

University of Wisconsin Foundation

Financial Report
June 30, 2023

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Independent Auditor's Report

Board of Directors
University of Wisconsin Foundation

Opinion

We have audited the accompanying financial statements of the University of Wisconsin Foundation (the Foundation), which comprise the statements of financial position as of June 30, 2023 and 2022, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University of Wisconsin Foundation as of June 30, 2023 and 2022, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

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

RSM VS LLP

Madison, Wisconsin
December 11, 2023

University of Wisconsin Foundation

Statements of Financial Position
June 30, 2023 and 2022

	2023	2022
Assets		
Cash and cash equivalents	\$ 20,377,383	\$ 137,512,696
Income or redemption receivables and prepaid investments	46,172,986	149,446,633
Estate and trust gifts receivable	23,854,961	42,234,774
Prepaid expenses	2,164,092	2,574,280
Pledges receivable, net	72,167,885	100,769,223
Investments at fair value	5,042,202,824	4,488,308,351
Other investments	24,500,000	25,000,000
Property and equipment, net	21,084,289	14,098,126
Operating lease right-of-use assets	3,021,152	-
Other assets	3,427,770	5,266,189
Total assets	\$ 5,258,973,342	\$ 4,965,210,272
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 6,633,486	\$ 9,075,863
Pending investment purchases payable	49,805,680	115,409,595
Accrued expenses and other payables	10,868,664	9,551,600
Operating lease liabilities	3,006,527	-
Deferred compensation	7,715,523	8,149,627
Liability under split-interest agreements	39,687,483	40,645,070
Funds due to other organizations	257,496,470	232,404,268
Total liabilities	375,213,833	415,236,023
Net assets:		
Without donor restrictions	155,178,205	123,117,790
With donor restrictions	4,728,581,304	4,426,856,459
Total net assets	4,883,759,509	4,549,974,249
Total liabilities and net assets	\$ 5,258,973,342	\$ 4,965,210,272

See notes to financial statements.

University of Wisconsin Foundation

Statement of Activities
Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Support and other revenue:			
Contributions	\$ 7,381,648	\$ 343,941,347	\$ 351,322,995
Investment return, net of fees	39,805,374	334,362,955	374,168,329
Other income	3,176,586	1,115,608	4,292,194
Reclassifications of net assets due to changes in donor restrictions	(4,695,182)	4,695,182	-
Net assets released from restrictions	382,390,247	(382,390,247)	-
Total support and other revenue	428,058,673	301,724,845	729,783,518
Expenses:			
Payments to or for University of Wisconsin	339,979,657	-	339,979,657
Fundraising expenses	36,668,153	-	36,668,153
Management and general expenses	19,350,448	-	19,350,448
Total expenses	395,998,258	-	395,998,258
Change in net assets	32,060,415	301,724,845	333,785,260
Net assets, beginning of year	123,117,790	4,426,856,459	4,549,974,249
Net assets, end of year	<u>\$ 155,178,205</u>	<u>\$ 4,728,581,304</u>	<u>\$ 4,883,759,509</u>

See notes to financial statements.

University of Wisconsin Foundation

Statement of Activities
Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and other revenue:			
Contributions	\$ 2,432,874	\$ 375,986,841	\$ 378,419,715
Investment return, net of fees	(30,385,044)	(435,828,368)	(466,213,412)
Other income	2,905,234	1,498,354	4,403,588
Reclassifications of net assets due to changes in donor restrictions	3,403,969	(3,403,969)	-
Net assets released from restrictions	318,969,720	(318,969,720)	-
Total support and other revenue	297,326,753	(380,716,862)	(83,390,109)
Expenses:			
Payments to or for University of Wisconsin	272,226,114	-	272,226,114
Fundraising expenses	32,579,633	-	32,579,633
Management and general expenses	27,468,593	-	27,468,593
Total expenses	332,274,340	-	332,274,340
Change in net assets	(34,947,587)	(380,716,862)	(415,664,449)
Net assets, beginning of year	158,065,377	4,807,573,321	4,965,638,698
Net assets, end of year	<u>\$ 123,117,790</u>	<u>\$ 4,426,856,459</u>	<u>\$ 4,549,974,249</u>

See notes to financial statements.

University of Wisconsin Foundation

Statements of Cash Flows Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 333,785,260	\$ (415,664,449)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation of property and equipment	2,332,182	2,122,195
Amortization of right-of-use assets	660,182	-
Net investment (gains) losses	(340,228,241)	484,801,956
Realized (gains) losses on sales of real estate	(312,697)	142,238
Realized losses on sales of property and equipment	12,673	7,075
Loss on guarantee	-	23,984
Contributions to endowment funds	(74,995,409)	(87,939,119)
Contributions of real estate	(373,000)	(1,405,000)
Changes in operating assets and liabilities:		
Income or redemption receivables and prepaid investments	1,632,350	173,793,528
Estate and trust gifts receivable	18,379,813	(24,776,786)
Prepaid expenses	410,188	(94,213)
Pledges receivable	23,710,334	33,757,471
Other assets	(29,854)	873,810
Accounts payable	(2,442,377)	3,326,421
Accrued expenses and other payables	1,263,157	(7,013,689)
Deferred compensation	(434,104)	(3,492,792)
Change in value of split interest agreements	3,843,563	(1,950,628)
Funds due to other organizations	3,551,074	(32,727,757)
Operating lease liabilities	(674,807)	-
Net cash (used in) provided by operating activities	(29,909,713)	123,784,245
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	5,937,215,329	8,792,626,360
Purchase of investments	(6,092,803,051)	(8,883,075,280)
Proceeds from sale of real estate	2,607,877	1,262,762
Purchase of property and equipment	(9,331,018)	(2,575,178)
Net cash used in investing activities	(162,310,863)	(91,761,336)
Cash flows from financing activities:		
Proceeds from contributions to endowment funds	79,886,413	94,076,976
Proceeds from split interest agreement obligations	1,127,987	1,620,051
Payments on split interest agreement obligations	(5,929,137)	(5,849,981)
Net cash provided by financing activities	75,085,263	89,847,046
Net (decrease) increase in cash and cash equivalents	(117,135,313)	121,869,955
Cash and cash equivalents, beginning of year	137,512,696	15,642,741
Cash and cash equivalents, end of year	\$ 20,377,383	\$ 137,512,696

See notes to financial statements.

University of Wisconsin Foundation

Notes to Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies

Nature of activities: The University of Wisconsin Foundation (Foundation) is a private, nonprofit organization formed to generate private support for the University of Wisconsin-Madison (UW-Madison). The Foundation, also doing business as the Wisconsin Foundation and Alumni Association, receives gifts and bequests, administers and invests funds held, and disburses payments to and on behalf of UW-Madison for the advancement of scientific, literary, educational and athletic purposes.

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

General fund: The General Fund records amounts generally associated with operation of the Foundation and may include gifts that have not been restricted for a specific purpose by the donor.

Callable fund: Callable funds, invested in a short-term investment portfolio, reflect gifts made for a specific purpose designated by the donor, and may include funds designated by the Foundation board for specific purposes. At June 30, 2023 and 2022, none of the Foundation's callable funds were restricted in perpetuity by a donor.

Endowment funds: At June 30, 2023 and 2022, there were 6,155 and 5,949 funds, respectively, pooled in an endowment portfolio for investment purposes (Endowment Fund). Generally, the 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 restricted in perpetuity, the donor may also request principal to be available for distribution. BNY Mellon serves as the custodian.

Life income accounts (split-interest gifts): At June 30, 2023 and 2022, there were 260 and 280 charitable trusts (Life Income and Life Estate Accounts), respectively, that have been created for and trustee by the Foundation. U.S. Bank, N.A. serves as the custodian.

A summary of the Foundation's significant accounting policies follows:

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of presentation: The Foundation classifies its net assets into two categories, which are net assets with donor restrictions and net assets without donor restrictions.

Net assets without restriction are reflective of revenues and expenses associated with the operating activities of the Foundation and are not subject to donor-imposed stipulations.

At June 30, 2023 and 2022, the Foundation had \$45,324,872 and \$42,093,480, respectively, of net assets without donor restrictions that were designated by the board for specific purposes, including for endowed chairs and professorships, student financial support, and other expenses of UW-Madison. Of that amount, \$6,627,959 and \$6,293,801, respectively, of those net assets without donor restrictions function as board-designated endowment funds at June 30, 2023 and 2022.

Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Foundation must continue to use the resources in accordance with the donor's instructions.

University of Wisconsin Foundation

Notes to Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

The Foundation has presented its assets and liabilities on the statements of financial position in an unclassified manner, but in order of liquidity.

Cash and cash equivalents: The Foundation considers investments in marketable securities and other highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents managed by outside investment managers are included in investments. For these short-term instruments, cost approximates the fair market value. The Foundation, at times, has on deposit in financial institutions cash balances and money markets in excess of the Federal Deposit Insurance Corporation limit. The Foundation has not experienced any losses in such accounts and management does not believe that it is exposed to any significant credit risk.

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 five-year risk free rates adjusted by the Foundation for market risk commensurate with the underlying pledge risk. The pledges receivable have been discounted at rates ranging from 1.29% to 6.67% as of June 30, 2023 and 2022.

Investments: Investments are stated at fair value. Purchases and sales of securities are recorded on the trade date. Realized gains and losses on the sales of investments are determined on the basis of the average cost of securities sold. Investment income or loss (including gains and losses on investments and derivatives, interest and dividends) is included in the statements of activities as increases or decreases in net assets without donor restriction unless the income or loss is restricted by donor or law.

The Foundation utilizes various investment managers to manage the assets within established parameters. The assets of the managed accounts, which include, but are not exclusively limited to cash equivalents, common stocks and fixed income securities, are, to the extent possible, held in custody by BNY Mellon.

Investment securities, in general, are exposed to various risks such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Other investments: The Foundation invests in certain companies that do not have readily determinable fair value. The Foundation has elected to account for these investments under the measurement alternative in accordance with the Accounting Standards Codification (ASC) Topic 321, Investments—Equity Securities, which allows the investments to be recorded at cost, with adjustments for impairment and observable price changes for identical or similar investments. Factors considered in making the adjustments for observable price changes include third-party valuations and recent financing by the companies. Adjustments for impairment or observable price changes are included in investment return, net of fees in the statements of activities. There were no upward or downward adjustments for observable price changes or impairment for the year ended June 30, 2022. The amount of downward adjustments for impairment totaled \$7,500,000 for the year ended June 30, 2023.

Income or redemption receivables and prepaid investments: Income receivable represents interest and dividends due to the Foundation as of June 30, 2023 and 2022. Interest income is recognized on the accrual basis and dividend income is recognized on the ex-dividend date. As of June 30, 2023 and 2022, the Foundation had \$9,951,183 and \$7,877,293 of income receivables, respectively.

University of Wisconsin Foundation

Notes to Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

As of June 30, 2023 and 2022, \$36,221,803 and \$61,569,340 was due to the Foundation from investments, respectively. The receivable amount represents the fair value of certain investments, net of any management fees and incentive fees/allocations, that were redeemed but not yet received by the Foundation at year-end.

Prepaid investments represent amounts transferred to investment funds prior to year-end relating to investments to be made effective July 1, 2023 and 2022, pursuant to each investment fund's operating agreements. As of June 30, 2023 and 2022, the Foundation had \$0 and \$80,000,000 of prepaid investments, respectively.

Market risk: Market risk arises primarily from changes in the market value of financial instruments. Exposure to market risk is influenced by a number of factors, including the relationships between financial instruments and the volatility and liquidity in the markets in which the financial instruments are traded. In many cases, the use of financial instruments serves to modify or offset market risk associated with other transactions and, accordingly, serves to decrease the Foundation's overall exposure to market risk. The Foundation attempts to control its exposure to market risk through various analytical monitoring techniques.

Credit risk: Credit risk arises primarily from the potential inability of counterparties to perform in accordance with the terms of a contract. The Foundation's exposure to credit risk associated with counterparty nonperformance is limited to the current cost to replace all contracts in which the Foundation has a gain. Exchange-traded financial instruments generally do not give rise to significant counterparty exposure due to the cash settlement procedures for daily market movements and the margin requirements of individual exchanges. The Foundation seeks to mitigate its exposure to this credit risk by placing its cash with major institutions.

Concentration of credit risk: The Foundation's managers currently invest with various managers and clearing brokers. In the event these counterparties do not fulfill their obligations, the Foundation may be exposed to risk. This risk of default depends on the creditworthiness of the counterparty to these transactions. The Foundation attempts to minimize this credit risk by monitoring the creditworthiness of the managers and clearing brokers.

Alternative investments: The managers of underlying investment entities in which the Foundation invests may utilize derivative instruments with off-balance sheet risk. The Foundation's exposure to risk is limited to the amount of its investment.

Foreign currency: Investment securities denominated in foreign currencies are translated into U.S. dollar amounts at the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions.

The Foundation does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included within the net realized gains and unrealized gain or loss from investments.

Property and equipment: Property and equipment are recorded at cost. Contributed property and equipment is recorded at fair value at the date of donation. 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 Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

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	11 to 39 years
Land improvements	10 to 15 years
Exhibits	5 to 15 years
Office furniture and equipment	5 to 15 years
Computer hardware and software	5 to 15 years
Automobiles and trucks	4 to 5 years
Leasehold improvements	(1)

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

Management reviews long-lived assets for possible impairment if there is a significant event that detrimentally affects operations. The primary financial indicator used by the Foundation to assess the recoverability of its long-lived assets held and used is undiscounted future cash flows from operations. The amount of impairment, if any, is measured based on estimated fair value or projected future cash flows using a discount rate reflecting the Foundation's average cost of funds. Management has not identified any triggering events during the years ended June 30, 2023 and 2022.

Contributions: Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions upon which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. All donations received by the Foundation specifically benefit UW-Madison and other organizations within the University of Wisconsin System.

All contributions are considered available for use without donor restrictions unless specifically restricted by the donor. Contributed property and equipment is recorded at fair value at the date of donation. Contributions are reported with or without donor restriction depending on if they are received with donor stipulations that limit the use of the donated assets. Stipulations, or trivial administrative requirements, that are unrelated to the purpose for which the contribution was received are not indicative of barriers. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with restriction are reclassified as net assets without restriction and reported in the statements of activities as assets released from restrictions.

Functional allocation of expenses: The financial statements report certain categories of expenses that are attributable to one or more programs or support functions of the Foundation. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include employee compensation and benefits, fees for services, advertising and promotion, office expenses, information technology, occupancy, travel, conferences, conventions, meetings, depreciation and insurance, all of which are classified, first, directly based on type of services provided within each department and their related expenses. Expenses that are attributable to both management and general and fundraising are allocated based upon the salary expense associated with management and general and fundraising, respectively, as a percentage of the total salary expense.

University of Wisconsin Foundation

Notes to Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Estate and trust gifts receivable: 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 during the term of the agreement. Adjustments to the receivable to reflect the revaluation of the present value of the estimated future payments to the Foundation are recognized within contributions on the statements of activities.

Split-interest agreements: 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 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 when the asset is received. The Foundation recorded contribution revenue of \$1,191,952 and \$1,299,073 for the years ended June 30, 2023 and 2022, respectively, related to these agreements. Life income assets are included in investments in the accompanying 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.

Charitable Remainder Trusts, Charitable Lead Trusts, and Pooled Income Funds are gifts in the form of trusts. Income and/or principal from these trusts is 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 Foundation holds residential real property subject to life estates retained by the donors.

A summary of assets held and the obligations related to split-interest agreements is detailed in Note 6.

Administrative and investment expenses: Administrative expenses, not specifically identifiable with Callable or Endowment Funds or the Life Income Accounts and Life Estate Accounts, are recorded in the General Fund and are not allocated.

Investment expenses are netted against investment return and reported within the related net asset category.

The Foundation has a policy of assessing an institutional advancement fee on all funds participating in the Endowment Fund, at a stated 1% annual rate, to help support Foundation operations. The fee is drawn on a quarterly basis by applying a 1/4 of 1% to the prior quarter's ending market value of the Endowment Fund. For the years ended June 30, 2023 and 2022, the total amount assessed to the Endowment Fund was \$35,466,273 and \$40,041,953, respectively. While the majority of the total fee recorded is eliminated during the financial statement preparation, fees related to funds held in agency status are recorded as other income in the statements of activities. Institutional advancement fees recorded on agency funds during the years ended June 30, 2023 and 2022, were \$2,286,529 and \$2,818,366, respectively.

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.

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

The Foundation follows the guidance relative to accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Foundation may 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 taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Foundation and various positions related to the potential sources of unrelated business taxable income (UBIT). Any tax benefits recognized in the 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 Foundation files Forms 990 in the U.S. federal jurisdiction and the state of Wisconsin and also files returns in several other states due to unrelated business income tax filing requirements.

Reclassifications: Certain amounts in the 2022 financial statements have been reclassified to conform to the 2023 financial statement presentation, with no impact on previously reported net assets or changes in net assets.

Recently adopted accounting standards: In January 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-01, *Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*, which clarifies that the observable price changes in orderly transactions that should be considered when applying the measurement alternative in accordance with ASC 321 include transactions that require it to either apply or discontinue the equity method of accounting under ASC 323. ASU 2020-01 also addresses questions about how to apply the guidance in Topic 815, *Derivatives and Hedging*, for certain forward contracts and purchased options to purchase securities that, upon settlement or exercise, would be accounted for under the equity method of accounting. This ASU was effective and adopted by the Foundation beginning on July 1, 2022. The adoption of ASU 2020-01 did not have a material impact on the financial statements.

In February 2016, the FASB issued ASC Topic 842, *Leases*, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their balance sheets as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, *Leases*) and operating leases, with classification affecting the pattern of expense recognition in the income statement.

The Foundation adopted Topic 842 on July 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, the Foundation has applied Topic 842 to reporting periods beginning on July 1, 2022, while prior periods continue to be reported and disclosed in accordance with the Foundation's historical accounting treatment under ASC Topic 840, *Leases*.

The Foundation elected the "package of practical expedients" under the transition guidance within Topic 842, in which the Foundation does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Foundation has not elected to adopt the "hindsight" practical expedient and, therefore, will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on July 1, 2022.

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

The Foundation determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract, and (ii) the Foundation obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Foundation also considers whether its service arrangements include the right to control the use of an asset.

The Foundation made an accounting policy election available under Topic 842 to not recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease or July 1, 2022, for existing leases upon the adoption of Topic 842. The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Foundation made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

The Foundation has not made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for its real estate, vehicle and equipment asset classes. The non-lease components typically represent additional services transferred to the Foundation, such as common area maintenance for real estate and supplies and maintenance in its vehicle and equipment asset classes, which are expensed as incurred in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Adoption of Topic 842 resulted in the recording of additional ROU assets and lease liabilities related to the Foundation's operating leases of \$3,623,196 at July 1, 2022. The adoption of the new lease standard did not materially impact the change in net assets or cash flows and did not result in a cumulative-effect adjustment to the opening balance of net assets.

Subsequent events: Management of the Foundation has evaluated subsequent events through December 11, 2023, which is the date the financial statements were available to be issued for possible measurement and/or disclosure effects on the financial statements.

Note 2. Liquidity and Availability

The Foundation regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. The Foundation has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities.

The Foundation's policy states that the investment portfolio liquidity shall always be a consideration in the allocation of portfolio assets given the need for liquidity to meet requests of the University of Wisconsin-Madison and the funding of operations. The Foundation forecasts its future cash flows required to meet its operating needs and other commitments and regularly monitors liquidity while also striving to maximize the return on investments.

The Foundation receives restricted gifts with purpose restrictions. The income generated from restricted assets may be donor-restricted or unrestricted as to use. Contributions and investment income without donor restrictions and board designations are considered available for use in current activities, programs and grant commitments are considered to be available to meet cash needs for general expenditures. Annual operations are defined as activities occurring during, and included in the budget for, a fiscal year.

University of Wisconsin Foundation

Notes to Financial Statements

Note 2. Liquidity and Availability (Continued)

As of June 30, 2023 and 2022, the following financial assets are available to meet general expenditures within one year:

	2023	2022
Financial assets at year-end:		
Cash and cash equivalents	\$ 20,377,383	\$ 137,512,696
Income or redemption receivables and prepaid investments	46,172,986	149,446,633
Estate and trust gifts receivable	23,854,961	42,234,774
Pledges receivable, net	72,167,885	100,769,223
Investments at fair value	5,042,202,824	4,488,308,351
Other investments	24,500,000	25,000,000
Other financial assets	3,373,863	3,343,489
Total financial assets	5,232,649,902	4,946,615,166
Less amounts not available to be used within one year:		
Donor-restricted net assets	4,728,581,304	4,426,856,459
Board-designated net assets	45,324,872	42,093,480
Funds due to other organizations	257,496,470	232,404,268
Investments held under deferred compensation arrangements	2,694,798	2,477,245
Financial assets not available to be used within one year	5,034,097,444	4,703,831,452
Financial assets available to meet general expenditures within one year	\$ 198,552,458	\$ 242,783,714

Note 3. Pledges Receivable

A summary of the pledges receivable (unconditional promises to give) as of June 30, 2023 and 2022, is as follows:

	2023	2022
Unconditional promises to give before unamortized discount and allowance for uncollectible pledges	\$ 79,777,654	\$ 112,931,354
Less unamortized discount	(3,269,693)	(4,343,367)
	76,507,961	108,587,987
Less allowance for uncollectible pledges	(4,340,076)	(7,818,764)
	\$ 72,167,885	\$ 100,769,223
	2023	2022
Amounts due in:		
Less than one year	\$ 21,385,673	\$ 57,976,241
One to five years	56,652,176	52,730,085
More than five years	1,739,805	2,225,028
	79,777,654	112,931,354
Less unamortized discount and allowance for uncollectible pledges	(7,609,769)	(12,162,131)
	\$ 72,167,885	\$ 100,769,223

University of Wisconsin Foundation

Notes to Financial Statements

Note 3. Pledges Receivable (Continued)

At June 30, 2023 and 2022, the Foundation has a \$50,000,000 pledge outstanding that is conditional upon raising an equal amount of matching funds from private sources. The contribution will be recorded when the match has been fully met. At June 30, 2023, the Foundation has a \$15,000,000 pledge outstanding that is conditional upon raising an equal amount of matching funds from private sources. The contribution will be recorded when the match has been fully met. At June 30, 2023, the Foundation has a \$25,000,000 pledge outstanding that is conditional upon approval of a new University of Wisconsin-Madison College of Engineering building project by the State of Wisconsin. The contribution will be recorded when the building project receives budget approval from the State of Wisconsin.

Note 4. Investments and Fair Value of Financial Instruments

The Foundation records its investments at fair value. Fair value is 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. The Foundation utilizes valuation techniques to maximize the use of observable inputs and minimize the use of unobservable inputs. Assets and liabilities recorded at fair value are categorized within the fair value hierarchy based upon the level of judgment associated with the inputs used to measure their value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3: Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

Private investment companies measured using net asset value (NAV) as a practical expedient are not categorized within the fair value hierarchy.

In certain cases, the inputs used to measure fair value might be categorized within different levels of the fair value hierarchy. In those instances, the fair value measurement is categorized in its entirety in the fair value hierarchy based on the lowest level input that is significant to the fair value measurement.

The availability of observable inputs can vary from investment to investment and is affected by a wide variety of factors, including the type of investment, whether the investment is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values might be materially higher or lower than the values that would have been used had a readily available market for the securities existed. Accordingly, the degree of judgment exercised by the Foundation in determining fair value is greatest for securities categorized in Level 3.

University of Wisconsin Foundation

Notes to Financial Statements

Note 4. Investments and Fair Value of Financial Instruments (Continued)

The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risks associated with investing in those instruments.

A description of the valuation methodologies used for assets and liabilities measured at fair value is set forth below. For the years ended June 30, 2023 and 2022, the application of valuation techniques applied to similar assets and liabilities has been consistent.

Investments in securities traded on national securities exchanges including money market funds, mutual funds, exchange traded funds, stocks, and U.S. Treasuries, are stated at the last reported sales price on the day of valuation.

Investments in government securities and corporate bonds which are traded on a national securities exchange or market are valued at bid quotations on that day. If a reliable bid quotation cannot be obtained from a national securities exchange, the security is priced at the mean between the bid and asked quotation of a reliable market maker.

Net asset value: Investments in non-registered investment companies consisting of certain common trust funds, limited partnerships, bond trust fund and hedged equities funds, private equity funds and real asset funds are valued at fair value based on the applicable percentage ownership of the underlying investment entities' net assets as of the measurement date as determined by the Foundation, commonly referred to as the practical expedient. In determining fair value, the Foundation utilizes valuations provided by the underlying investment entities. The underlying investment entities value securities and other financial instruments on a fair value based upon market price, when possible, or at fair value determined by the respective entities' investment manager when no market price is determinable. Although the Foundation uses their best judgment in estimating the fair value of alternative investments, there are inherent limitations in any estimation technique. The estimated fair values of certain of the investments of the underlying investment entities, which may include derivatives, securities and other designated or side pocketed investments for which prices are not readily available, may not reflect amounts that could be realized upon immediate sale, nor amounts that may be ultimately realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments, and differences could be material.

Life income pooled investments represent funds trusteeed by the Foundation, held in custody at U.S. Bank, and include money market funds, bond funds, equity securities, electronically traded funds and stock funds.

University of Wisconsin Foundation

Notes to Financial Statements

Note 4. Investments and Fair Value of Financial Instruments (Continued)

The following table presents the Foundation's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis in the statements of financial position as of June 30, 2023:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valued Using Net Asset Values ** (NAV)
Cash equivalents and money market funds	\$ 139,255,205	\$ 139,255,205	\$ -	\$ -	\$ -
Assets held for deferred compensation	2,694,798	2,694,798	-	-	-
Life income pooled investments:					
Mutual funds	79,827,498	75,955,615	3,871,883	-	-
Common stock	7,717,711	7,717,711	-	-	-
U.S. Government issues	864,221	864,221	-	-	-
Money market funds	2,746,285	-	2,746,285	-	-
Global equities:					
Common trust funds	1,825,455,018	-	-	-	1,825,455,018
Exchange traded funds	120,844,461	120,844,461	-	-	-
Limited partnerships	178,123,050	-	-	-	178,123,050
Mutual funds	7,471,251	7,471,251	-	-	-
Stocks	441,757,697	439,748,537	-	2,009,160	-
Fixed income:					
Corporate bonds	593,370,172	-	588,865,348	4,504,824	-
Government bonds	278,503,493	109,578,832	168,924,661	-	-
Limited partnerships	1,090	-	-	-	1,090
Alternative investments:					
Hedged equities	233,161,174	-	-	-	233,161,174
Private equities	786,103,474	-	-	21,889,107	764,214,367
Real assets	344,306,226	-	-	-	344,306,226
Subtotal	<u>\$ 5,042,202,824</u>	<u>\$ 904,130,631</u>	<u>\$ 764,408,177</u>	<u>\$ 28,403,091</u>	<u>\$ 3,345,260,925</u>

University of Wisconsin Foundation

Notes to Financial Statements

Note 4. Investments and Fair Value of Financial Instruments (Continued)

The following table presents the Foundation's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis in the statements of financial position as of June 30, 2022:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valued Using Net Asset Values ** (NAV)
Cash equivalents and money market funds	\$ 198,570,545	\$ 198,570,545	\$ -	\$ -	\$ -
Assets held for deferred compensation	2,477,245	2,477,245	-	-	-
Life income pooled investments:					
Mutual funds	80,231,983	72,654,474	7,577,509	-	-
Common stock	7,128,949	7,128,949	-	-	-
U.S. Government issues	1,064,767	1,064,767	-	-	-
Money market funds	1,449,665	-	1,449,665	-	-
Global equities:					
Common trust funds	1,013,623,823	-	-	-	1,013,623,823
Exchange traded funds	81,122,532	81,122,532	-	-	-
Limited partnerships	145,657,346	-	-	-	145,657,346
Mutual funds	12,524,748	12,524,748	-	-	-
Stocks	648,675,409	646,666,249	-	2,009,160	-
Fixed income:					
Bond trust fund	165,387,937	-	-	-	165,387,937
Corporate bonds	557,616,003	-	551,755,634	5,860,369	-
Government bonds	361,130,442	226,978,624	134,151,818	-	-
Alternative investments:					
Hedged equities	204,571,864	-	-	-	204,571,864
Private equities	681,326,802	-	-	231,633	681,095,169
Real assets	325,748,291	-	-	-	325,748,291
Subtotal	<u>\$ 4,488,308,351</u>	<u>\$ 1,249,188,133</u>	<u>\$ 694,934,626</u>	<u>\$ 8,101,162</u>	<u>\$ 2,536,084,430</u>

** Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in the table above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

Financial instruments classified as Level 3 in the fair value hierarchy represent the Foundation's investments in financial instruments in which at least one significant unobservable input is used in the valuation model. The tables below present a reconciliation of activity for the Level 3 financial instruments as of June 30, 2023 and 2022:

	2023 Stocks	2023 Corporate Bonds	2023 Mutual Funds	2023 Private Equity	2023 Total
Purchases	\$ -	\$ 4,451,032	\$ -	\$ -	\$ 4,451,032
Settlements	-	(5,896,684)	-	(84,519)	(5,981,203)
Transfers from NAV to Level 3	-	-	-	21,097,653	21,097,653
	2022 Stocks	2022 Corporate Bonds	2022 Mutual Funds	2022 Private Equity	2022 Total
Purchases	\$ 130,240	\$ 5,323,910	\$ 13,895,818	\$ -	\$ 19,349,968
Settlements	(41,353)	(10,423,373)	(31,299,434)	(381,764)	(42,145,924)

University of Wisconsin Foundation

Notes to Financial Statements

Note 4. Investments and Fair Value of Financial Instruments (Continued)

Certain investments were transferred from NAV into level 3 at June 30, 2023 due to changes in valuation technique used to value the investments.

The table below presents the Foundation's ability to redeem investments valued at net asset value or its equivalent as of June 30, 2023 and 2022, and includes the underlying investment entities' redemption frequency and redemption notice period. The table also includes a summary of the significant categories of such investments measured at net asset value, their attributes and investment strategies as of June 30, 2023 and 2022:

Investment Category and Strategy	2023 Fair Value	2023 Unfunded Commitments	2022 Fair Value	2022 Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Hedge funds (a)	\$ 233,161,174	\$ -	\$ 204,571,864	\$ -	Monthly - semi-annually	30-90 days
Limited partnership funds (b)	764,214,367	759,792,434	681,095,169	744,563,639	N/A	N/A
Real asset funds (c)	344,306,226	208,738,378	325,748,291	216,167,778	N/A	N/A
Fixed income (d)	1,090	-	165,387,937	-	Daily - monthly	< 30 days
Global equities (e)	2,003,578,068	-	1,159,281,169	-	Daily - semi-annually	0-90 days
	<u>\$ 3,345,260,925</u>	<u>\$ 968,530,812</u>	<u>\$ 2,536,084,430</u>	<u>\$ 960,731,417</u>		

- (a) Composed of various direct investments in hedge funds. The strategy involves a primary focus on investing in first lien secured loans in middle market companies, complemented by the acquisition of secured debt securities, including senior secured and secured loans, bonds, and, to a lesser extent, stocks, warrants, and other equity securities in both primary and secondary markets. Investments with fair values comprising 0.18% and 0.24% of the fair value of this category as of June 30, 2023 and 2022, respectively, cannot be redeemed due to certain restrictions. Specifically, either the funds represented are 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 during the next five 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 during the next 10 years.
- (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 during the next 10 years.
- (d) Composed of limited partnership funds and bond trust funds that invest in various short-term and traditional publicly traded fixed income securities and like assets. Full liquidation terms are less than 30 days for the underlying assets.
- (e) Composed of limited partnership funds and common trust funds that invest in various traditional publicly traded equity securities and like assets. Gate provisions of 12.5% to 50% per redemption cycle and holdbacks of 5% for full mid-year liquidation on certain funds within this category. Full liquidation terms are less than 30 days for the underlying assets.

University of Wisconsin Foundation

Notes to Financial Statements

Note 5. Property and Equipment

A summary of property and equipment as of June 30, 2023 and 2022, follows:

	2023	2022
Buildings	\$ 16,334,188	\$ 13,763,468
Land improvements	1,175,358	1,175,358
Exhibits	1,894,738	1,894,738
Office furniture and equipment	2,427,626	2,357,907
Computer hardware and software	12,122,235	12,086,838
Automobiles and trucks	102,107	102,107
Leasehold improvements	986,152	787,222
Construction in process	8,820,955	2,385,322
	<u>43,863,359</u>	<u>34,552,960</u>
Less accumulated depreciation and amortization	<u>(23,281,600)</u>	<u>(20,957,364)</u>
	20,581,759	13,595,596
Land	502,530	502,530
	<u>\$ 21,084,289</u>	<u>\$ 14,098,126</u>

Note 6. Split-Interest Agreements

A summary of assets held and the obligations related to split-interest agreements as of June 30, 2023 and 2022, follows:

	2023	2022
Assets (included in investments):		
Charitable remainder trusts and other	\$ 66,491,980	\$ 65,093,165
Pooled income funds	937,611	1,906,683
Charitable gift annuities	24,972,808	23,186,771
Retained life estates	-	1,922,700
	<u>\$ 92,402,399</u>	<u>\$ 92,109,319</u>
Liabilities under split-interest agreements:		
Charitable remainder trusts and other	\$ 28,245,353	\$ 29,071,919
Pooled income funds	229,287	351,872
Charitable gift annuities	11,212,843	10,798,005
Retained life estates	-	423,274
	<u>\$ 39,687,483</u>	<u>\$ 40,645,070</u>

Charitable gift annuity assets are separate and distinct funds, managed as independent accounts of the Foundation. The Foundation maintains reserves and a surplus of such reserves in an amount at least equal to the designated beneficiary payments on all the outstanding gift annuity contracts. These reserves shall not be applied for the payment of debts and obligations of the Foundation or for any purpose other than payment of the annuity benefits.

University of Wisconsin Foundation

Notes to Financial Statements

Note 7. 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 nonprofit 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 in the statements of financial position.

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. As of June 30, 2023 and 2022, the fair value of the funds due to the Authority was \$178,415,873 and \$162,860,267, respectively.

The University of Wisconsin-Stevens Point Foundation (UWSPF) Fund 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. As of June 30, 2023 and 2022, the fair value of funds due to UWSPF was \$64,761,635 and \$56,287,544, respectively.

A number of additional funds established by the Foundation hold amounts due to other organizations for varying purposes. As of June 30, 2023 and 2022, the fair value of additional funds due to other organizations was \$14,318,962 and \$13,256,457, respectively.

Note 8. Endowments

The Foundation's endowment consisted of 4,836 and 4,661 individual permanently restricted funds as of June 30, 2023 and 2022, 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 State of Wisconsin's 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 endowment net assets with donor restrictions (a) the original value of gifts donated to the donor-restricted endowment, (b) the original value of subsequent gifts to the donor-restricted endowment, and (c) accumulations to the donor-restricted 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 is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

University of Wisconsin Foundation

Notes to Financial Statements

Note 8. Endowments (Continued)

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
- The investment policies of the Foundation

The Foundation's endowment net asset composition by type of fund is as follows for the years ended June 30, 2023 and 2022:

	2023		
	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted	\$ -	\$ 2,606,204,476	\$ 2,606,204,476
Board-designated	6,627,959	-	6,627,959
Total funds	<u>\$ 6,627,959</u>	<u>\$ 2,606,204,476</u>	<u>\$ 2,612,832,435</u>

	2022		
	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted	\$ -	\$ 2,397,244,918	\$ 2,397,244,918
Board-designated	6,293,801	-	6,293,801
Total funds	<u>\$ 6,293,801</u>	<u>\$ 2,397,244,918</u>	<u>\$ 2,403,538,719</u>

University of Wisconsin Foundation

Notes to Financial Statements

Note 8. Endowments (Continued)

The changes in endowment net assets for the Foundation were as follows for the years ended June 30, 2023 and 2022:

	2023		
	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ 6,293,801	\$ 2,397,244,918	\$ 2,403,538,719
Total investment gain	651,245	253,003,255	253,654,500
Contributions	-	74,995,409	74,995,409
Appropriation of endowment assets for expenditure	(299,380)	(115,704,200)	(116,003,580)
Institutional advancement fee	(63,202)	(24,365,942)	(24,429,144)
Transfers in for matching program	-	9,842,493	9,842,493
Net transfer to/from endowment funds	45,495	11,188,543	11,234,038
Endowment net assets, end of year	<u>\$ 6,627,959</u>	<u>\$ 2,606,204,476</u>	<u>\$ 2,612,832,435</u>
	2022		
	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ 7,409,667	\$ 2,724,895,974	\$ 2,732,305,641
Total investment loss	(790,358)	(300,715,343)	(301,505,701)
Contributions	-	87,939,119	87,939,119
Appropriation of endowment assets for expenditure	(294,161)	(109,512,395)	(109,806,556)
Institutional advancement fee	(74,389)	(27,667,810)	(27,742,199)
Transfers in for matching program	-	11,407,104	11,407,104
Net transfer to/from endowment funds	43,042	10,898,269	10,941,311
Endowment net assets, end of year	<u>\$ 6,293,801</u>	<u>\$ 2,397,244,918</u>	<u>\$ 2,403,538,719</u>

University of Wisconsin Foundation

Notes to Financial Statements

Note 8. Endowments (Continued)

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. Deficiencies of this nature existed in approximately 600 donor-restricted endowment funds at June 30, 2023, which together have an original gift value of \$242,318,246, a current fair value of \$228,720,644, and a deficiency of \$13,597,602. At June 30, 2022, deficiencies existed in 1,300 donor-restricted endowment funds, which together had an original gift value of \$530,662,257, a current fair value of \$500,756,877, and a deficiency of \$29,905,380. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new contributions for donor-restricted endowment funds and continued appropriation that was deemed prudent by the Board of Directors.

The Foundation has a policy that permits spending from underwater endowment funds unless otherwise precluded by donor intent or relevant laws and regulations. However, the Foundation evaluates underwater funds on a case-by-case basis and will cease appropriation if deemed prudent.

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. 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 (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 value for distribution. Distributions are calculated on a quarterly basis, by applying 1/4 of 4.5% to the previous rolling 16 quarter average of the Endowment Fund value. 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 a rate consistent with core inflation. 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.

Funds transferred to or for UW-Madison during the year may include a combination of endowment funds available for distribution at the beginning of the year and funds made available as a result of current-year spending-policy allocations. Transfers may also include funds available within endowment funds that are not permanently restricted by the donor and other callable fund accounts.

University of Wisconsin Foundation

Notes to Financial Statements

Note 9. Leases

The Foundation leases real estate, vehicles and equipment under operating lease agreements that have initial terms ranging from 1 to 12 years. Some leases include one or more options to renew, generally at the Foundation's sole discretion, with renewal terms that can extend the lease term up to 5 years. In addition, certain leases contain termination options, where the rights to terminate are held by either the Foundation, the lessor or both parties. These options to extend or terminate a lease are included in the lease terms when it is reasonably certain that the Foundation will exercise that option. The Foundation's operating leases generally do not contain any material restrictive covenants or residual value guarantees.

Operating lease cost is recognized on a straight-line basis over the lease term. The operating lease cost for the year ended June 30, 2023 is \$748,308. Total rent expense for operating leases was \$888,692 for the year ended June 30, 2022.

Supplemental cash flow information related to leases is as follows for the year ended June 30, 2023:

Cash paid for amounts included in measurement of lease liabilities:	
Operating cash outflows—payments on operating leases	\$ 767,094

Operating right-of-use assets obtained in exchange for new lease obligations	\$ 58,139
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As of June 30, 2023, the weighted-average remaining lease term is 10.1 years, and the weighted-average discount rate is 2.9% for operating leases.

Future undiscounted cash flows for each of the next five years and thereafter and a reconciliation to the lease liabilities recognized on the statement of financial position are as follows as of June 30, 2023:

Years ending June 30:	
2024	\$ 736,867
2025	296,325
2026	263,025
2027	215,457
2028	212,311
Thereafter	1,748,694
Total lease payments	3,472,679
Less imputed interest	(466,152)
Total present value of lease liabilities	<u>\$ 3,006,527</u>

Future minimum lease commitments, as determined under Topic 840, for all non-cancelable leases are as follows as of June 30, 2022:

Years ending June 30:	
2023	\$ 796,362
2024	327,444
2025	279,180
2026	250,749
2027	207,132
Thereafter	1,961,004
Total minimum lease payments	<u>\$ 3,821,871</u>

University of Wisconsin Foundation

Notes to Financial Statements

Note 10. Commitments

The Foundation entered into investment agreements and has the following outstanding investment commitments as of June 30, 2023 and 2022:

	2023	2022
Limited partnerships	\$ 702,740,994	\$ 706,972,378
Real asset funds	166,814,038	196,826,953
	<u>\$ 869,555,032</u>	<u>\$ 903,799,331</u>

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

As of June 30, 2023 and 2022, the Foundation entered into investment agreements and has the following outstanding investment commitments in foreign currency:

	2023		2022	
	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	42,801,443 (Pounds) \$	27,411,814	25,800,000 (Pounds) \$	6,915,796
Limited partnerships	46,900,000 (Euro)	29,639,626	46,060,000 (Euro)	30,675,465
Real Asset Funds	30,000,000 (Euro)	19,092,500	30,000,000 (Euro)	19,340,825
Real Asset Funds	3,300,000,000 (JPY)	22,831,840		
		<u>\$ 98,975,780</u>		<u>\$ 56,932,086</u>

Note 11. Major Contributions

For the years ended June 30, 2023 and 2022, significant contributions, defined as greater than 10% of total contributions, received by the Foundation were as follows:

	Percent of Total Contributions	
	Year Ended June 30,	
	2023	2022
Source A	14%	13%

University of Wisconsin Foundation

Notes to Financial Statements

Note 12. Functional Expense

Expenses related to the Foundation's operations for the years ended June 30, 2023 and 2022, are summarized as follows:

	2023			
	Program Expenses	Fundraising Expenses	Management and General Expenses	Total Expenses
Payments to or for University	\$ 339,979,657	\$ -	\$ -	\$ 339,979,657
Salaries	-	18,332,529	9,366,224	27,698,753
Employee benefits	-	3,725,743	2,280,800	6,006,543
Information technology	-	2,474,952	1,264,354	3,739,306
Professional services	-	1,794,082	1,198,869	2,992,951
Office expenses	-	1,869,821	656,244	2,526,065
Depreciation	-	1,543,563	788,619	2,332,182
Conferences, conventions and meetings	-	2,254,253	41,399	2,295,652
Payroll taxes	-	1,412,336	728,276	2,140,612
Advertising and promotion	-	1,552,446	1,064	1,553,510
Bad debt expense (unfulfilled pledges)	-	-	1,482,368	1,482,368
Occupancy	-	663,096	337,575	1,000,671
Income tax expense	-	-	780,442	780,442
Travel	-	561,840	178,361	740,201
Insurance	-	479,772	245,119	724,891
All other expenses	-	3,720	734	4,454
	<u>\$ 339,979,657</u>	<u>\$ 36,668,153</u>	<u>\$ 19,350,448</u>	<u>\$ 395,998,258</u>
	2022			
	Program Expenses	Fundraising Expenses	Management and General Expenses	Total Expenses
Payments to or for University	\$ 272,226,114	\$ -	\$ -	\$ 272,226,114
Salaries	-	16,374,356	10,628,982	27,003,338
Employee benefits	-	3,719,427	2,046,759	5,766,186
Bad debt expense (unfulfilled pledges)	-	-	5,411,568	5,411,568
Information technology	-	2,140,468	1,389,222	3,529,690
Agency transfer expense	-	-	3,448,786	3,448,786
Professional services	-	1,299,758	1,069,441	2,369,199
Conferences, conventions and meetings	-	2,248,641	-	2,248,641
Office expenses	-	1,507,618	730,461	2,238,079
Depreciation	-	1,286,862	835,333	2,122,195
Payroll taxes	-	1,207,612	789,185	1,996,797
Advertising and promotion	-	1,519,251	-	1,519,251
Occupancy	-	588,552	382,043	970,595
Insurance	-	368,724	239,347	608,071
Travel	-	300,289	113,170	413,459
Income tax expense	-	-	349,915	349,915
All other expenses	-	18,075	34,381	52,456
	<u>\$ 272,226,114</u>	<u>\$ 32,579,633</u>	<u>\$ 27,468,593</u>	<u>\$ 332,274,340</u>

University of Wisconsin Foundation

Notes to Financial Statements

Note 13. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes:

	2023	2022
Subject to expenditure for specified purpose:		
Including endowment earnings subject to endowment spending policy and appropriation:		
Endowed chairs/professorships	\$ 268,792,301	\$ 221,040,112
Research and programs	667,323,586	603,499,011
Undergraduate-student financial support	262,153,472	222,045,723
Graduate-student financial support	112,549,069	88,421,641
Faculty support	28,217,079	24,328,768
Building and grounds	257,077,678	205,847,951
Public service	27,702,925	24,636,585
Research equipment	3,698,639	3,392,699
Department level discretionary	631,693,815	618,396,751
Professional-student support	58,110,355	54,213,692
Other	148,822,868	186,703,339
	<u>2,466,141,787</u>	<u>2,252,526,272</u>
Endowments:		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity:		
Endowed chairs/professorships	738,993,164	714,541,303
Research and programs	559,352,612	546,041,803
Undergraduate-student financial support	408,452,097	391,593,040
Graduate-student financial support	217,897,234	194,421,677
Faculty support	46,020,527	43,456,724
Building and grounds	3,550,142	3,548,892
Public service	21,208,297	19,909,159
Research equipment	2,516,782	2,516,782
Department level discretionary	166,809,005	157,488,565
Professional-student support	91,499,852	94,773,271
Other	6,139,805	6,038,971
	<u>2,262,439,517</u>	<u>2,174,330,187</u>
	<u>\$ 4,728,581,304</u>	<u>\$ 4,426,856,459</u>

University of Wisconsin Foundation

Notes to Financial Statements

Note 13. Net Assets with Donor Restrictions (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors:

	2023	2022
Purpose restrictions accomplished:		
Endowed chairs/professorships	\$ 2,969,989	\$ 3,547,344
Research and programs	59,936,192	61,855,196
Undergraduate-student financial support	13,162,779	10,851,679
Graduate-student financial support	3,397,565	3,232,150
Faculty support	1,589,265	883,546
Building and grounds	25,972,836	14,419,171
Public service	3,058,811	2,727,240
Research equipment	33,751	4,332
Department level discretionary	138,189,197	81,183,798
Professional-student support	3,021,330	3,270,775
Other	14,858,950	21,039,705
	<u>266,190,665</u>	<u>203,014,936</u>
Release of appropriated endowment amounts with purpose restrictions:		
Endowed chairs/professorships	34,673,791	32,505,145
Research and programs	31,870,448	34,036,233
Undergraduate-student financial support	22,596,191	23,068,786
Graduate-student financial support	10,151,194	9,671,345
Faculty support	2,171,683	1,976,779
Building and grounds	90,367	58,316
Public service	1,308,526	1,198,025
Research equipment	180,118	175,935
Department level discretionary	7,000,935	7,436,510
Professional-student support	6,066,010	5,538,520
Other	90,319	289,190
	<u>116,199,582</u>	<u>115,954,784</u>
	<u>\$ 382,390,247</u>	<u>\$ 318,969,720</u>

University of Wisconsin Foundation

Notes to Financial Statements

Note 14. Related-Party Transactions

In addition to the amounts and transactions disclosed in the preceding notes and financial statements, the following is a summary of related-party transactions. These transactions have been summarized below by financial statement classification as reported in the statements of activities and statements of financial position. Related parties include UW System affiliates, Board of Directors, management and members of their immediate families.

Contribution and pledges receivable: Gifts, including new pledge commitments, received from identified UW System affiliates for the years ended June 30, 2023 and 2022, were \$26,345,437 and \$21,638,663, respectively. Pledges receivable at June 30, 2023 and 2022, include \$3,000,000 and \$0 of amounts due from UW System affiliates, respectively.

Gifts, including new pledge commitments, received from identified members of the Board of Directors, management and members of their immediate families for the years ended June 30, 2023 and 2022, were \$5,785,729 and \$7,458,098, respectively. Pledges receivable at June 30, 2023 and 2022, include \$1,589,297 and \$23,275,036 of amounts due from these parties, respectively.

Payments: Payments of \$4,741,929 and \$6,715,664 were made to UW System affiliates during the years ended June 30, 2023 and 2022, respectively.

Investments: The Foundation owns partnership interests in investments held as of June 30, 2023 and 2022, valued at \$31,241,816 and \$37,416,149, respectively, wherein a related party is a general partner. The nature of these relationships, including associated fees, are disclosed to, reviewed and approved by Foundation management and the Investment Committee of the Board of Directors.