4169
T 414.289.0200
F 414.289.9910
GrantThornton.com
[linkd.in/GrantThorntonUS](https://www.linkedin.com/company/grantthorntonus)
twitter.com/GrantThorntonUS

Board of Directors
University of Wisconsin Foundation

Report on the financial statements

We have audited the accompanying consolidated financial statements of the University of Wisconsin Foundation (a not-for-profit Wisconsin corporation), which comprise the consolidated statements of financial position as of June 30, 2016 and December 31, 2015, and the related consolidated statements of activities and cash flows for the six-month period ended June 30, 2016, 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 accounting principles generally accepted in the United States of America; 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 auditor's 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 financial position of the University of Wisconsin Foundation as of June 30, 2016 and December 31, 2015, and the changes in their net assets and their cash flows for the six-month period ended June 30, 2016, in accordance with accounting principles generally accepted in the United States of America.

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental schedule of expenses for the six-month period ended June 30, 2016, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary 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 audits of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the 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 supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Grant Thornton LLP

Milwaukee, Wisconsin

December 9, 2016

University of Wisconsin Foundation
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and December 31, 2015

ASSETS	June 30, 2016	December 31, 2015
Cash and cash equivalents	\$ 112,953,979	\$ 258,854,516
Income and redemption receivables	20,860,964	41,977,689
Prepaid expenses	1,522,672	1,674,044
Pledges receivable, net	179,734,301	191,901,461
Investments	3,177,038,023	2,969,597,110
Property and equipment, net	21,076,955	20,723,829
Real estate	2,606,109	3,295,943
Notes receivable	1,289,038	1,331,487
Other assets	<u>3,945,717</u>	<u>3,578,998</u>
TOTAL ASSETS	<u>\$3,521,027,758</u>	<u>\$3,492,935,077</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 4,098,923	\$ 14,299,640
Pending investment purchases payable	27,506,426	15,675,403
Accrued expenses and other payables	5,872,504	4,935,754
Deferred revenue	380,938	136,533
Deferred compensation	2,280,625	2,260,880
Note payable	2,742,708	2,878,218
Liability under split-interest agreements	43,700,837	43,884,223
Funds due to other organizations	<u>237,259,071</u>	<u>232,142,012</u>
Total liabilities	323,842,032	316,212,663
COMMITMENTS		
Net assets		
Unrestricted	85,081,476	197,756,088
Temporarily restricted	1,524,329,521	1,464,488,384
Permanently restricted	<u>1,587,774,729</u>	<u>1,514,477,942</u>
Total net assets	<u>3,197,185,726</u>	<u>3,176,722,414</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$3,521,027,758</u>	<u>\$3,492,935,077</u>

The accompanying notes are an integral part of these statements.

University of Wisconsin Foundation
CONSOLIDATED STATEMENT OF ACTIVITIES
Six-month period ended June 30, 2016

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains and other support				
Contributions	\$ 1,344,350	\$ 113,878,077	\$ 36,420,629	\$ 151,643,056
Interest and dividend income	4,445,642	9,151,772	-	13,597,414
Net investment (losses) gains	(7,550,281)	48,295,913	-	40,745,632
Other income	2,294,539	461,481	-	2,756,020
Reclassifications of net assets due to changes in donor restriction, matching fund programs and settlement of inter-pool transfers	(113,208,862)	76,332,704	36,876,158	-
Net assets released from restriction	<u>188,278,810</u>	<u>(188,278,810)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	75,604,198	59,841,137	73,296,787	208,742,122
Expenses				
Payments to or for University of Wisconsin	159,341,607	-	-	159,341,607
Fundraising expenses	14,665,847	-	-	14,665,847
Management and general expenses	<u>14,271,356</u>	<u>-</u>	<u>-</u>	<u>14,271,356</u>
Total expenses	<u>188,278,810</u>	<u>-</u>	<u>-</u>	<u>188,278,810</u>
(DECREASE) INCREASE IN NET ASSETS	(112,674,612)	59,841,137	73,296,787	20,463,312
Net assets at beginning of period	<u>197,756,088</u>	<u>1,464,488,384</u>	<u>1,514,477,942</u>	<u>3,176,722,414</u>
Net assets at end of period	<u>\$ 85,081,476</u>	<u>\$1,524,329,521</u>	<u>\$1,587,774,729</u>	<u>\$3,197,185,726</u>

The accompanying notes are an integral part of this statement.

University of Wisconsin Foundation
CONSOLIDATED STATEMENT OF CASH FLOWS
Six-month period ended June 30, 2016

Cash flows from operating activities	
Increase in net assets	\$ 20,463,312
Adjustments to reconcile increase in net assets to net cash used in operating activities	
Depreciation of property and equipment	1,038,507
Net investment gains	(40,877,993)
Realized losses on sales of real estate	132,361
Realized losses on sales of property and equipment	7,587
Contributions to endowment funds	(36,420,629)
Contributions of real estate	(51,713)
Changes in operating assets and liabilities	
Income receivables	23,828,302
Prepaid expenses	151,372
Pledges receivable	5,458,734
Other assets	(366,719)
Accounts payable	(10,200,717)
Accrued expenses and other payables	936,750
Deferred revenue	244,405
Deferred compensation	19,745
Liability under split-interest agreements	(183,386)
Funds due to other organizations	<u>3,233,804</u>
Net cash used in operating activities	(32,586,278)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	1,436,718,540
Purchases of investments	(1,592,278,759)
Proceeds from sales of real estate	609,186
Purchases of property and equipment	(1,399,220)
Payments received on notes receivable	<u>42,449</u>
Net cash used in investing activities	(156,307,804)
Cash flows from financing activities	
Payments on note payable	(135,510)
Proceeds from contributions to endowment funds	<u>43,129,055</u>
Net cash provided by financing activities	<u>42,993,545</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(145,900,537)
Cash and cash equivalents at beginning of period	<u>258,854,516</u>
Cash and cash equivalents at end of period	\$ <u>112,953,979</u>
Non-cash operating and investing activities	
Gifts of investments	\$ 16,206,278

The accompanying notes are an integral part of this statement.

University of Wisconsin Foundation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and December 31, 2015

NOTE A - ORGANIZATION

The University of Wisconsin Foundation (Foundation) is a private, not-for-profit organization formed to generate private support for the University of Wisconsin Madison (UW-Madison). The Foundation receives gifts and bequests, administers and invests funds held, and disburses payments to and on behalf of UW-Madison for advancement of scientific, literary, educational and athletic purposes.

The Foundation established the UW-Madison Supporting Organization, Inc. (Supporting Organization), which is a separate legal entity. The Supporting Organization holds certain tax-generating assets for the benefit and support of UW-Madison and the Foundation.

A summary of the Foundation's fund and account descriptions follows:

General Fund and Expendable Accounts

The General Fund records amounts that have not been restricted for a specific purpose by the donor. Expendable Accounts reflect gifts made for a specific purpose designated by the donor.

Endowment Fund Accounts

At June 30, 2016 and December 31, 2015, there were 4,931 and 4,767 funds, respectively, pooled in an endowment fund for investment purposes (Endowment Fund Accounts). Generally, principal of the funds is to be kept intact with income from investments being distributed according to the wishes of the donor. For certain funds that are not permanently restricted, the donor may also request principal to be available for distribution.

Life Income (Split-interest Gifts)

At June 30, 2016 and December 31, 2015, there were 338 and 342 charitable trusts (Life Income and Life Estate Accounts), respectively, that have been created for and trustee'd by the Foundation. U.S. Bank, N.A. serves as the custodian.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows.

Basis of Consolidation

The Foundation and Supporting Organization financial statements have been consolidated pursuant to accounting principles generally accepted in the United States of America (U.S. GAAP). All significant inter-entity transactions are eliminated in consolidation.

Use of Estimates

When preparing financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date

University of Wisconsin Foundation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2016 and December 31, 2015

of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Foundation considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents. The carrying amount of cash equivalents approximates fair value due to the short maturities of these investments.

Pledges Receivable

Promises to give that are expected to be collected within one year are recorded at net realizable value. Promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates that the Foundation feels represent rates commensurate with the risk involved. The pledges receivable have been discounted at rates ranging from 0.45% to 6.80% as of June 30, 2016, and 0.67% to 7.41% as of December 31, 2015.

Contributions

The Foundation recognizes a contribution when it receives assets (financial or non-financial) from a donor that are specified for UW-Madison and other organizations within the University of Wisconsin System. The Foundation records contributions as revenues. All donations received by the Foundation specifically benefit UW-Madison and other organizations within the University of Wisconsin System, the Foundation and UW-Madison are financially interrelated, and the Foundation is not a trustee.

Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions.

Notes Receivable

The Foundation evaluates the credit quality of the receivables and establishes an allowance for doubtful accounts based primarily on collection history, using a combination of factors including, but not limited to, collection experience, economic conditions and the note maker's financial condition. The Foundation writes off notes receivable as a realized loss when they become uncollectible. Notes become past due when principal payments are not received in accordance with the agreed-upon terms. Interest charged on notes receivable is recorded as interest income. As of June 30, 2016 and December 31, 2015, the Foundation believes that all notes receivable are fully collectible.

Depreciation and Amortization

Expenditures for additions and improvements are capitalized, while replacements, maintenance and repairs that do not improve the useful lives of the assets are expensed as incurred.

University of Wisconsin Foundation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2016 and December 31, 2015

Depreciation is provided in amounts sufficient to relate the cost of the depreciable assets to operations using the straight-line method over the following estimated service lives:

Asset description	Life
Buildings	17 to 39 years
Land improvements	10 to 15 years
Office furniture and equipment	5 to 15 years
Computer hardware and software	3 to 15 years
Automobiles and trucks	5 years
Leasehold improvements	(1)

(1) The shorter of their estimated useful lives or the remaining terms of the related leases.

Investments

Investments are stated at fair value and are recorded on the trade date. Realized gains and losses on sales of investments are determined on an average cost basis.

Investment securities are exposed to various risks including, but not limited to, 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.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time.

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

Split-interest Agreements

Assets contributed by donors under charitable remainder trust agreements and controlled by third parties are recognized at the present value of the estimated future distributions to be received by the Foundation over the term of the agreement. The Foundation records life income assets received at their fair value. The actuarially determined present value of the future annuity cash flow required to be paid to the donors or their beneficiaries is recorded as a liability in the consolidated statements of financial position. The Foundation records the difference between the fair value of the life income assets and the actuarially determined present value of future annuity cash flow as contribution revenue in the year the asset is received. The Foundation recorded contribution revenue of approximately \$540,000 for the six-month period ended June 30, 2016, related to these agreements. Life income assets totaled \$88,547,608 and \$87,692,565 as of June 30, 2016 and December 31,

University of Wisconsin Foundation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2016 and December 31, 2015

2015, respectively, and are included in cash and cash equivalents and investments in the accompanying consolidated statements of financial position.

Gift annuities are contracts between the Foundation and individual donors. Each contract involves a gift of principal to the Foundation and an obligation by the Foundation to make payments as specified in the contract. Any deficit in income to be distributed will be funded first from the principal donated and, if that is insufficient, from other Foundation assets. The gift annuity liability recorded at June 30, 2016 and December 31, 2015, totaled \$8,473,195 and \$8,223,800, respectively.

Charitable Remainder Trusts, Charitable Lead Trusts and Pooled Income Funds are gifts in the form of trusts. Income and/or principal from these trusts are distributed to the named beneficiaries in the amount specified by each written agreement. Upon termination of the trust at some future date, the remaining principal and income will be distributed as specified in the agreement. The total liability recorded for Charitable Remainder Trusts and Charitable Lead Trusts at June 30, 2016 and December 31, 2015, totaled \$33,951,593 and \$34,367,385, respectively. The Pooled Income Funds liability totaled \$758,080 and \$778,921 at June 30, 2016 and December 31, 2015, respectively.

The Foundation holds residential real property valued at \$1,502,700 at June 30, 2016 and December 31, 2015, subject to life estates retained by the donors. The liability associated with the life estates is recorded at \$517,969 and \$514,117 as of June 30, 2016 and December 31, 2015, respectively.

Administrative and Investment Expenses

Administrative expenses not specifically identifiable with the Expendable Accounts, Endowment Fund, or Life Income and Life Estate Accounts are recorded in the General Fund and are not allocated. The Foundation has a policy of assessing an institutional advancement fee to the Endowment Fund at a rate of 1/4 of 1% at the end of each quarter. The amount assessed is based on the prior quarter ending market value of the Endowment Fund. For the six-month period ended June 30, 2016, the amount assessed to the Endowment Fund was \$12,065,171.

The Foundation charges internal investment staff and related support costs to the Endowment Fund and Expendable Accounts. The Endowment Fund was charged \$1,819,657 and the Expendable Accounts were charged \$202,185 during 2016.

These expenses are internal allocations between the General Fund and the Expendable Accounts and Endowment Fund. They are not reflected in the management and general expenses on the consolidated statement of activities.

Guarantees

In 1998, the Foundation entered into a guarantee and support agreement on behalf of the Center for Advanced Studies in Business, Inc. (CASB) to secure principal and interest payments on \$10,880,000 of fixed rate development revenue bonds used in funding the construction of the Fluno Center. CASB has since obtained a \$12,100,000 mortgage loan from Associated Bank. The Foundation also entered into a guarantee and support agreement to secure principal and interest payments on this new loan. The total loan outstanding as of June 30, 2016 and December 31, 2015, was \$10,680,169 and \$10,924,157, respectively. The loan is payable in quarterly installments through May 2020, when a balloon payment is due, and includes interest at a 2.71% fixed rate.

University of Wisconsin Foundation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2016 and December 31, 2015

Fair Value of Financial Instruments

For all financial instruments other than investments, the carrying value is a reasonable estimate of fair value because of the short-term nature of the financial instruments.

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (that is, an exit price). The exit price is based on the amount that the holder of the asset or liability would receive or need to pay in an actual transaction (or in a hypothetical transaction if an actual transaction does not exist) at the measurement date. In some circumstances, the entry and exit price may be the same; however, they are conceptually different. Note V discloses all required information.

Deferred Revenue

The Foundation participates in several programs that offer royalty-based revenue, often paid in advance. The Foundation also accepts registration payments for programs or events that are scheduled to take place on defined future dates. Advance payments of this nature are deferred and not recognized as revenue until they are substantially earned. As of June 30, 2016 and December 31, 2015, deferred revenue for royalty-based programs and event registrations is \$380,938 and \$136,533, respectively.

Reclassifications

Net assets totaling \$21,778,495 were transferred to permanently restricted funds during the six-month period ended June 30, 2016, related to active donor matching fund programs, in addition to other reclassifications related to changes in donor restrictions. In June 2016, \$96,796,052 was transferred from unrestricted net assets to temporarily restricted net assets to settle an inter-pool transfer associated with standard operating payments generated in prior years, due from the endowment pool to the expendable pool. Because the inter-pool transfer was previously recognized as a component of temporarily restricted net assets, settlement has effectively increased total temporarily restricted net assets, while decreasing total unrestricted net assets. Total net assets are unaffected by these reclassifications.

New Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases*. The objective of ASU 2016-02 is to increase transparency and comparability among organizations by reorganizing lease assets and lease liabilities on the consolidated statements of financial position and disclosing key information about leasing arrangements. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2019, and shall be applied using either a full retrospective or modified retrospective approach. Early adoption is permitted. The Foundation is currently evaluating the impact on the results of operations, financial condition and cash flows, and has not determined the impact on its consolidated financial statements at this time.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about liquidity and availability of resources, expenses and investment return, and cash flows. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017, and shall be applied retrospectively. Early adoption is permitted. The Foundation is currently evaluating the impact on the results of operations, financial condition and cash flows, and has not determined the impact on its consolidated financial statements at this time.

University of Wisconsin Foundation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2016 and December 31, 2015

NOTE C - INCOME TAXES

The Foundation has received a determination letter from the Internal Revenue Service stating that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). However, the Foundation is subject to federal and state income taxes on its unrelated business income, as a result of ownership in various investment entities.

The Foundation recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. The Foundation applied the uncertain tax position guidance to all tax positions for which the statute of limitations remained open.

The Foundation is subject to federal income taxes and files state tax returns in various states. In addition to filing in its home state of Wisconsin, the Foundation files state income tax returns in 39 states.

Tax regulations within each jurisdiction are subject to the interpretation of the related laws and regulations and require significant judgment to apply. Tax years open to examinations by tax authorities under the federal statute of limitations include calendar years 2012 through 2015 and fiscal year ended June 30, 2016. Open tax years under the various state statutes of limitations include calendar years 2009 to 2015 and fiscal year ended June 30, 2016. For states where the Foundation has not filed a state return, all tax years remain open.

The Foundation, if applicable, recognizes interest accrued related to unrecognized tax benefits in interest expense and recognizes penalties in operating expenses. During the six-month period ended June 30, 2016, the Foundation did not recognize any material interest or penalties.

As of June 30, 2016, the Foundation has approximately \$11,931,000 of federal net operating loss carryforwards available as a result of losses sustained related to its ownership in various investment entities. The Foundation also has approximately \$6,999,000 of state net operating loss carryforwards available. These net operating losses have been offset by a full valuation allowance due to the uncertainty of realizing the benefit of the carryforwards in future years.

NOTE D - CONCENTRATION OF CREDIT RISK

The Foundation maintains deposits in financial institutions that consistently exceed the Federal Deposit Insurance Corporation limit. The Foundation has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk.

University of Wisconsin Foundation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2016 and December 31, 2015

NOTE E - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2016 and December 31, 2015, are restricted for the following purposes:

	<u>2016</u>	<u>2015</u>
Endowed chairs/professorships	\$ 138,013,505	\$ 145,980,462
Research programs	418,725,555	396,609,604
Undergraduate student financial support	178,976,064	193,666,000
Graduate student financial support	96,297,180	99,152,196
Faculty support	15,926,613	17,638,191
Building and grounds	132,855,790	158,126,301
Public service	16,789,120	18,027,954
Research equipment	4,011,622	4,008,884
Discretionary	312,173,740	325,013,032
Other	<u>210,560,332</u>	<u>106,265,760</u>
	<u>\$1,524,329,521</u>	<u>\$1,464,488,384</u>

Net assets released from restriction by incurring expenditures that satisfy the designated purpose totaled \$188,278,810 for the six-month period ended June 30, 2016.

NOTE F - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of June 30, 2016 and December 31, 2015, consisted of the following, the income of which is restricted for the following purposes:

	<u>2016</u>	<u>2015</u>
Endowed chairs/professorships	\$ 452,336,953	\$ 422,582,969
Research programs	484,361,412	479,408,074
Undergraduate student financial support	253,334,805	230,726,891
Graduate student financial support	195,723,869	180,664,540
Faculty support	31,732,601	34,054,502
Building and grounds	3,860,184	3,952,144
Public service	19,415,785	19,082,107
Research equipment	2,516,782	2,516,782
Discretionary	82,811,679	80,236,541
Other	<u>61,680,659</u>	<u>61,253,392</u>
	<u>\$1,587,774,729</u>	<u>\$1,514,477,942</u>

University of Wisconsin Foundation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2016 and December 31, 2015

NOTE G - ENDOWMENTS

The Foundation's endowment consisted of 3,864 and 3,726 individual funds at June 30, 2016 and December 31, 2015, respectively. These funds were established for a variety of purposes. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions and on state law.

Interpretation of Relevant Law

The board of directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit or implicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. 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 Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

- the duration and preservation of the fund;
- the purpose of the Foundation and the donor-restricted endowment fund;
- general economic conditions;
- the possible effect of inflation and deflation;
- the expected total return from income and the appreciation of investments;
- other resources of the Foundation; and
- the investment policies of the Foundation.

Endowment net asset composition by type of fund is as follows as of June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$(35,809,139)	\$309,330,825	\$1,587,774,729	\$1,861,296,415

University of Wisconsin Foundation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2016 and December 31, 2015

Endowment-related activities by type of fund are as follows for the six-month period ended June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of period	\$(25,651,237)	\$326,038,977	\$1,514,477,942	\$1,814,865,682
Total investment (loss) gain	(10,157,902)	23,902,333	-	13,744,431
Contributions	-	-	36,420,629	36,420,629
Appropriation of endowment assets for expenditure	-	(37,012,268)	-	(37,012,268)
Transfers in for matching program	-	-	21,778,495	21,778,495
Net transfer to/from endowment funds	<u>-</u>	<u>(3,598,217)</u>	<u>15,097,663</u>	<u>11,499,446</u>
Endowment net assets, end of period	<u>\$(35,809,139)</u>	<u>\$309,330,825</u>	<u>\$1,587,774,729</u>	<u>\$1,861,296,415</u>

Endowment net asset composition by type of fund is as follows as of December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$(25,651,237)	\$326,038,977	\$1,514,477,942	\$1,814,865,682

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets and were \$35,809,139 and \$25,651,237 as of June 30, 2016 and December 31, 2015, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce long-term results that exceed the price and yield results of a diversified global market benchmark while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return commensurate with spending, inflation and expenses annually. Actual returns in any given year will vary.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield

University of Wisconsin Foundation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2016 and December 31, 2015

(interest and dividends). The Foundation targets a diversified asset allocation that places an emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation's spending policy appropriates 4.5% of the endowment fund's average fair value over the most recent 16 quarters for distribution. In establishing its spending policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 2% to 3% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE H - OTHER ASSETS

Other assets consisted of the following at June 30, 2016 and December 31, 2015:

	<u>2016</u>	<u>2015</u>
Cash value of life insurance policies, net of policy loans of \$1,046 and \$1,289, respectively	\$3,443,769	\$3,322,508
Alumni relations receivable	453,648	191,193
State income tax receivable	-	17,000
Other miscellaneous assets	<u>48,300</u>	<u>48,297</u>
	<u>\$3,945,717</u>	<u>\$3,578,998</u>

NOTE I - PLEDGES RECEIVABLE

Pledges receivable consisted of the following as of June 30, 2016 and December 31, 2015:

	<u>2016</u>	<u>2015</u>
Unconditional promises to give before unamortized discount and allowance for uncollectible pledges	\$192,451,301	\$207,973,461
Less unamortized discount	<u>(7,617,000)</u>	<u>(9,297,000)</u>
	184,834,301	198,676,461
Less allowance for uncollectible pledges	<u>(5,100,000)</u>	<u>(6,775,000)</u>
	<u>\$179,734,301</u>	<u>\$191,901,461</u>

University of Wisconsin Foundation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2016 and December 31, 2015

	<u>2016</u>	<u>2015</u>
Amounts due in		
Less than one year	\$ 49,136,978	\$ 64,598,344
One to five years	116,230,750	116,937,565
More than five years	<u>27,083,573</u>	<u>26,437,552</u>
	192,451,301	207,973,461
Less unamortized discount and allowance	<u>(12,717,000)</u>	<u>(16,072,000)</u>
	<u>\$179,734,301</u>	<u>\$191,901,461</u>

NOTE J - INVESTMENTS

Investments consisted of the following at June 30, 2016 and December 31, 2015:

	<u>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>
Bond and debentures	\$ 489,882,095	\$ 491,863,884	\$ 517,425,581	\$ 514,039,120
Common stocks	297,180,946	311,749,823	219,985,003	230,063,129
Bond funds	533,911,002	574,218,425	387,601,240	423,203,996
Stock funds	845,899,006	1,106,278,798	912,769,550	1,190,153,195
Electronically traded funds	87,283,943	103,096,374	55,293,575	67,568,784
Hedge funds	64,910,969	82,784,506	35,286,765	52,165,846
Limited partnerships	300,130,145	319,092,492	282,551,269	322,560,367
Real asset funds	202,102,032	185,761,363	192,719,152	167,572,875
Other funds	<u>3,127,080</u>	<u>2,192,358</u>	<u>3,154,236</u>	<u>2,269,798</u>
	<u>\$2,824,427,218</u>	<u>\$3,177,038,023</u>	<u>\$2,606,786,371</u>	<u>\$2,969,597,110</u>

University of Wisconsin Foundation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2016 and December 31, 2015

NOTE K - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2016 and December 31, 2015:

	<u>2016</u>	<u>2015</u>
Buildings	\$12,641,508	\$12,313,026
Office furniture and equipment	1,877,776	1,544,610
Computer hardware and software	11,918,919	11,918,919
Automobiles and trucks	115,990	115,990
Land improvements	1,152,295	1,152,295
Leasehold improvements	581,333	624,261
Construction in process	<u>1,503,314</u>	<u>796,853</u>
	29,791,135	28,465,954
Less accumulated depreciation and amortization	<u>(9,216,710)</u>	<u>(8,244,655)</u>
	20,574,425	20,221,299
Land	<u>502,530</u>	<u>502,530</u>
	<u>\$21,076,955</u>	<u>\$20,723,829</u>

NOTE L - REAL ESTATE

Gifts of real property received by the Foundation are valued and recorded based on the current fair values on the date received. Values are determined from publications, appraisals and other sources that assist in establishing a fair value.

University of Wisconsin Foundation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2016 and December 31, 2015

Real estate of the General Fund, Expendable Accounts, and Life Income and Life Estate Accounts consisted of the following at June 30, 2016 and December 31, 2015:

	<u>2016</u>	<u>2015</u>
Parcels of land located in Brown County, held for the benefit of UW-Green Bay	\$ 330,925	\$ 330,873
A house in Door County, held for the benefit of UW-Madison School of Medicine and Public Health	601,672	599,211
Appraised value of a condominium in Madison, given as a life estate interest in the property, yet to be designated	576,000	576,000
Appraised value of a home in Madison, given as a retained life estate interest in the property, held for the benefit of the School of Journalism	926,700	926,700
Appraised value of property in Madison held for the benefit of UW-Madison School of Veterinary Medicine, sold on May 2, 2016	-	692,735
Appraised value of property in Minnesota held for the benefit of UW-Madison Department of Political Science	49,665	49,012
Other parcels of land	<u>121,147</u>	<u>121,412</u>
	<u>\$2,606,109</u>	<u>\$3,295,943</u>

University of Wisconsin Foundation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2016 and December 31, 2015

NOTE M - NOTES RECEIVABLE

Notes receivable consisted of the following at June 30, 2016 and December 31, 2015:

	<u>2016</u>	<u>2015</u>
I'm Organic LLC, interest payable at 8% per year, final payment due in December 2016	\$ 50,000	\$ 50,000
Gunnar and Lorraine Johansen, interest payable on due date at 4%, final payment due on the closing of the sale of the property, collateralized by properties in Mendocino County, California	129,054	126,523
Stan Kosmides, interest payable monthly at 11%, final payment due in November 2011, collateralized by property in South Lake Tahoe, California (a)	59,500	76,500
Robert D. McIntyre, interest payable monthly at 11%, due with principal in August 2010, collateralized by properties in South Lake Tahoe, California (a)	100,000	100,000
Julie and Francis Monarski, interest payable at 7%, monthly interest payments of \$500, final payment due in September 2022, unsecured	129,147	129,147
Joseph P. Bennett, interest accruing at 3% per annum, full payment due from maker's estate upon death	300,000	300,000
NxtMile, LLC, interest payable on due date at 8%, final payment due in December 2016, guaranteed by owner	100,000	100,000
WindLift LLC, interest payable quarterly at 8%, final payment due in December 2016, guaranteed by owner	100,000	100,000
C-Motive Technologies, interest payable at 5% per year, final payment to be determined, guaranteed by owner	100,000	100,000
Heathercrest LLC, interest payable at a fixed rate of 1.7%, due monthly with principal payment, final payment due in March 2020	<u>221,337</u>	<u>249,317</u>
	<u>\$1,289,038</u>	<u>\$1,331,487</u>

(a) The above notes are in default of original terms. The Foundation is currently extending the terms of these notes with the parties listed above.

NOTE N - INCOME AND REDEMPTION RECEIVABLES

Income and redemption receivables consisted of the following at June 30, 2016 and December 31, 2015:

	<u>2016</u>	<u>2015</u>
Proceeds receivable on investment redemptions	\$ 2,711,577	\$29,195,632
Investment income receivable	17,891,583	12,547,315
Interest receivable on notes receivable	<u>257,804</u>	<u>234,742</u>
	<u>\$20,860,964</u>	<u>\$41,977,689</u>

University of Wisconsin Foundation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2016 and December 31, 2015

NOTE O - LEASE OBLIGATIONS

The Foundation has several operating lease agreements for buildings, automobiles and equipment that expire at various dates through November 2025. Total expense for operating leases was \$402,497 for the six-month period ended June 30, 2016.

Future minimum lease payments at June 30, 2016, are as follows:

Years ending June 30.

2017	\$ 799,381
2018	456,105
2019	408,986
2020	265,217
2021	215,563
Thereafter	<u>928,504</u>
	<u>\$3,073,756</u>

NOTE P - COMMITMENTS

The Foundation entered into investment agreements and has the following outstanding investment commitments as of June 30, 2016 and December 31, 2015:

	<u>2016</u>	<u>2015</u>
Limited partnerships	\$152,963,972	\$143,644,729
Real asset funds	<u>81,880,018</u>	<u>84,749,039</u>
	<u>\$234,843,990</u>	<u>\$228,393,768</u>

The above outstanding commitments only include those entered into in U.S. dollars.

As of June 30, 2016 and December 31, 2015, the Foundation entered into investment agreements and has the following outstanding investment commitments in foreign currency:

	<u>2016</u>		<u>2015</u>	
	Original total commitment in foreign currency	Outstanding commitment remaining (U.S. dollars)	Original total commitment in foreign currency	Outstanding commitment remaining (U.S. dollars)
Limited partnerships	17,000,000 (Euros)	\$ 1,756,527	17,000,000 (Euros)	\$ 1,717,792
Limited partnerships	14,000,000 (Pounds)	<u>11,004,078</u>	11,000,000 (Pounds)	<u>9,231,027</u>
		<u>\$12,760,605</u>		<u>\$10,948,819</u>

University of Wisconsin Foundation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2016 and December 31, 2015

NOTE Q - DEFERRED COMPENSATION

The Foundation has entered into deferred compensation agreements with two current officers and one former officer. Under these agreements, the receipt of compensation may be deferred.

IRC 457(b) limits the amount of annual compensation that may be elected for deferral and the manner in which the deferred compensation may be distributed. A liability of \$2,280,625 and \$2,260,880 for these plans is reflected on the consolidated statements of financial position as of June 30, 2016 and December 31, 2015, respectively.

In October 2014, the Foundation adopted another deferred compensation plan in accordance with IRC 457(b). The purpose of the plan is to offer eligible employees of the Foundation the opportunity to defer eligible compensation on a pretax basis.

NOTE R - NOTE PAYABLE

In February 2015, the Foundation entered into an unsecured term note payable agreement with U.S. Bank, N.A. The note bore interest at an annual fixed rate of 3.25% and was payable in monthly installments of \$30,355 beginning March 1, 2015, through the maturity date of February 1, 2025. The balance outstanding is \$2,742,708 and \$2,878,218 as of June 30, 2016 and December 31, 2015, respectively. In October 2016, the board of directors approved an early payoff of this note. On October 31, 2016, the Foundation made a final payment of principal and interest of \$2,658,296. There were no prepayment penalties or fees.

Interest expense totaled \$45,955 for the six-month period ended June 30, 2016.

NOTE S - FUNDS DUE TO OTHER ORGANIZATIONS

The FASB has established accounting standards for transactions in which a foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both, to another entity that is specified by the donor. The guidance specifically requires that if a not-for-profit organization establishes a fund at a foundation with its own funds and specifies itself as the beneficiary of that fund, the foundation must account for the transfer of such assets as a liability. The Foundation refers to such funds as funds due to other organizations.

The University of Wisconsin Hospitals and Clinics Authority Fund (Authority) was established whereby the Foundation will receive and invest funds on behalf of the Authority. The sole purpose of the fund is to aid the Authority in its teaching, research, health care delivery and public service roles. The principal balance and income earned are to be accumulated within this fund. At June 30, 2016 and December 31, 2015, the fair value of the funds due to the Authority was \$195,161,921 and \$194,532,835, respectively.

The University of Wisconsin Stevens Point Foundation Fund (UWSPF) was established in 2006 whereby the Foundation will receive and invest funds on behalf of UWSPF. The sole purpose of the fund is to provide UWSPF with the opportunity to take advantage of the investment resources of the Foundation. At June 30,

University of Wisconsin Foundation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2016 and December 31, 2015

2016 and December 31, 2015, the fair value of funds due to UWSPF was \$27,736,574 and \$27,663,805, respectively.

The University of Wisconsin Stout Foundation Fund (UWSF) was established in 2009 whereby the Foundation will receive and invest funds on behalf of UWSF. The sole purpose of the fund is to provide UWSF with the opportunity to take advantage of the investment resources of the Foundation. At June 30, 2016 and December 31, 2015, the fair value of funds due to UWSF was \$1,329,452 and \$1,368,831, respectively.

The University of Wisconsin Green Bay Foundation Fund (UWGBF) was established in 2012 whereby the Foundation will receive and invest funds on behalf of UWGBF. The sole purpose of the fund is to provide UWGBF with the opportunity to take advantage of the investment resources of the Foundation. At June 30, 2016 and December 31, 2015, the fair value of funds due to UWGBF was \$6,721,892 and \$6,511,513, respectively.

The Wisconsin Intercollegiate Athletic Conference Fund (WIAC) was established in 2015 whereby the Foundation will receive and invest funds on behalf of WIAC. The sole purpose of the fund is to provide WIAC with the opportunity to take advantage of the investment resources of the Foundation. At June 30, 2016 and December 31, 2015, the fair value of funds due to WIAC was \$3,749 and \$2,149, respectively.

The Wisconsin 4-H Foundation was established in 2016 whereby the Foundation will receive and invest funds on behalf of the Wisconsin 4-H Foundation. The sole purpose of the fund is to provide the Wisconsin 4-H Foundation with the opportunity to take advantage of the investment resources of the Foundation. At June 30, 2016 and December 31, 2015, the fair value of funds due to the Wisconsin 4-H Foundation was \$3,164,377 and \$-0-, respectively.

In addition, various donor agreements included in the Life Income and Life Estate Accounts require specific amounts to be used for non-Foundation purposes. At June 30, 2016 and December 31, 2015, the fair value of funds due to other organizations was \$3,141,106 and \$2,062,879, respectively.

NOTE T - RETIREMENT PLANS

The Foundation has a defined contribution retirement plan formed under Section 401(k) of the IRC, which covers substantially all of its employees. The Foundation contributes annually 10% of each employee's eligible compensation for the plan year. Total employer contributions to the plan were \$825,992 for the six-month period ended June 30, 2016.

NOTE U - MAJOR CONTRIBUTORS

For the six-month period ended June 30, 2016, the Foundation received contributions from two sources that comprised approximately 20% and 19%, respectively, of total contribution revenue.

NOTE V - FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB guidance establishes a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the Foundation's assumptions (unobservable inputs). Determining where an asset or liability falls within that hierarchy depends on the lowest level input that is significant to the fair value measurement as a whole. An adjustment to the pricing method used within either Level 1 or Level 2 inputs could generate a fair value measurement that effectively falls in a lower level in the hierarchy. The hierarchy consists of three broad levels as follows:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 inputs that are either directly or indirectly observable.

Level 3 - Unobservable inputs developed using the Foundation's estimates and assumptions, which reflect those that market participants would use.

The determination of where an asset or liability falls in the hierarchy requires significant judgment. The Foundation evaluates its hierarchy disclosures each year and, based on various factors, it is possible that an asset or liability may be classified differently from year to year. However, the Foundation expects that changes in classifications between different levels will be rare.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification pursuant to the valuation hierarchy. There have been no changes in the valuation methodologies used at June 30, 2016 and December 31, 2015.

Investments and other assets - When quoted market prices are available in an active market, securities are classified within Level 1 of the fair value hierarchy. If quoted market prices are not available or accessible, then fair values are estimated using pricing models, net asset value (NAV), matrix pricing or discounted cash flow models. The fair value of securities estimated using pricing models or matrix pricing are generally classified within Level 2 of the fair value hierarchy. When discounted cash flow models are used, there is limited activity or less transparency around inputs to the valuation and securities are classified within Level 3 of the fair value hierarchy.

Alternative investments - The private equity, timber, real estate, oil and gas, and hedge funds, for which quoted market prices are not available, are carried at NAV per share or its equivalent. The NAV is used as a practical expedient. The NAV for alternative investments is based on the fair value of the underlying investments held by the fund less its liabilities. Management of the Foundation believes that the carrying amount of these financial instruments is a reasonable estimate of fair value.

University of Wisconsin Foundation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2016 and December 31, 2015

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis in the statement of financial position at June 30, 2016:

	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3	Total
Investments and other assets				
Corporate bonds	\$ -	\$ 311,070,639	\$ -	\$ 311,070,639
Federal and state government securities	-	180,793,245	-	180,793,245
Equity securities	309,451,234	-	4,490,947	313,942,181
Bond funds	384,127,852	190,090,573	-	574,218,425
Stock funds	5,259,605	1,100,951,825	67,368	1,106,278,798
Electronically traded funds	<u>103,096,374</u>	-	-	<u>103,096,374</u>
	<u>\$801,935,065</u>	<u>\$1,782,906,282</u>	<u>\$4,558,315</u>	2,589,399,662
Alternative investments, measured at NAV				
Private equity				319,092,492
Timber				11,259,101
Real estate				45,438,278
Oil and gas				129,063,984
Hedge funds				<u>82,784,506</u>
				<u>587,638,361</u>
 Total investments at fair value				 <u>\$3,177,038,023</u>

University of Wisconsin Foundation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2016 and December 31, 2015

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis in the statement of financial position at December 31, 2015:

	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3	Total
Investments and other assets				
Corporate bonds	\$ -	\$ 317,035,526	\$ -	\$ 317,035,526
Federal and state government securities	-	197,003,594	-	197,003,594
Equity securities	227,623,108	-	4,709,819	232,332,927
Bond funds	234,624,946	188,579,050	-	423,203,996
Stock funds	10,683,885	1,179,401,496	67,814	1,190,153,195
Electronically traded funds	<u>67,568,784</u>	<u>-</u>	<u>-</u>	<u>67,568,784</u>
	<u>\$540,500,723</u>	<u>\$1,882,019,666</u>	<u>\$4,777,633</u>	2,427,298,022
Alternative investments, measured at NAV				
Private equity				322,560,367
Timber				11,195,620
Real estate				49,677,820
Oil and gas				106,699,435
Hedge funds				<u>52,165,846</u>
				<u>542,299,088</u>
Total investments at fair value				<u>\$2,969,597,110</u>

The following table presents additional information about assets and liabilities measured at fair value on a recurring basis that have been measured using significant unobservable inputs (Level 3) for the six-month period ended June 30, 2016:

	Equity securities	Stock funds	Total
Beginning balance	\$4,709,819	\$67,814	\$4,777,633
Total realized and unrealized gains (losses) included in net assets	55,939	(446)	55,493
Purchases	29,805	-	29,805
Settlements	<u>(304,616)</u>	<u>-</u>	<u>(304,616)</u>
Ending balance	<u>\$4,490,947</u>	<u>\$67,368</u>	<u>\$4,558,315</u>

University of Wisconsin Foundation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2016 and December 31, 2015

The Foundation does not utilize any significant unobservable inputs as part of the fair value measurement process for the Level 3 investments.

The Foundation's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that caused the transfer. Transfers in and out of Level 3 were due to the change in availability of pricing information.

The Foundation measures the fair value of investments in certain entities that do not have a quoted market price at the calculated NAV per share or its equivalent. The following tables present the fair value of the Foundation's investments in hedge funds, limited partnership funds and real asset funds that were determined based on the NAV as of June 30, 2016 and December 31, 2015:

Investment type	2016			
	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Hedge funds (a)	\$ 82,784,506	\$ -	Monthly - semi-annually	30 - 90 days
Limited partnership funds (b)	319,092,492	165,724,577	N/A	N/A
Real asset funds (c)	185,761,363	81,880,018	N/A	N/A

Investment type	2015			
	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Hedge funds (a)	\$ 52,165,846	\$ -	Monthly - semi-annually	30 - 90 days
Limited partnership funds (b)	322,560,367	154,593,548	N/A	N/A
Real asset funds (c)	167,572,875	84,749,039	N/A	N/A

- (a) Composed of various direct investments in hedge funds. The fair values have been estimated using the NAV per share of the investments. Investments with fair values comprising 2.56% and 5.23% of the fair value of this category as of June 30, 2016 and December 31, 2015, respectively, cannot be redeemed due to certain restrictions. Specifically, the funds represented are either in liquidation or the remaining balance is held in an illiquid "side pocket." It is reasonable to assume that those investments with restrictions will be materially liquidated over the next two years.
- (b) Composed of limited partnership funds that employ various strategies and are broadly categorized as either opportunistic, buyout, venture capital or energy. These investments cannot be redeemed. The funds provide distributions only upon liquidation of the underlying assets. These funds are expected to be materially liquidated over the next 10 years. None of these limited partnership funds are expected to be sold. Therefore, the fair value of each individual investment has been estimated using the NAV.
- (c) Composed of various real asset funds that primarily employ tactical or opportunistic strategies. These investments cannot be redeemed. The funds provide distributions only upon liquidation of the underlying assets. These funds are expected to be materially liquidated over the next 10 years. None of these real estate investment funds are expected to be sold. Therefore, the fair value of each individual investment has been estimated using the NAV.

University of Wisconsin Foundation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2016 and December 31, 2015

NOTE W - SUBSEQUENT EVENTS

The Foundation evaluated its June 30, 2016, consolidated financial statements for subsequent events through December 9, 2016, the date the consolidated financial statements were available to be issued. The Foundation is not aware of any subsequent events that would require recognition or disclosure in the consolidated financial statements.

SUPPLEMENTARY INFORMATION

University of Wisconsin Foundation
SUPPLEMENTAL SCHEDULE OF EXPENSES
Six-month period ended June 30, 2016

	Fundraising expenses	Management and general expenses	Total expenses
Salaries	\$ 7,033,196	\$3,652,806	\$ 10,686,002
Investment management fees	-	4,759,664	4,759,664
Employee benefits	1,865,439	1,067,913	2,933,352
Meetings and events	1,754,151	23,248	1,777,399
Supplies and equipment	909,281	639,533	1,548,814
Consulting and contractor services	731,850	608,940	1,340,790
Depreciation	677,949	360,558	1,038,507
Marketing and promotions	839,078	63,959	903,037
Travel and entertainment	141,839	517,349	659,188
Facilities	332,482	260,370	592,852
Unfulfilled pledges	-	591,023	591,023
Taxes	-	425,055	425,055
Professional services	99,164	281,165	380,329
Insurance	112,978	112,428	225,406
Utilities	68,994	36,570	105,564
Administrative/other	<u>99,446</u>	<u>870,775</u>	<u>970,221</u>
Subtotal	<u>\$14,665,847</u>	<u>\$14,271,356</u>	28,937,203
Payments to or for University of Wisconsin			<u>159,341,607</u>
Total expenses			<u>\$188,278,810</u>